

The Legislative Fiscal Division Presents an Agency Profile of:

The Legislative Branch

Contact: Susie Lindsay, Fiscal Analyst
Room 110H, State Capitol Building
Phone: 444-4121
e-mail: slindsay@mt.gov

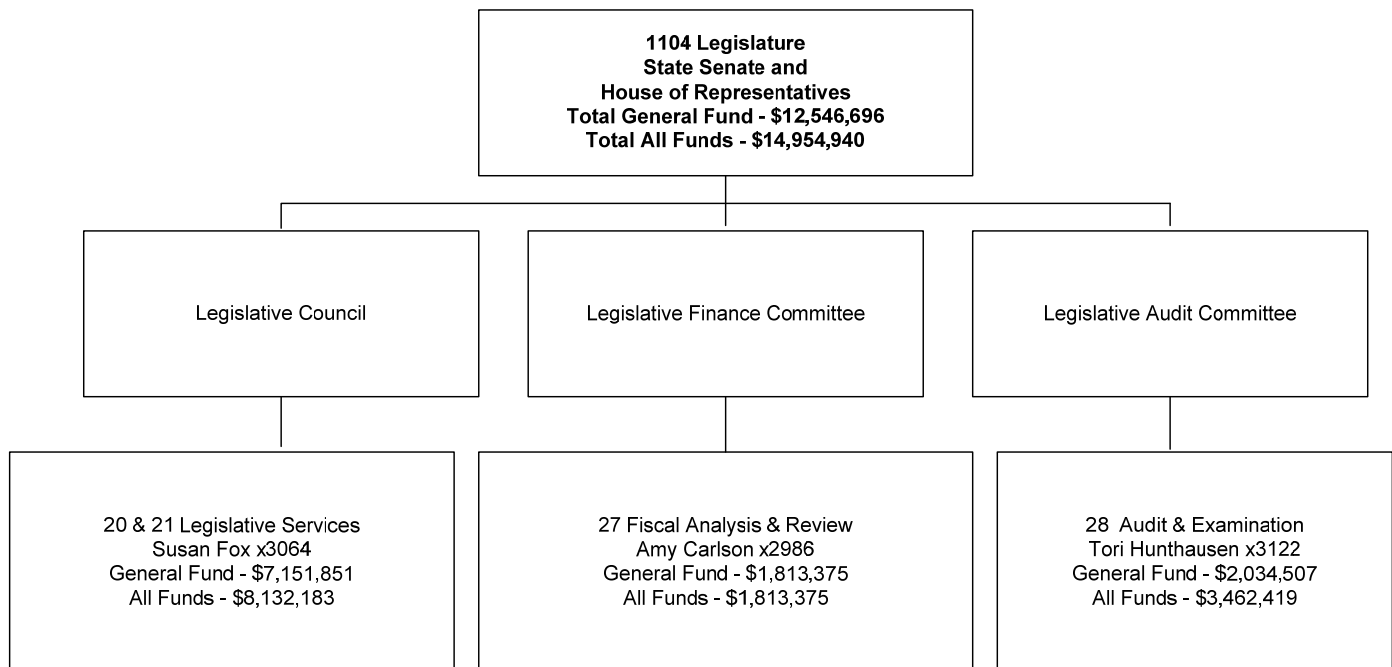
Updated August 2014

Agency Description

Definition of Terms

The mission of the Legislature is to exercise the legislative power of state government vested in the Legislature by the Constitution of the State of Montana—Article V. The mission of the Legislative Branch (the consolidated legislative agency as defined in 5-2-503, MCA) is to provide the administrative structure to support the accomplishment of the mission of the legislature.

Below is an organizational chart of the branch, including full-time employee (FTE) numbers and the HB 2 base general fund appropriations and the total of all funds. Unless otherwise noted, all phone extensions are preceded by (406) 444.



Note: programs 22, 25 & 26 (House, Senate & Legislative Services Feed bill) do not appear in the organizational chart.

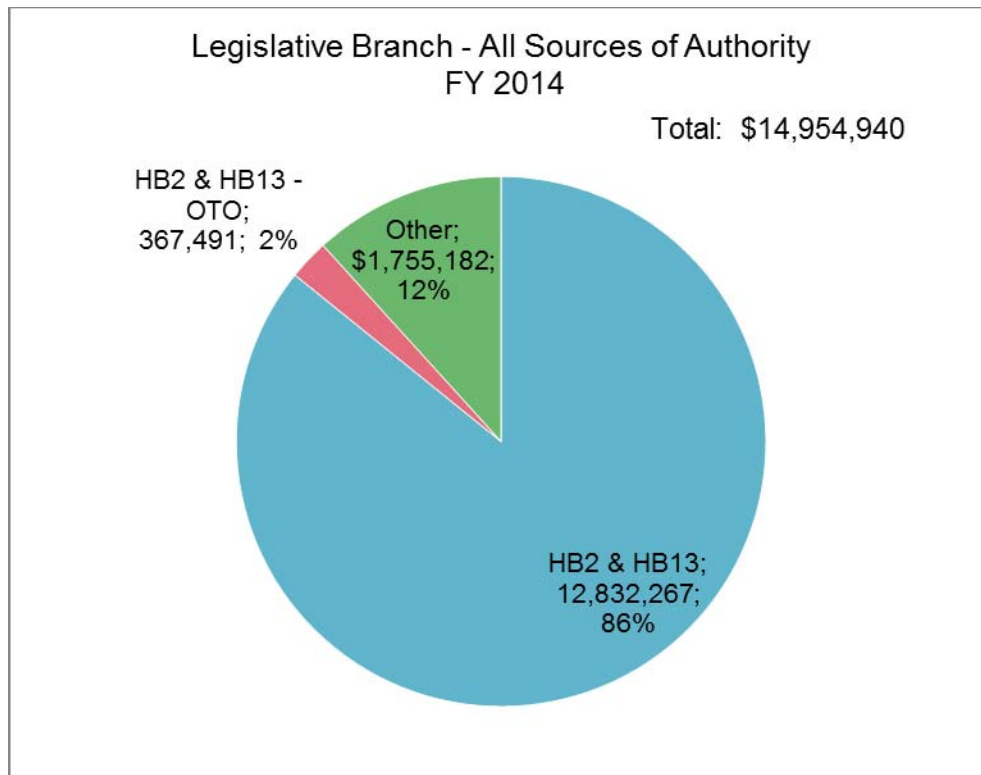
How Services are Provided

The Legislative Branch consists of the:

- Senate - with 17 committees
- House of Representatives - with 16 committees
- Legislative Services Division
- Legislative Fiscal Division
- Legislative Audit Division

The Senate and the House and their supporting divisions enact the laws of the state and fund and monitor all of the functions of state government. The branch also includes 12 interim and administrative committees. The primary statutory references defining duties and responsibilities of the branch are found in Title 5, MCA and Article V, Section 10(4), Montana Constitution.

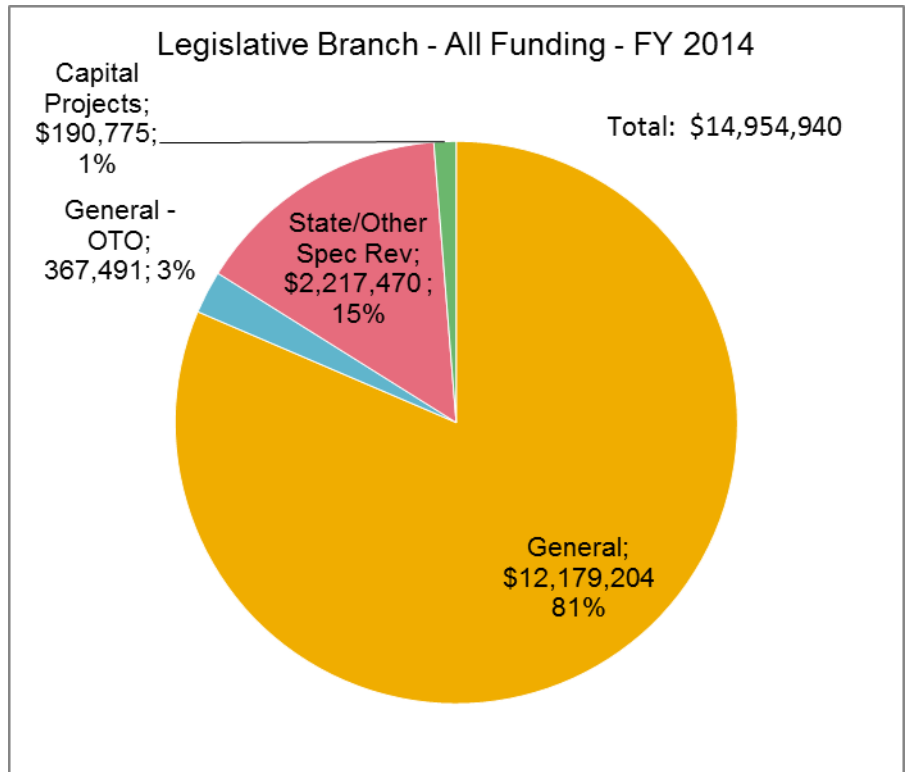
Sources of Spending Authority



The above chart shows the sources of authority for the Legislative Branch that were expended in FY 2014.

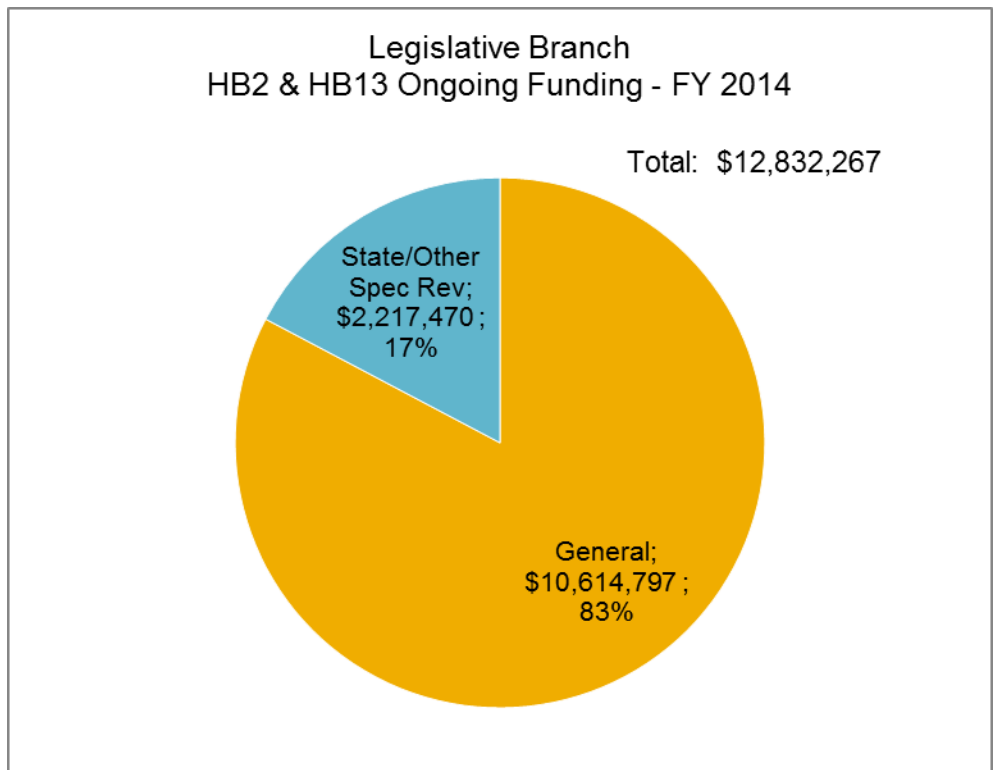
Funding

The chart shows the agency's and sources of its total funding authority.



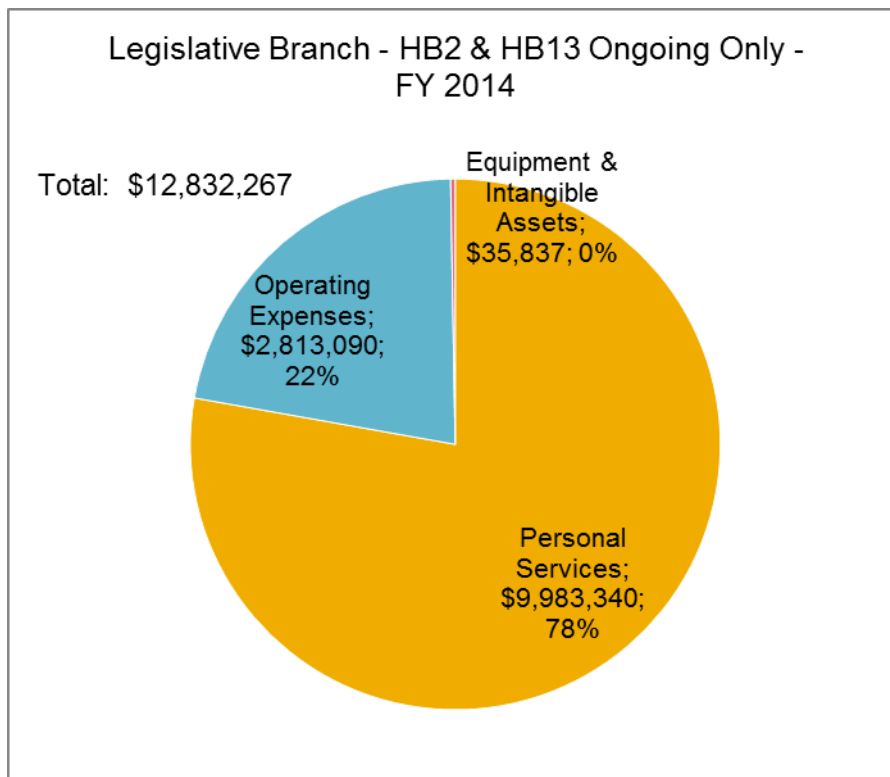
The Legislative Branch is funded primarily with general fund. State special revenues support the costs associated with the state broadcasting service (TVMT); the preparation, publication, distribution of the Montana Codes Annotated; and a portion of the audits conducted by the Legislative Audit Division.

This chart shows the agency's HB2/HB13 funding authority by fund type.



HB 2 Expenditures

The next chart explains how the HB 2 authority is spent.



How the 2015 Legislature Can Effect Change

In order to change expenditure levels and/or activity, the legislature might address laws:

- Governing how the Legislative Branch and its divisions conduct business and respond to legislative requests
- Governing length and frequency of legislative sessions, the number of committees and/or legislative membership size, and the number of bills per session
- Addressing the policy related to “triggers” that create the need for special legislative sessions
- Impacting policy related to the interim committees and interim studies

Major Cost Drivers

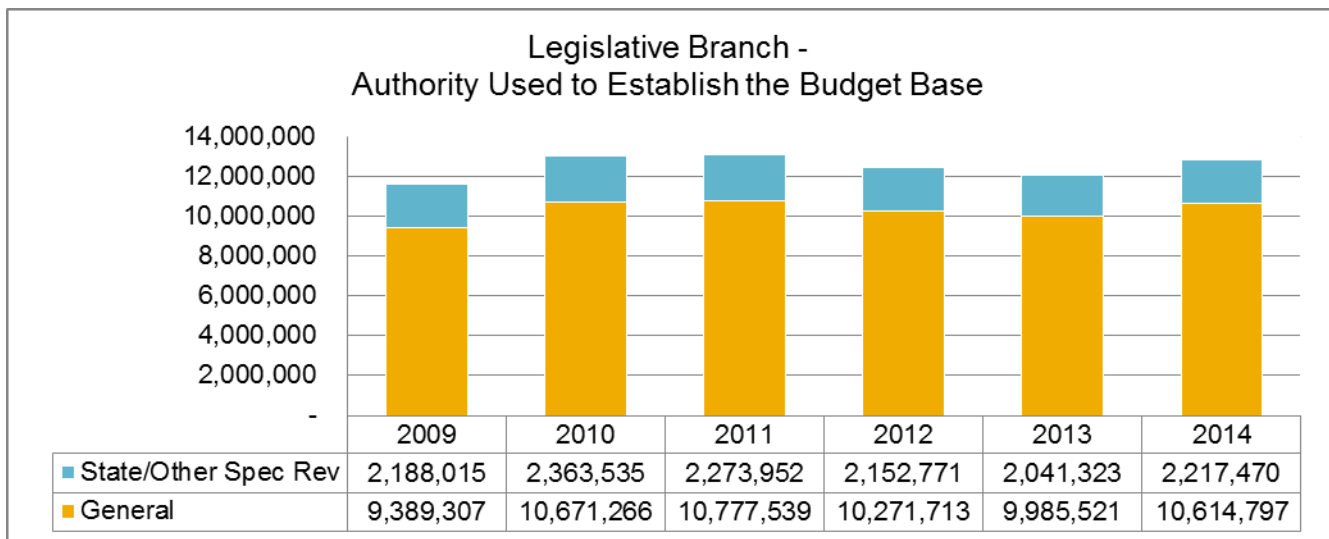
Driver	2003	2013	Significance of Data
Number of Interim Study Bill Requests (introduced and	25	50	Illustrates staff and committee workload
Number of Total Bill Draft Requests	2,208	2,218	Illustrates workload
Personal Services Cost	FY 2002 \$6,639,917	FY 2012 \$9,656,006	68.8% increase

Other less quantifiable cost drivers in the Legislative Branch budget include the costs of information technology upgrades and modernization, legal support services, and audio/video production.

Funding/Expenditure History, Authority Used to Establish the Budget Base

The table shows historical changes in the agency's base budget authority. Major reasons for change are:

- Upgrades to broadcasting and session systems (FY 2014)
- Termination pay for senior level retirements (FY 2014)
- Expansion of broadcasting of legislative sessions and interim committee activities (2011 biennium)
- Addition of 4.00 FTE for increased staffing needs and 1.00 FTE for systems analysis (2011 biennium)



Major Legislative Changes in the Last Ten Years

Major Changes in the Last 10 Years :

- 2011-TVMT was expanded to include additional statewide channels and expanded satellite transmission
- 2007- Employees of the legislative branch were moved to the broadband classification plan and audio minutes adopted as the official record of the committees
- 2005-The school funding lawsuit provided for bicentennial interim committee analysis of the school funding formula
- 2003-67% of lobbyist's fees are dedicated to support TVMT
- 2001-TVMT was implemented in 2001 in HB 144. Since that time the budget for TVMT has become a base cost of the Legislative Services Division

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	134.22	134.22	133.22	138.39	134.22	138.39	4.17	3.11 %
Personal Services	9,983,340	11,547,781	11,376,976	11,380,424	21,531,121	22,757,400	1,226,279	5.70 %
Operating Expenses	2,813,090	3,516,096	3,717,429	3,292,410	6,329,186	7,009,839	680,653	10.75 %
Equipment & Intangible Assets	35,837	50,000	80,000	20,000	85,837	100,000	14,163	16.50 %
Transfers	0	80,000	85,000	85,000	80,000	170,000	90,000	112.50 %
Total Costs	\$12,832,267	\$15,193,877	\$15,259,405	\$14,777,834	\$28,026,144	\$30,037,239	\$2,011,095	7.18 %
General Fund	10,614,797	13,046,275	12,666,333	12,740,290	23,661,072	25,406,623	1,745,551	7.38 %
State/Other Special Rev. Funds	2,217,470	2,147,602	2,593,072	2,037,544	4,365,072	4,630,616	265,544	6.08 %
Total Funds	\$12,832,267	\$15,193,877	\$15,259,405	\$14,777,834	\$28,026,144	\$30,037,239	\$2,011,095	7.18 %

Mission Statement

The mission of the Legislature is to exercise the legislative power of state government vested in the Legislature by The Constitution of the State of Montana. The mission of the Legislative Branch, i.e., the consolidated legislative agency, is to provide the administrative structure to support accomplishment of the mission of the Legislature. For more information, please refer to the agency profile: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Legislative Branch Major Budget Highlights
<ul style="list-style-type: none"> • Operating costs changes are due to: <ul style="list-style-type: none"> ◦ Cyclical nature of the legislative business cycle ◦ A new proposal for additional participation in the Capitol complex security plan • Personal services changes are primarily due to: <ul style="list-style-type: none"> ◦ A new proposal for the creation of a joint committee of the Energy and Telecommunications Interim Committee and the Environmental Quality Council to meet during the interim ◦ Elimination of 1.00 FTE in the Legislative Audit Division ◦ Retirement of long-time staff replaced at a lower rate

Agency Discussion

All divisions of the Legislative Branch make requests for cyclical adjustments, primarily for information technology, temporary personnel, printing, and broadcasting. Most of the increases and decreases contained in this proposal reflect the cyclical nature of the legislative business cycle.

5% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Legislative Branch has provided a plan for \$695,933 in reductions. The agency submitted plan is contained in the appendix section.

Agency Personal Services

The Legislative Branch typically hires at entry and will continue to do so. The pay philosophy for career ladders will remain the same as in the past--when promoted, the employee's salary increase will be at least the entry level salary for the occupation wage range of the promoted-to position. A promotion increase may not be awarded if it results in a division exceeding its approved budget.

The Legislative Branch Pay Plan encompasses the agency pay philosophy and provides parameters for merit-based and promotion-based pay adjustments. The branch implemented pay adjustments approved by the legislature in HB 13. In addition, the Legislative Branch offers a flexible schedule and telework options to those occupations that are eligible. Branch directors will continue to evaluate options available to address employee retention.

The Legislative Branch has 12.8% of the workforce eligible for retirement in the 2017 biennium and the Branch continues to work on succession planning.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base, by program.

FY 2015 Appropriation Transactions - Legislative Branch				
Program	Legislative Appropriation	Legislative Approp - OTO	Operating Plan	Total Executive Implementation
20 LEGISLATIVE SERVICES	\$8,002,597	\$292,500	-	\$8,295,097
Personal Services	5,404,730		31,482	5,436,212
Operating Expenses	2,547,867	292,500	(111,482)	2,728,885
Equipment & Intangible Assets	50,000			50,000
Transfers			80,000	80,000
21 LEGISLATIVE COMMITTEES	573,277			573,277
Personal Services	67,274			
Operating Expenses	506,003			
27 LEGISLATIVE FISCAL DIVISION	2,000,653		-	2,000,653
Personal Services	1,913,513		(20,000)	1,893,513
Operating Expenses	87,140		20,000	107,140
28 LEGISLATIVE AUDIT	4,324,850			4,324,850
Personal Services	4,150,782			
Operating Expenses	174,068			
Agency Total	\$14,901,377	\$292,500	-	\$15,193,877

While operating plan changes occurred, the net impact to the FY 2015 legislative appropriation was zero.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	25,406,623	0	0	25,406,623	84.58 %
State Special Total	4,630,616	0	0	4,630,616	15.42 %
Federal Special Total	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0.00 %
Other Total	0	0	0	0	0.00 %
Total All Funds	\$30,037,239	\$0	\$0	\$30,037,239	
Percent - Total All Sources	100.00 %	0.00 %	0.00 %		

The Legislative Branch is mainly funded with general fund. State special revenues support the costs associated with the state broadcasting service (TVMT); the preparation, publication, distribution of the Montana Codes Annotated; and a portion of the activities of the Legislative Audit Division.

While not shown in the table above, the Legislative Branch has statutory appropriation authority for the following:

- Legislative Branch reserve account is any portion of unexpended and unencumbered money included in the “feed bill” (the bill that funds the legislative session each year) and remaining carry forward appropriations for the divisions. The funds may be used for major Legislative Branch information technology projects including hardware, software, and consultant services for new initiatives and replacement and upgrading of existing systems
- All money for audits transferred to the legislative auditor must be deposited in a state special revenue fund in the state treasury to the credit of the Office of the Legislative Auditor. The money deposited in excess of general and pay plan appropriations is derived from higher than estimated audit revenues and may be used to pay expenses incurred in auditing state agencies based on an approved operating plan

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	12,753,775	12,753,775	25,507,550	100.40 %	14,901,377	14,901,377	29,802,754	99.22 %
PL Adjustments	(109,287)	(33,594)	(142,881)	(0.56)%	386,091	(93,879)	292,212	0.97 %
New Proposals	21,845	20,109	41,954	0.17 %	(28,063)	(29,664)	(57,727)	(0.19)%
Total Budget	\$12,666,333	\$12,740,290	\$25,406,623		\$15,259,405	\$14,777,834	\$30,037,239	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	59.00	59.00	59.00	64.17	59.00	64.17	5.17	8.76 %
Personal Services	4,838,327	5,436,212	5,327,239	5,379,996	10,274,539	10,707,235	432,696	4.21 %
Operating Expenses	2,085,167	2,728,885	2,816,011	2,484,684	4,814,052	5,300,695	486,643	10.11 %
Equipment & Intangible Assets	35,837	50,000	80,000	20,000	85,837	100,000	14,163	16.50 %
Transfers	0	80,000	85,000	85,000	80,000	170,000	90,000	112.50 %
Total Costs	\$6,959,331	\$8,295,097	\$8,308,250	\$7,969,680	\$15,254,428	\$16,277,930	\$1,023,502	6.71 %
General Fund	6,169,775	7,942,194	7,497,850	7,712,389	14,111,969	15,210,239	1,098,270	7.78 %
State/Other Special Rev. Funds	789,556	352,903	810,400	257,291	1,142,459	1,067,691	(74,768)	(6.54)%
Total Funds	\$6,959,331	\$8,295,097	\$8,308,250	\$7,969,680	\$15,254,428	\$16,277,930	\$1,023,502	6.71 %

Program Description

The Legislative Services Division provides objective research, reference, legal, technical, information technology, and business services to the House, Senate, and other divisions of the Legislative Branch.

Division services include:

1. Bill and amendment drafting, preparation of bills for introduction, and engrossing and enrolling bills;
2. Publication of legislative documents of record;
3. Preparation, publication, and distribution of the Montana Code Annotated text and annotations;
4. Provision of legislative research and reference services;
5. Legal services and counseling on legislative matters and agency legal support;
6. Review of the text of proposed ballot measures;
7. Personnel and business services;
8. Planning, installation, and maintenance of agency information technology;
9. Broadcasting of state government and public policy events; and
10. Provision of legislative information to the public.

The Legislative Council provides policy guidance to the Legislative Services Division.

Program Highlights

Legislative Services Division Major Budget Highlights
<ul style="list-style-type: none"> • A new proposal is included for increased participation in the capitol complex security plan • Operating cost changes are reflective of the cyclical nature of the legislative process

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$1,043,266 below the FY 2015 legislative appropriation. The primary reason for the difference is the cyclical operational adjustments for session related costs needed in FY 2015, but not needed in FY 2014.

Funding

The following table shows proposed program funding by source from all sources of authority.

Legislative Branch, 20-Legislative Services Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	15,210,239	0	0	15,210,239	93.44 %	
02800 Reimbursable Activities	1,008,167	0	0	1,008,167	94.42 %	
02985 State Government Broadcasting	59,524	0	0	59,524	5.58 %	
State Special Total	\$1,067,691	\$0	\$0	\$1,067,691	6.56 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$16,277,930	\$0	\$0	\$16,277,930		

The Legislative Services Division is mainly funded by general fund. State special revenue funding supports the costs associated with the state broadcasting service (TVMT) and the preparation, publication, and distribution of the Montana Codes Annotated.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	7,649,694	7,649,694	15,299,388	100.59 %	8,002,597	8,002,597	16,005,194	98.32 %
PL Adjustments	(236,844)	(22,305)	(259,149)	(1.70)%	220,653	(117,917)	102,736	0.63 %
New Proposals	85,000	85,000	170,000	1.12 %	85,000	85,000	170,000	1.04 %
Total Budget	\$7,497,850	\$7,712,389	\$15,210,239		\$8,308,250	\$7,969,680	\$16,277,930	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating

expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	83,177	(160,668)	0	(77,491)	0.00	(4,679)	(20,055)	0	(24,734)
DP 99 - LEG. Present Law	0.00	(320,021)	618,165	0	298,144	0.00	(17,626)	(75,557)	0	(93,183)
Grand Total All Present Law Adjustments	0.00	(\$236,844)	\$457,497	\$0	\$220,653	0.00	(\$22,305)	(\$95,612)	\$0	(\$117,917)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	59.00	\$29,160	(\$486)	\$0	\$28,674
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	85,168	12,390	-	97,558
Other	0.00	(31,151)	(172,572)	-	(203,723)
Personal Services Present Law Adjustments	59.00	\$83,177	(\$160,668)	\$0	(\$77,491)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	64.17	\$29,160	(\$486)	\$0	\$28,674
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	85,168	12,390	-	97,558
Other	0.00	(119,007)	(31,959)	-	(150,966)
Personal Services Present Law Adjustments	64.17	(\$4,679)	(\$20,055)	\$0	(\$24,734)

Other adjustments include staff turnover, like retirements.

DP 99 - LEG. Present Law -

Please refer to the present law table to see the adjustments made to legislative present law. The operating costs change primarily due to the cyclical nature of the legislative process:

- The Branch produces and publishes the Montana Codes Annotated in even years. Therefore, the increased costs in FY 2016 are due to printing the Montana Codes Annotated (all state special revenue) and TV MT. The reduction in FY 2017 is reflective of the production and publication of the Codes in even years
- Decrease in general fund is primarily a result of a decrease in the information technology budget

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2020002 - Participation in Capitol Complex Security	0.00	85,000	0	0	85,000	0.00	85,000	0	0	85,000
Total	0.00	\$85,000	\$0	\$0	\$85,000	0.00	\$85,000	\$0	\$0	\$85,000

DP 2020002 - Participation in Capitol Complex Security -

This proposal provides for Legislative Branch participation in the capitol complex security plan. Branch participation would be funded with general fund.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	0.97	0.97	0.97	0.97	0.97	0.97	0.00	0.00 %
Personal Services	95,060	67,274	110,672	71,448	162,334	182,120	19,786	12.19 %
Operating Expenses	503,285	506,003	640,722	531,334	1,009,288	1,172,056	162,768	16.13 %
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	\$598,345	\$573,277	\$751,394	\$602,782	\$1,171,622	\$1,354,176	\$182,554	15.58 %
General Fund	598,345	573,277	751,394	602,782	1,171,622	1,354,176	182,554	15.58 %
Total Funds	\$598,345	\$573,277	\$751,394	\$602,782	\$1,171,622	\$1,354,176	\$182,554	15.58 %

Program Description

The Legislative Committees and Activities program supports the activities of legislators and legislative committees that are conducted during the interim between legislative sessions.

Program expenditures support :

1. The Legislative Council;
2. Interim study activities, as defined in 5-5-202 through 5-5-217, MCA;
3. Cooperative interstate, international, and intergovernmental activities, as outlined in 5-11-303 through 5-11-305, MCA; and
4. Other legislative activities for which appropriations are made

Program Highlights

Legislative Committees and Activities Major Budget Highlights
<ul style="list-style-type: none"> • The budget would increase primarily due to re-establishment of the discretionary fund for emerging issues and increased travel related to interim committees • New proposal for the establishment of new joint sub-committee of the Energy and Telecommunications Interim Committee (ETIC) and Environmental Quality Council (EQC)

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$25,068 above the FY 2015 legislative appropriation. The primary reason for the difference is over-expenditure in personal services.

Funding

The following table shows proposed program funding by source from all sources of authority.

Legislative Branch, 21-Legis. Committees & Activities Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,354,176	0	0	1,354,176	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$1,354,176	\$0	\$0	\$1,354,176		

Legislative Committees and Activities are entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	573,277	573,277	1,146,554	84.67 %	573,277	573,277	1,146,554	84.67 %
PL Adjustments	172,351	25,661	198,012	14.62 %	172,351	25,661	198,012	14.62 %
New Proposals	5,766	3,844	9,610	0.71 %	5,766	3,844	9,610	0.71 %
Total Budget	\$751,394	\$602,782	\$1,354,176		\$751,394	\$602,782	\$1,354,176	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	41,035	0	0	41,035	0.00	2,599	0	0	2,599
DP 99 - LEG. Present Law	0.00	131,316	0	0	131,316	0.00	23,062	0	0	23,062
Grand Total All Present Law Adjustments	0.00	\$172,351	\$0	\$0	\$172,351	0.00	\$25,661	\$0	\$0	\$25,661

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	0.97	\$471	\$0	\$0	\$471
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	-	-	-	-
Other	0.00	40,564	-	-	40,564
Personal Services Present Law Adjustments	0.97	\$41,035	\$0	\$0	\$41,035

FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	0.97	\$471	\$0	\$0	\$471
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	-	-	-	-
Other	0.00	2,128	-	-	2,128
Personal Services Present Law Adjustments	0.97	\$2,599	\$0	\$0	\$2,599

This proposal includes personal services related to adjustments of the Economic Affairs Interim Committee schedule. The increase is primarily related to the cyclical nature of the legislative interim process, when even years are funded at a higher level than an odd year.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing increases in costs and funding when compared to the FY 2015 legislative appropriation. This will provide adjustments to the discretionary fund, and other travel related costs.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2121003 - Joint ETIC/EQC Carbon Dioxide SubComm RST/OTO/BIEN	0.00	5,766	0	0	5,766	0.00	3,844	0	0	3,844
Total	0.00	\$5,766	\$0	\$0	\$5,766	0.00	\$3,844	\$0	\$0	\$3,844

DP 2121003 - Joint ETIC/EQC Carbon Dioxide SubComm RST/OTO/BIEN -

This new proposal provides for a joint sub-committee of the Energy and Telecommunications Interim Committee (ETIC) and Environmental Quality Council (EQC). The sub-committee would be comprised of 8 members and meet in conjunction

with the ETIC and the EQC. The sub-committee would study the proposed Environmental Protection Agency rules requiring states to reduce carbon dioxide emissions.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	20.50	20.50	20.50	20.50	20.50	20.50	0.00	0.00 %
Personal Services	1,750,207	1,893,513	1,899,054	1,894,894	3,643,720	3,793,948	150,228	4.12 %
Operating Expenses	61,964	107,140	62,953	88,988	169,104	151,941	(17,163)	(10.15)%
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	\$1,812,171	\$2,000,653	\$1,962,007	\$1,983,882	\$3,812,824	\$3,945,889	\$133,065	3.49 %
General Fund	1,812,171	2,000,653	1,962,007	1,983,882	3,812,824	3,945,889	133,065	3.49 %
Total Funds	\$1,812,171	\$2,000,653	\$1,962,007	\$1,983,882	\$3,812,824	\$3,945,889	\$133,065	3.49 %

Program Description

The Legislative Fiscal Division provides the legislature with objective fiscal information and analysis relevant to Montana public policy and budget determination.

Division services include:

1. Fiscal analysis of state government and the furnishing of information bearing upon the financial matters of the state;
2. Identification of ways to effect economy and efficiency in state government;
3. Estimation of revenue and analysis of tax policy;
4. Analysis of the Executive Budget;
5. Compiling and analyzing fiscal information for legislators and legislative committees; and
6. Staffing and support for legislative committees, including the preparation and processing of the appropriation bills for the legislative, judicial, and executive agencies

The Legislative Finance Committee provides guidance to the Legislative Fiscal Division.

Program Highlights

Legislative Fiscal Division Major Budget Highlights
<ul style="list-style-type: none"> • The budget would decrease as compared to the FY 2015 appropriation, except for a small change in FY 2017 to include printing costs associated with the legislative session

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$188,482 below the FY 2015 legislative appropriation. Primary reasons for the difference are the retirement of senior level staff and rehiring of new staff at lower rate and higher operating costs in FY 2015 as a result of the legislative session.

Funding

The following table shows proposed program funding by source from all sources of authority.

Legislative Branch, 27-Fiscal Analysis & Review Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	3,945,889	0	0	3,945,889	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$3,945,889	\$0	\$0	\$3,945,889		

The division is funded entirely with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	2,000,653	2,000,653	4,001,306	101.40 %	2,000,653	2,000,653	4,001,306	101.40 %
PL Adjustments	(38,646)	(16,771)	(55,417)	(1.40)%	(38,646)	(16,771)	(55,417)	(1.40)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,962,007	\$1,983,882	\$3,945,889		\$1,962,007	\$1,983,882	\$3,945,889	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(14,459)	0	0	(14,459)	0.00	(18,619)	0	0	(18,619)
DP 99 - LEG. Present Law	0.00	(24,187)	0	0	(24,187)	0.00	1,848	0	0	1,848
Grand Total All Present Law Adjustments	0.00	(\$38,646)	\$0	\$0	(\$38,646)	0.00	(\$16,771)	\$0	\$0	(\$16,771)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	20.50	\$9,963	\$0	\$0	\$9,963
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	36,063	-	-	36,063
Other	0.00	(60,485)	-	-	(60,485)
Personal Services Present Law Adjustments	20.50	(\$14,459)	\$0	\$0	(\$14,459)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	20.50	\$9,963	\$0	\$0	\$9,963
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	36,063	-	-	36,063
Other	0.00	(64,645)	-	-	(64,645)
Personal Services Present Law Adjustments	20.50	(\$18,619)	\$0	\$0	(\$18,619)

Other adjustments include retired staff replaced with lower paid staff.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative appropriation. The small increase in FY 2017 is associated cyclical legislative session costs for printing. The following table outlines the changes.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	53.75	53.75	52.75	52.75	53.75	52.75	(1.00)	(1.86)%
Personal Services	3,299,746	4,150,782	4,040,011	4,034,086	7,450,528	8,074,097	623,569	8.37 %
Operating Expenses	162,674	174,068	197,743	187,404	336,742	385,147	48,405	14.37 %
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	\$3,462,420	\$4,324,850	\$4,237,754	\$4,221,490	\$7,787,270	\$8,459,244	\$671,974	8.63 %
General Fund	2,034,506	2,530,151	2,455,082	2,441,237	4,564,657	4,896,319	331,662	7.27 %
State/Other Special Rev. Funds	1,427,914	1,794,699	1,782,672	1,780,253	3,222,613	3,562,925	340,312	10.56 %
Total Funds	\$3,462,420	\$4,324,850	\$4,237,754	\$4,221,490	\$7,787,270	\$8,459,244	\$671,974	8.63 %

Program Description

The Legislative Audit Division conducts independent audits and provides factual and objective information to the legislative and executive managers of the public trust.

Division services include:

1. Conducting and reporting of biennial financial-compliance audits, performance audits, information systems audits, and special audits of state agency operations;
2. Reporting of violation of penal statutes, instances of misfeasance, malfeasance, or nonfeasance, and any instances of apparent violations of the state code of ethics discovered in an audit;
3. Auditing records of entities under contract with the state; and
4. Assisting the Legislature, its committees, and its members by providing information related to the fiscal affairs of state government

The Legislative Auditor consults with the Legislative Audit Committee.

Program Highlights

Legislative Audit Division Major Budget Highlights
<ul style="list-style-type: none"> • The state special operating costs increase primarily due to: <ul style="list-style-type: none"> ◦ Additional travel to comply with Governmental Accounting Standards Board GASB requirements of validating and auditing census data for all of Montana’s public retirement systems around the state ◦ Consulting costs for actuary services • Elimination of 1.00 FTE for the executive transition position (Chief Deputy)

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$862,430 below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Unfilled 1.00 FTE executive transition position
- Vacancy savings of 17% in FY 2014

Funding

The following table shows proposed program funding by source from all sources of authority.

Legislative Branch, 28-Audit & Examination Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	4,896,319	0	0	4,896,319	57.88 %	
02042 Legislative Audit	3,562,925	0	0	3,562,925	100.00 %	
State Special Total	\$3,562,925	\$0	\$0	\$3,562,925	42.12 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$8,459,244	\$0	\$0	\$8,459,244		

The division is funded with a combination of general fund and state special revenue. The state special revenue funds are generated through a charge to agencies of a billing rate calculated in accordance with federal regulations for audit services.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	2,530,151	2,530,151	5,060,302	103.35 %	4,324,850	4,324,850	8,649,700	102.25 %
PL Adjustments	(6,148)	(20,179)	(26,327)	(0.54)%	31,733	15,148	46,881	0.55 %
New Proposals	(68,921)	(68,735)	(137,656)	(2.81)%	(118,829)	(118,508)	(237,337)	(2.81)%
Total Budget	\$2,455,082	\$2,441,237	\$4,896,319		\$4,237,754	\$4,221,490	\$8,459,244	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law	0.00	(1,561)	9,619	0	8,058	0.00	(2,414)	4,226	0	1,812
DP 99 - LEG. Present Law	0.00	(4,587)	28,262	0	23,675	0.00	(17,765)	31,101	0	13,336
Grand Total All Present Law Adjustments	0.00	(\$6,148)	\$37,881	\$0	\$31,733	0.00	(\$20,179)	\$35,327	\$0	\$15,148

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	53.75	\$14,245	\$11,877	\$0	\$26,122
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	46,232	30,693	-	76,925
Other	0.00	(62,038)	(32,951)	-	(94,989)
Personal Services Present Law Adjustments	53.75	(\$1,561)	\$9,619	\$0	\$8,058
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	53.75	\$14,245	\$11,877	\$0	\$26,122
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	46,232	30,693	-	76,925
Other	0.00	(62,891)	(38,344)	-	(101,235)
Personal Services Present Law Adjustments	53.75	(\$2,414)	\$4,226	\$0	\$1,812

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing an increase in state special costs and funding when compared to the FY 2015 legislative appropriation. The increase is primarily due to additional travel to comply with the Governmental Accounting Standards Board (GASB) requirements of validating and auditing census data for all of Montana’s public retirement systems. The financial audit of the Legislative Branch is a biennial audit therefore FY 2017 audit fees funded by general fund are eliminated.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2828002 - LAD Personal Services Reduction	(1.00)	(68,921)	(49,908)	0	(118,829)	(1.00)	(68,735)	(49,773)	0	(118,508)
Total	(1.00)	(\$68,921)	(\$49,908)	\$0	(\$118,829)	(1.00)	(\$68,735)	(\$49,773)	\$0	(\$118,508)

DP 2828002 - LAD Personal Services Reduction -

This proposal reduces 1.00 FTE in the Legislative Audit Division, by eliminating position #11428103, an executive transition position vacant since 2008.

The Legislative Fiscal Division Presents an Agency Profile of:

The Montana Consumer Counsel

Contact: Susie Lindsay, Fiscal Analyst
Room 110H, State Capitol Building
Phone: 444-4121
e-mail: slindsay@mt.gov

Updated August 2014

Definition of Terms

Agency Description

The Montana Consumer Counsel represents Montana's utility and transportation consuming public in hearings before the Public Service Commission, as well as the state and federal courts and administrative agencies. The Montana Consumer Counsel is part of the legislative branch and is overseen by the Legislative Consumer Committee. The primary statutory references defining duties and responsibilities of the department are found in Article XIII, Section 2, Montana Constitution, Title 5, Chapter 15, and Title 69, Chapters 1 and 2, MCA.

How Services are Provided

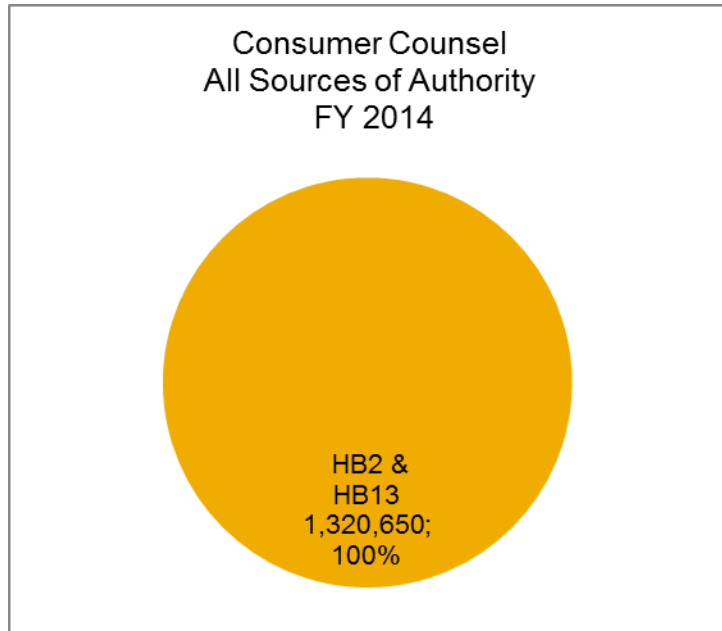
The Consumer Counsel represents Montana consumers in:

- Utility and transportation proceedings before the Public Service Commission
- Proceedings before the Federal Energy Regulatory Commission, Federal Communications Commission, and other federal administrative agencies
- Appropriate state and federal court proceedings

The Montana Consumer Counsel provides these services through one program and the use of outside consulting services to bring expertise for regulatory issues as they arise.

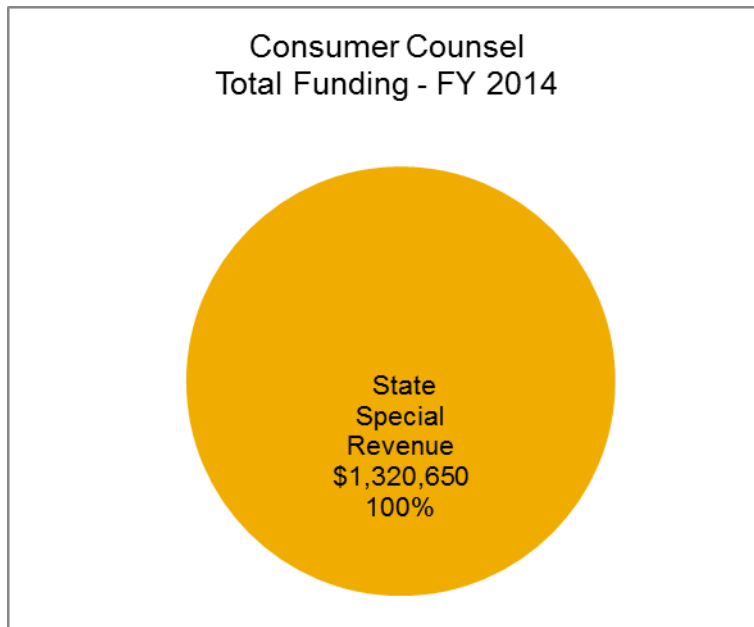
Sources of Spending Authority

The chart shows the sources of authority for the Montana Consumer Counsel.

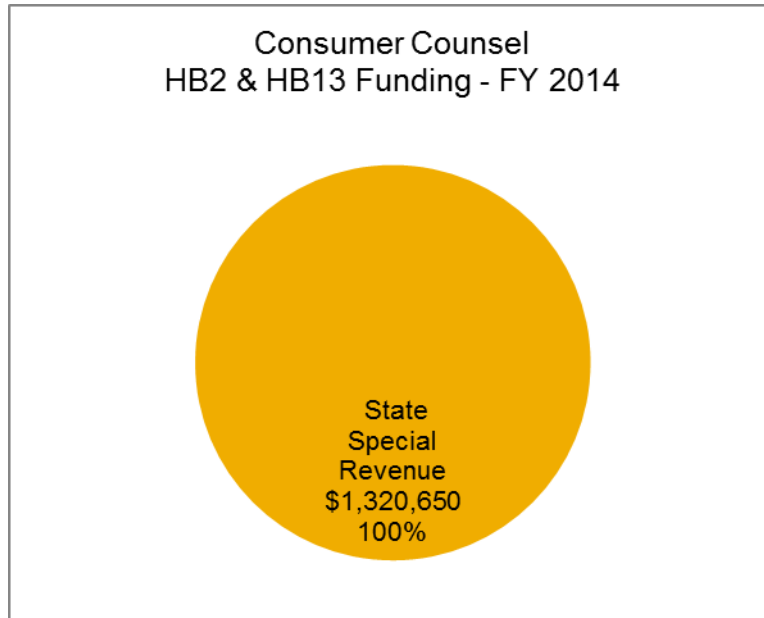


Funding

The chart below explains total funding by fund type for the Montana Consumer Counsel.

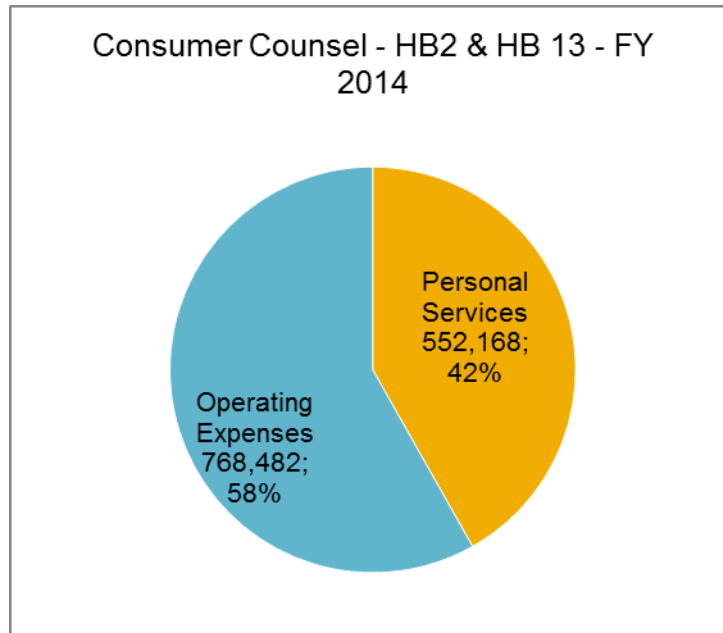


The following charts show the agency's HB 2 funding authority, which is also total authority, by fund type and all sources of funding authority. The Montana Consumer Counsel is fully funded with state special revenues collected through fees charged to the various public utility and transportation companies operating in Montana. As shown, all agency funding is included in HB 2.



HB 2 Expenditures

The chart explains expenditures for HB 2.



How the 2015 Legislature Can Effect Change

The legislature has the ability to change expenditure levels and/or Consumer Counsel activities through the following basic elements that drive costs:

- Impact the rates, reporting process, and fees or taxes charged to regulated utilities
- Govern which agency, if any, monitors regulated utilities (through changes to the Constitution)
- Govern agency participation in regional and/or national issues

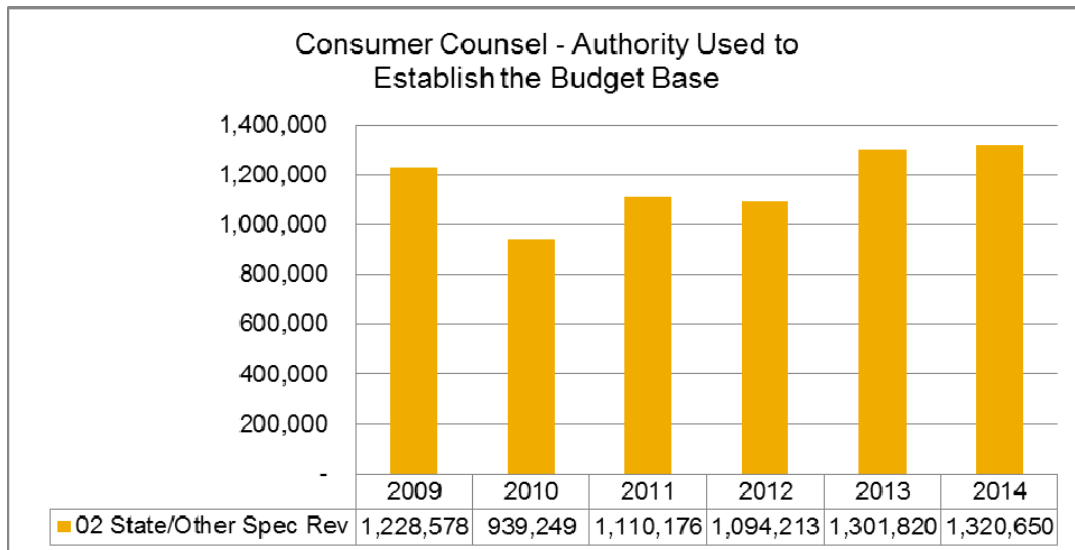
Major Cost Drivers

Driver	FY 2004	FY 2014	Significance of Data
Contractor Fees	\$154	\$144	The Consumer Counsel primarily makes use of three contractors for the analysis of utility cases/issues. The fee is calculated based on total hours worked divided by total amount paid.
Calendar Year Dockets Before Montana Public Service Commission	249	118	As the number of dockets change, it also changes the number of cases that the Consumer Counsel is likely to intervene on, data includes all dockets of the PSC regardless of intervention. This factor influences contracting costs.

Funding/Expenditure History, Authority Used to Establish the Base Budget

Major reasons for changes are:

- Increase in consulting and professional services
- Caseload contingency fund expenditures



Major Legislative Changes in the Last Ten Years

- 2007—The Sixtieth Legislature passed SB 448 requiring the Montana Consumer Counsel to perform an analysis of the fiscal impacts related to permit applications for new electrical generation facilities and upgrades under the Montana Major Facility Siting Act. The analysis included an estimation of how customer rates may have been impacted. Costs of the analysis were paid by applicants.
- 2003—The Fifty-eighth Legislature passed SB 247, which established a default electricity supply procurement process and changed the regulatory role in resource planning, requiring regulators to participate in the decision making process “up-front”. The legislation increased the role, as well as associated costs, of the Montana Consumer Counsel’s representation of ratepayer interests through the adoption of a preapproval process.

For further information, you may wish to contact the agency at:
Montana Consumer Counsel
111 North Last Chance Gulch, Suite 1B
Helena, MT 59620-1703
phone: (406) 444-2771
web: <http://leg.mt.gov/css/Committees/Administration/Consumer%20Counsel/>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	5.54	5.54	5.54	5.54	5.54	5.54	0.00	0.00 %
Personal Services	552,168	649,849	638,121	638,775	1,202,017	1,276,896	74,879	6.23 %
Operating Expenses	768,482	1,053,776	1,062,310	1,075,490	1,822,258	2,137,800	315,542	17.32 %
Total Costs	\$1,320,650	\$1,703,625	\$1,700,431	\$1,714,265	\$3,024,275	\$3,414,696	\$390,421	12.91 %
State/Other Special Rev. Funds	1,320,650	1,703,625	1,700,431	1,714,265	3,024,275	3,414,696	390,421	12.91 %
Total Funds	\$1,320,650	\$1,703,625	\$1,700,431	\$1,714,265	\$3,024,275	\$3,414,696	\$390,421	12.91 %

Mission Statement

The mission of the Montana Consumer Counsel (MCC) is to represent the utility and transportation consuming public of the State of Montana in hearings before the Public Service Commission or any other successor agency, and before state and federal courts and administrative agencies.

For additional information, please refer to the agency profile found at: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Consumer Counsel Major Budget Highlights
<ul style="list-style-type: none"> • Operating costs increased primarily due to: <ul style="list-style-type: none"> ◦ New proposal request of \$500,000 in the consulting and professional services for unanticipated caseloads ◦ Anticipated rent increases ◦ Increases to general operating costs like training, travel and other expenses

Agency Discussion

The Montana Consumer Counsel is a single department Legislative Branch agency and is overseen by a four member Legislative Consumer Counsel Committee. The agency intervenes on behalf of Montana consumers in transportation and utility issues and rate cases at the state and federal level. The largest component of the Montana Consumer Counsel budget is consulting and professional services. Consultants, along with staff, analyze the public implications of the actions of transportation and utility companies.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. However, due to its small number of FTE this agency is exempt from the requirement.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

The agency uses 5.54 FTE to perform their statutory duties and consultants to provide expertise to the permanent staff. The funding for the 5.54 FTE is included in personal services and consultant services are funded through operating

expenses. Actual FY 2014 expenditures are \$132,975 below the FY 2015 legislative appropriation. The primary reason for the difference is some staff in training assignments (lower pay) during FY 2014.

Agency Personal Services

Positions within MCC require specific and unique skills and the agency reports that when it is necessary to recruit a majority of applicants are not qualified. The agency has had to recruit positions more than once due to unqualified applicants. At the time of this writing, 1.00 FTE is eligible for retirement in the 2017 biennium, but none have indicated any change in status.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base. One-time-only appropriations are not included in the budget base.

FY 2015 Appropriation Transactions - Consumer Counsel			
Program	Legislative Appropriation	Legislative Approp - OTO	Total Executive Implementation
01 Consumer Counsel			
Personal Services	\$649,849		\$649,849
Operating Expenses	803,776	250,000	1,053,776
Equipment & Intangible Assets			
Transfers			
Agency Total	\$1,453,625	\$250,000	\$1,703,625

Funding

The following table shows proposed program funding by source from all sources of authority.

Consumer Counsel, 01-Administration Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02801 Dep Rev Consumer Cncl Tax	3,414,696	0	0	3,414,696	100.00 %	
State Special Total	\$3,414,696	\$0	\$0	\$3,414,696	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$3,414,696	\$0	\$0	\$3,414,696		

MCC is funded by a state special revenue fund generated by fees imposed on all regulated entities under the jurisdiction of the Public Service Commission. The funding formula is specified in 69-1-223 and 224, MCA. Each year the Department of Revenue determines the total gross operating revenue generated by all regulated activities within the state for the previous fiscal year. The Department of Revenue then computes the percentage tax necessary to yield an amount equal to the current appropriation, with no excess funds. If collection of excess revenue occurs, the amount charged to the regulated utilities for the following year is reduced.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	1,453,625	1,453,625	2,907,250	0.00 %
PL Adjustments	0	0	0	0.00 %	(3,194)	10,640	7,446	0.00 %
New Proposals	0	0	0	0.00 %	250,000	250,000	500,000	0.00 %
Total Budget	\$0	\$0	\$0		\$1,700,431	\$1,714,265	\$3,414,696	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	(11,728)	0	(11,728)	0.00	0	(11,074)	0	(11,074)
DP 99 - LEG. Present Law	0.00	0	8,534	0	8,534	0.00	0	21,714	0	21,714
Grand Total All Present Law Adjustments	0.00	\$0	(\$3,194)	\$0	(\$3,194)	0.00	\$0	\$10,640	\$0	\$10,640

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	5.54	\$0	\$2,692	\$0	\$2,692
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	-	-	-	-
Other	0.00	-	(14,420)	-	(14,420)
Personal Services Present Law Adjustments	5.54	\$0	(\$11,728)	\$0	(\$11,728)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	5.54	\$0	\$2,692	\$0	\$2,692
Executive Implementation of 2015 Pay Increase	0.00	-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE	0.00	-	-	-	-
Other	0.00	-	(13,766)	-	(13,766)
Personal Services Present Law Adjustments	5.54	\$0	(\$11,074)	\$0	(\$11,074)

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing increases in costs and funding to operating expenses when compared to the FY 2015 legislative budget. Consultants utilized for analyzing the implications of the actions of transportation and utility companies indicated that their fees will increase in the 2017 biennium. The agency also anticipates rent increases.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 100002 - Caseload Contingency (RST/OTO)	0.00	0	250,000	0	250,000	0.00	0	250,000	0	250,000
Total	0.00	\$0	\$250,000	\$0	\$250,000	0.00	\$0	\$250,000	\$0	\$250,000

DP 100002 - Caseload Contingency (RST/OTO) -

The budget includes a \$250,000 one-time-only contingency each year for the 2017 biennium for costs associated with unanticipated caseload, consistent with appropriations in prior biennia.

LFD COMMENT

In the previous biennia, the caseload contingency fund has been provided for the potential of unusually large controversial or complicated cases that could require agency intervention. The following table illustrates the actual historical expenditures from the caseload contingency fund since FY 2004. Since the caseload contingency is not expended in a consistent way, separating the caseload contingency into a separate appropriation allows the legislature to track the expenditures. In the 2013 and 2015 biennia, the caseload contingency was one-time-only and restricted. The one-time designation separated it from base expenditures and restricted it to a specific purpose or function.

Consumer Counsel Historical Expenditures Caseload Contingency FY 2004 - FY 2014	
2004	219,354
2005	-
2006	43,000
2007	69,214
2008	148,523
2009	76,041
2010	(2,000)
2011	123,495
2012	-
2013	43,404
2014	-
*In the 2013 & 2015 biennia, the caseload contingency appropriation was included with a one-time-only designation.	

The Legislative Fiscal Division Presents an Agency Profile of:

Governor's Office

Contact: Susie Lindsay, Fiscal Analyst
 Room 110H, State Capitol Building
 Phone: 444-4121
 e-mail: slindsay@mt.gov

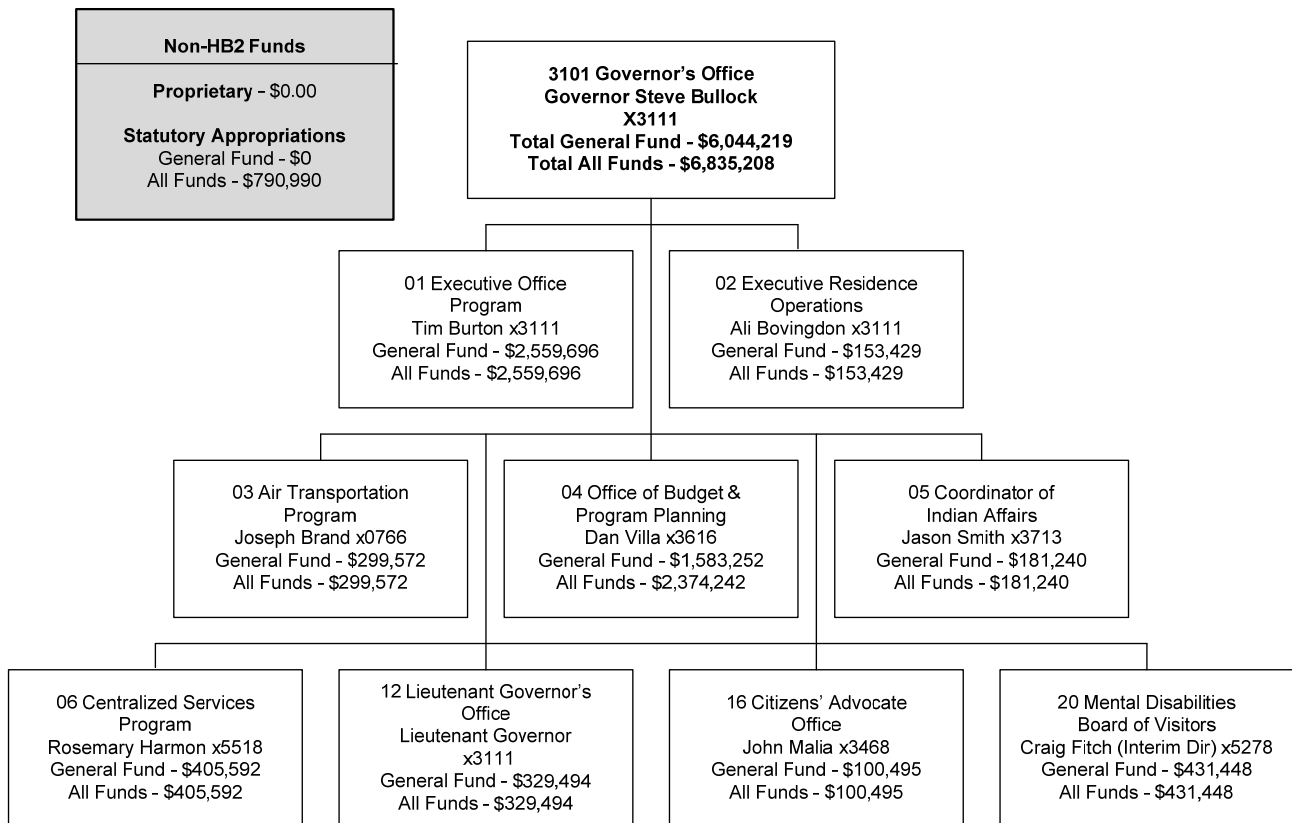
Updated October 2014

Agency Description

Definition of Terms

The mission of the Governor's Office is to oversee and direct the activities of the Executive Branch of Montana state government, consistent with statutory and constitutional mandates, in a manner that provides necessary and affordable services to the citizens of Montana. The primary statutory references defining duties and responsibilities of the department are found in Article VI, Montana Constitution, Article VI, Section 4, Title 17, Chapter 7, MCA, 2-15-217 and 90-11-101, MCA, and 2-15-210, MCA, and 53-20-104, MCA.

Below is an organizational chart of the agency including general fund appropriations, statutory appropriations, proprietary funds, one-time-only funds, and total of all funds of expenditure type. Unless otherwise noted, all phone extensions are preceded by (406) 444.

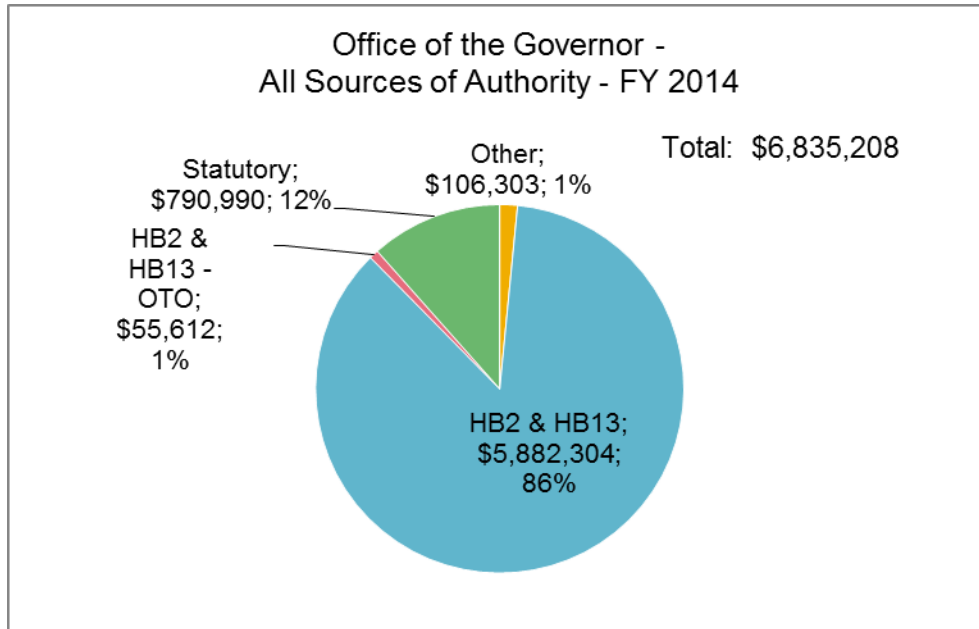


How Services are Provided

The Governor's Office provides these services through a structure consisting of nine divisions. Services provided within the agency include:

- Maintaining the executive residence and aircraft
- Analyzing economic development proposals and issues
- Planning, preparing, and administering the state budget and drafting of fiscal notes
- Interrelating with the state's Indian tribes
- Providing information to citizens which allows them to gain accessibility to state government
- Reviewing patient care in community mental health centers and facilities
- Protecting the rights of the mentally ill and developmentally disabled

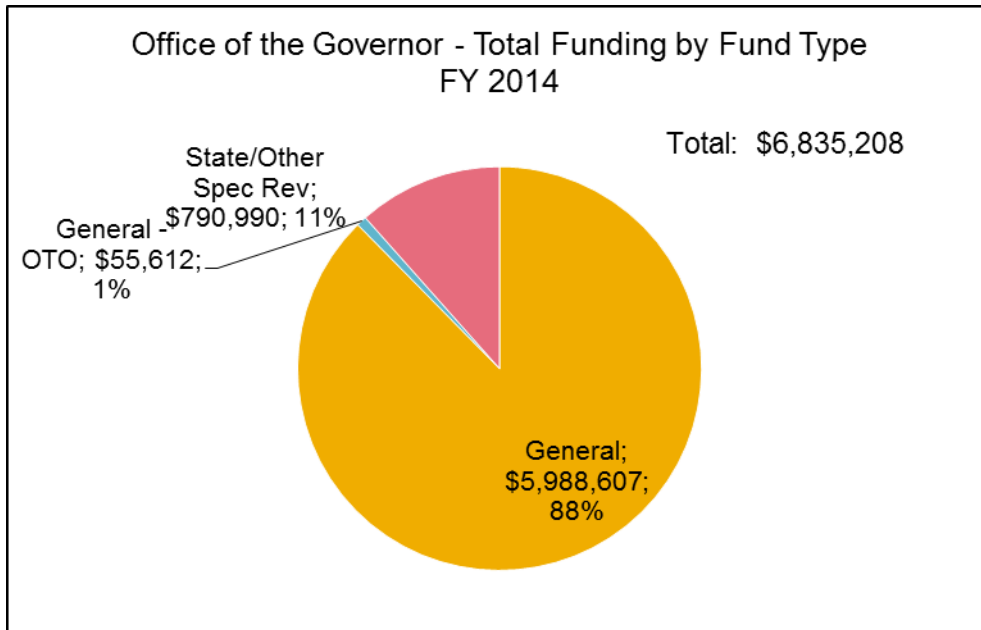
Sources of Spending Authority



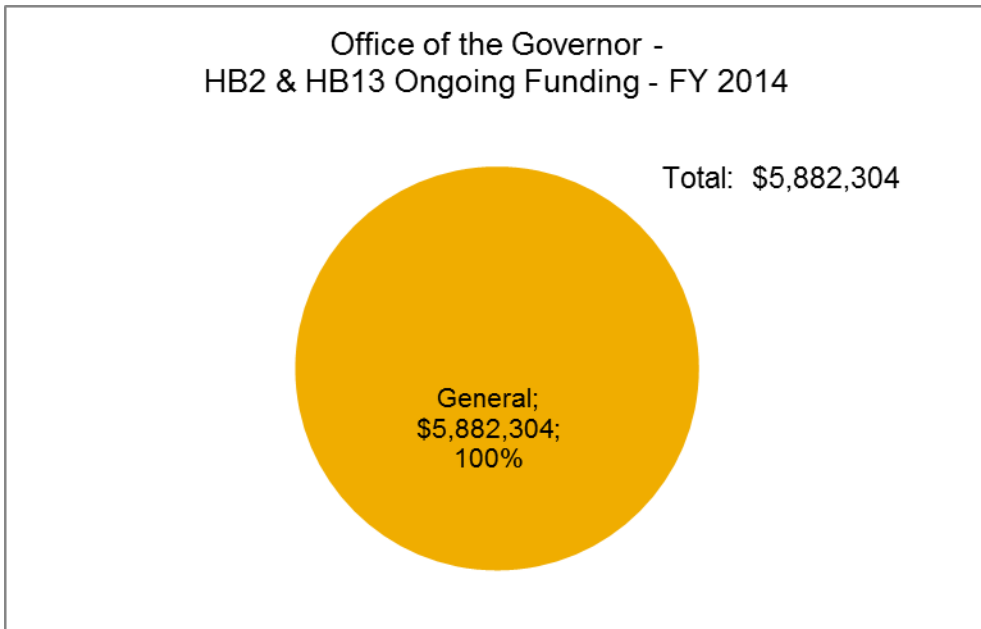
The above chart shows the sources of authority for the Governor's Office.

Funding

The following chart shows the agency's total funding by fund type.

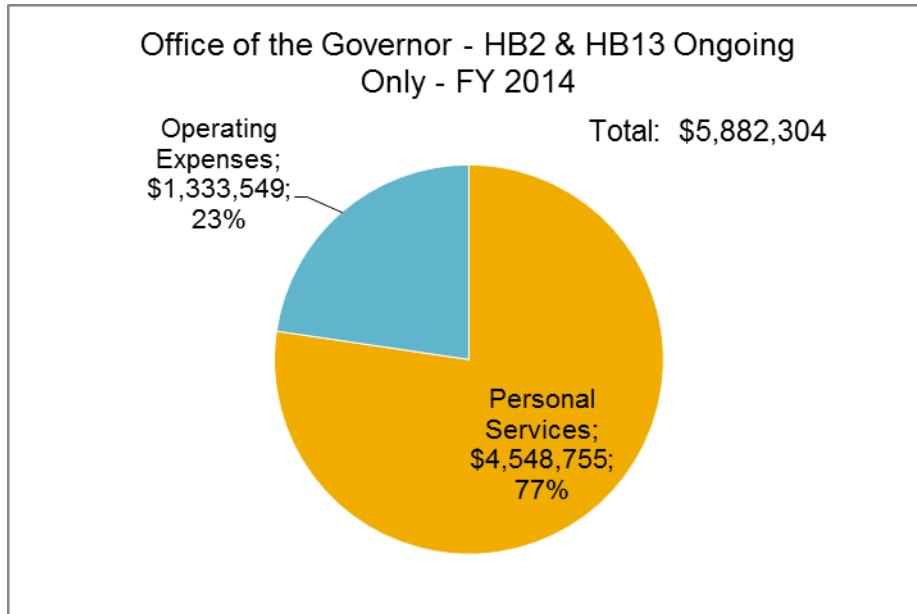


The following chart shows the agency's HB2/HB13 funding authority by fund. The Governor's Office is funded primarily with general fund.



HB 2 Expenditures

The next chart explains how the HB 2 authority is spent.



How to Effect Change?

Major Cost Drivers

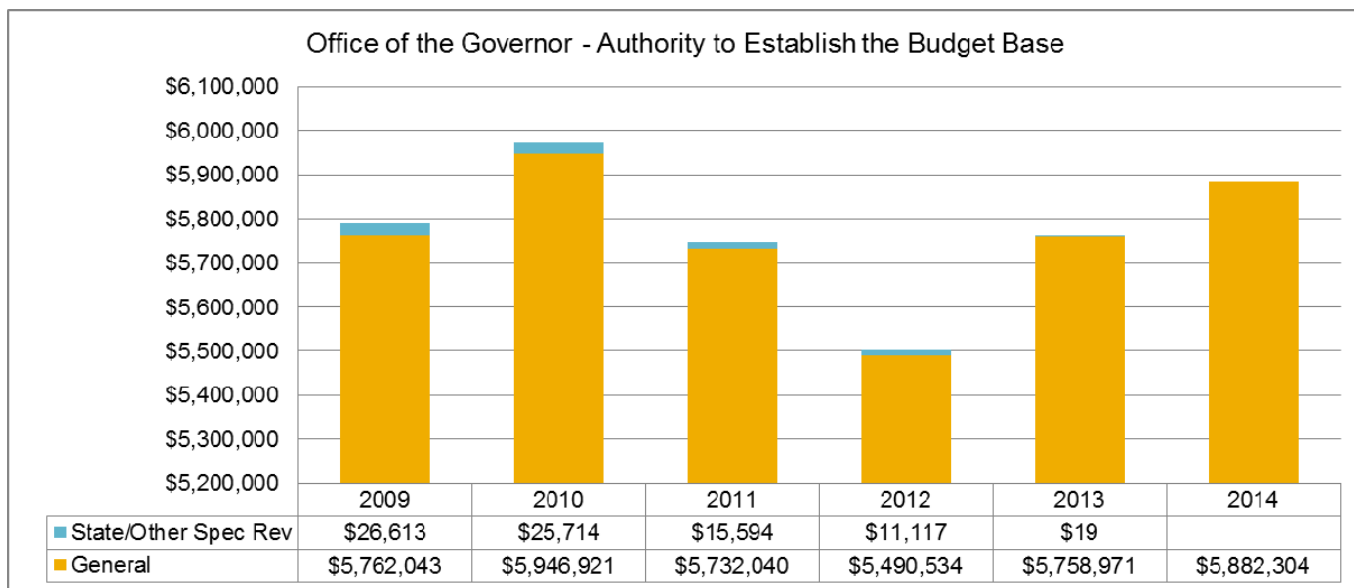
Driver	2004	2014	Significance of Data
Total FTE	60.00	58.07	The executive branch helps the Governor and Lieutenant Governor carry out the statutorily defined duties of their offices.

As seen in the table above, services are provided through staff directly employed in the office. Personal service costs are therefore the primary factor that drives expenditures. Some of the factors that drive these costs include the state pay plan and benefits, workers' compensation, and unemployment insurance.

Other factors driving expenses include utilities and changes in statewide fixed costs such as inflation/deflation and the cost to maintain buildings and technology.

The table on the following page shows historical changes in the agency's base budget authority. Major reasons for changes are:

- HB 13 pay increases for 32 FTE, including 22 exempt FTE (FY 2014)
- Operating expenses declined in FY 2012
- Legislative approval of agency provided 5% reduction plans (FY 2012)
- Vacancy savings increased to 7%, reducing the personal services funding in the 2011 biennium



Major Legislative Changes in the Last Ten Years

- 2013 Session—The duties of the Energy Promotion and Development Division in the Department of Commerce was transferred to the Office of Economic Development in the Executive Office Program—please refer to the 2017 Biennium Budget Analysis, Department of Commerce for more information
- 2007 Session – The function of executive protection was transferred from the Governor’s Office to the Department of Justice
- 2003 Session –
 - Federal funding was provided for the costs of the Mental Health Ombudsman for one session only. It was later determined that the program was ineligible for Medicaid funding
 - The Consensus Council was moved to the Department of Administration and the budget removed from the Governor’s Office
 - The statutory appropriation for the Office of Economic Development was eliminated
 - The Flathead Basin Commission is transferred from the Governor’s Office to the Department of Natural Resources and Conservation

For further information, you may wish to contact the agency at:

Office of the Governor
 P.O. Box 200801
 Helena MT 59620-0801
 Phone: (406) 444-3111 FAX (406) 444-5529
 For more information: <http://governor.mt.gov/>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	58.07	58.07	58.07	58.07	58.07	58.07	0.00	0.00 %
Personal Services	4,548,755	4,832,480	5,306,730	5,300,775	9,381,235	10,607,505	1,226,270	13.07 %
Operating Expenses	1,333,549	1,333,438	1,346,419	1,303,424	2,666,987	2,649,843	(17,144)	(0.64)%
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	\$5,882,304	\$6,165,918	\$6,653,149	\$6,604,199	\$12,048,222	\$13,257,348	\$1,209,126	10.04 %
General Fund	5,882,304	6,157,572	6,653,149	6,604,199	12,039,876	13,257,348	1,217,472	10.11 %
State/Other Special Rev. Funds	0	8,346	0	0	8,346	0	(8,346)	(100.00)%
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$5,882,304	\$6,165,918	\$6,653,149	\$6,604,199	\$12,048,222	\$13,257,348	\$1,209,126	10.04 %

Mission Statement

The Governor's Office mission is to oversee and direct the activities of the Executive Branch of Montana state government, consistent with statutory and constitutional mandates. The Governor appoints all military and civil officers of the state whose appointments are provided for by statute or the constitution. The Governor approves or vetoes legislation, reports to the legislature on the condition of the state, and submits a biennial executive budget. There is additional, more detailed information about the Governor's Office in the agency profile found here: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Governor's Office Major Budget Highlights
<ul style="list-style-type: none"> • The Governor's Office 2017 biennium budget proposal does not include reductions in FTE associated with the HB 2 boiler plate language passed by the 2013 Legislature • Program transfers moved 3 existing part-time positions to full-time positions

Agency Discussion

The following explains the highlights that occurred within the agency:

- Neither the 2015 nor the 2017 biennium includes any reductions in FTE associated with the [boilerplate language](#) in HB 2 passed by the 2013 Legislature
- Program transfers moved three existing part-time positions to full-time positions. More detail is found at the program level
- The agency experienced a vacancy savings rate of 6.7% in FY 2014. Two broadband positions became vacant in FY 2014. Those positions were replaced with appointed staff. In addition, early in FY 2015 significant vacancies in the Mental Disabilities Board of Visitors occurred, with 3.00 FTE of the 5.50 total FTE departed. At the time of the writing, 1.50 FTE positions within the Mental Health Ombudsman office were vacant

5% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor's Office has provided a plan for \$276,429 in reductions. The agency submitted plan is contained in the appendix section.

Agency Personal Services

The Governor's Office has two pay plans that encompass the broadband classified staff. The pay plans are identified as the Mental Disabilities Board of Visitors (BOV) Broadband Pay Plan and the Office of Budget and Program Planning Pay Plan. Pay for staff employed outside of these two divisions (currently eight staff members) historically has been determined by the elected officials' management staff.

Turnover has been low except for early in FY 2015 the Mental Disabilities Board of Visitors experienced a significant vacancy. In addition, the positions in the Mental Health Ombudsman office are vacant at the time of this writing.

The Office of Budget and Program Planning has six staff members eligible to retire in the 2017 biennium. OBPP has a succession plan in place to lessen the impact of retirements.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

FY 2015 Appropriation Transactions - Governor's Office				
Program	Legislative Appropriation	Direct Transfers	Program Transfers	Total Executive Implementation
01 EXECUTIVE OFFICE PROGRAM	\$2,731,022	(\$195,212)	\$17,450	\$2,553,260
Personal Services	1,911,506	(130,137)	17,450	1,798,819
Operating Expenses	819,516	(65,075)		754,441
02 EXECUTIVE RESIDENCE OPERATIONS	135,832		4,860	140,692
Personal Services	79,906		4,860	84,766
Operating Expenses	55,926			55,926
03 AIR TRANSPORTATION PROGRAM	253,144			253,144
Personal Services	125,088			125,088
Operating Expenses	128,056			128,056
04 OFC BUDGET & PROGRAM PLANNING	1,752,178			1,752,178
Personal Services	1,543,087			1,543,087
Operating Expenses	209,091			209,091
05 COORDINATOR OF INDIAN AFFAIRS	182,618			182,618
Personal Services	163,550			163,550
Operating Expenses	19,068			19,068
06 CENTRALIZED SERVICES PROGRAM	401,906			401,906
Personal Services	322,529			322,529
Operating Expenses	79,377			79,377
12 LIEUTENANT GOVERNOR'S OFFICE	356,132		(42,890)	313,242
Personal Services	336,208		(42,890)	293,318
Operating Expenses	19,924			19,924
16 CITIZENS' ADVOCATE OFFICE	109,358		20,580	129,938
Personal Services	101,012		20,580	121,592
Operating Expenses	8,346			8,346
20 MENTAL DISABILITIES BD VISITORS	438,940			438,940
Personal Services	379,731			379,731
Operating Expenses	59,209			59,209
Agency Total	\$6,361,130	(\$195,212)	-	\$6,165,918

The differences are due to the following factors:

1. Direct Transfer (\$195,212) - The 2013 Legislature transferred 2.00 FTE and related operating expenses from the Energy Promotion and Developmental Division in the Department of Commerce to the Office of Economic Development unit in the Executive Office Program. The Governor's Office of Economic Development transferred the 2.00 FTE and related operating expenses back to the Department of Commerce for FY 2014 and FY 2015
2. Program Transfers – The agency moved FTE between programs and position numbers to bring three existing part-time positions up to full-time FTEs, and to provide a small increase in hours for another part-time FTE. More detailed explanations follow at the program level

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Governors Office Funding by Source of Authority 2017 Biennium Budget - Governors Office						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	13,257,348	0	0	13,257,348	100.00 %	
State Special Total	0	0	0	0	0.00 %	
Federal Special Total	0	0	0	0	0.00 %	
Proprietary Total	0	0	0	0	0.00 %	
Other Total	0	0	0	0	0.00 %	
Total All Funds	\$13,257,348	\$0	\$0	\$13,257,348		
Percent - Total All Sources	100.00 %	0.00 %	0.00 %			

The Governor’s Office budget is funded primarily with general fund. The agency is proposing that state special revenue used to support a portion of the Citizens’ Advocate Office not be continued but be replaced with general fund. A further discussion is in that program.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	6,352,784	6,352,784	12,705,568	95.84 %	6,361,130	6,361,130	12,722,260	95.96 %
PL Adjustments	235,365	186,415	421,780	3.18 %	227,019	178,069	405,088	3.06 %
New Proposals	65,000	65,000	130,000	0.98 %	65,000	65,000	130,000	0.98 %
Total Budget	\$6,653,149	\$6,604,199	\$13,257,348		\$6,653,149	\$6,604,199	\$13,257,348	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	21.00	21.00	21.00	21.00	21.00	21.00	0.00	0.00 %
Personal Services	1,738,769	1,798,819	2,003,354	1,998,078	3,537,588	4,001,432	463,844	13.11 %
Operating Expenses	755,698	754,441	675,613	676,637	1,510,139	1,352,250	(157,889)	(10.46)%
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	\$2,494,467	\$2,553,260	\$2,678,967	\$2,674,715	\$5,047,727	\$5,353,682	\$305,955	6.06 %
General Fund	2,494,467	2,553,260	2,678,967	2,674,715	5,047,727	5,353,682	305,955	6.06 %
State/Other Special Rev. Funds	0	0	0	0	0	0	0	0.00 %
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$2,494,467	\$2,553,260	\$2,678,967	\$2,674,715	\$5,047,727	\$5,353,682	\$305,955	6.06 %

Program Description

The Executive Office Program aids the Governor in overseeing and coordinating the activities of the Executive Branch of Montana state government. The program provides administrative, legal, and press support for the Office of the Governor. The Executive Office Program also administers programs with special impact on the citizens and governmental concerns of Montana. Special programs include the Office of Economic Development, which was created to strengthen the foundations of the state's business environment and diversify and expand existing economic endeavors to achieve long-term economic stability.

Program Highlights

<p>Executive Office Program Major Budget Highlights</p>
<ul style="list-style-type: none"> • Changes to the budget from the previous biennium are due entirely to present law adjustments and a direct transfer

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base, by program.

- Direct Transfer (\$195,212) - The 2013 Legislature transferred 2.00 FTE and related operating expenses from the Energy Promotion and Developmental Division in the Department of Commerce to the Office of Economic Development unit in the Executive Office Program. The Governor's Office of Economic Development transferred the 2.00 FTE and related operating expenses back to the Department of Commerce for FY 2014 and FY 2015

- The Governor’s Office moved a total of 1 FTE and a net total of \$17,450 general fund in FY 2015 between programs and position numbers. \$17,450 was provided by the Lt. Governor’s Office for two part-time positions to total 1.00 full-time FTE

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$236,555 below the FY 2015 legislative appropriation. The primary reason for the difference is the direct transfer. The program experienced a vacancy savings rate of 4.5% in FY 2014.

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 01-Executive Office Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	5,353,682	0	0	5,353,682	100.00 %	
02038 Governor's Office Ssr	0	0	0	0	0.00 %	
02432 Oil & Gas ERA	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03001 Governors Office Federal Grnts	0	0	0	0	0.00 %	
03286 SSBCI Treasury Grant	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$5,353,682	\$0	\$0	\$5,353,682		

The Executive Office Program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	2,731,022	2,731,022	5,462,044	102.02 %	2,731,022	2,731,022	5,462,044	102.02 %
PL Adjustments	(52,055)	(56,307)	(108,362)	(2.02)%	(52,055)	(56,307)	(108,362)	(2.02)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$2,678,967	\$2,674,715	\$5,353,682		\$2,678,967	\$2,674,715	\$5,353,682	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	91,848	0	0	91,848	0.00	86,572	0	0	86,572
DP 99 - LEG. Present Law	0.00	(143,903)	0	0	(143,903)	0.00	(142,879)	0	0	(142,879)
Grand Total All Present Law Adjustments	0.00	(\$52,055)	\$0	\$0	(\$52,055)	0.00	(\$56,307)	\$0	\$0	(\$56,307)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other personal services pay adjustments include annualized competency pay increases.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	21.00	\$10,206	\$0	\$0	\$10,206
Executive Implementation of 2015 Pay Increase	0.00	35,597	-	-	35,597
Fully Fund 2015 Legislatively Authorized FTE	0.00	34,223	-	-	34,223
Other	0.00	11,822	-	-	11,822
Personal Services Present Law Adjustments	21.00	\$91,848	\$0	\$0	\$91,848
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	21.00	\$10,206	\$0	\$0	\$10,206
Executive Implementation of 2015 Pay Increase	0.00	35,597	-	-	35,597
Fully Fund 2015 Legislatively Authorized FTE	0.00	34,223	-	-	34,223
Other	0.00	6,546	-	-	6,546
Personal Services Present Law Adjustments	21.00	\$86,572	\$0	\$0	\$86,572

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative appropriation. This is almost entirely due to the related operating expenses associated with the direct transfer discussed above.

As shown in the budget comparison table, FY 2014 actual spending was lower than budgeted primarily due to the direct transfer mentioned above. The LGPL captures these reductions as for the most part the executive included them in the 2017 biennium.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	1.57	1.57	1.57	1.57	1.57	1.57	0.00	0.00 %
Personal Services	79,854	84,766	91,279	91,072	164,620	182,351	17,731	10.77 %
Operating Expenses	57,167	55,926	58,799	59,364	113,093	118,163	5,070	4.48 %
Total Costs	\$137,021	\$140,692	\$150,078	\$150,436	\$277,713	\$300,514	\$22,801	8.21 %
General Fund	137,021	140,692	150,078	150,436	277,713	300,514	22,801	8.21 %
Total Funds	\$137,021	\$140,692	\$150,078	\$150,436	\$277,713	\$300,514	\$22,801	8.21 %

Program Description

The Governor's Residence Operations Program provides for the day-to-day operations of the official state Executive Residence.

Program Highlights

<p>Executive Residence Operations Major Budget Highlights</p>
<ul style="list-style-type: none"> • Changes to the budget from the previous biennium are due entirely to present law adjustments and 0.07 FTE increase

Program Discussion -

Comparison of FY 2015 Appropriations to FY 2015 Legislative Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base, by program.

- A program transfer of 0.07 FTE and \$4,860 in funding authority from the Lt. Governor's Office
- The program transfer funded additional hours for part-time staff

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$1,189 above the FY 2015 legislative appropriation.

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 02-Executive Residence Operations Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	300,514	0	0	300,514	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$300,514	\$0	\$0	\$300,514		

The Executive Residence Operations program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	135,832	135,832	271,664	90.40 %	135,832	135,832	271,664	90.40 %
PL Adjustments	14,246	14,604	28,850	9.60 %	14,246	14,604	28,850	9.60 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$150,078	\$150,436	\$300,514		\$150,078	\$150,436	\$300,514	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	11,373	0	0	11,373	0.00	11,166	0	0	11,166
DP 99 - LEG. Present Law	0.00	2,873	0	0	2,873	0.00	3,438	0	0	3,438
Grand Total All Present Law Adjustments	0.00	\$14,246	\$0	\$0	\$14,246	0.00	\$14,604	\$0	\$0	\$14,604

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments						
FY 2016						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds	
State Share Health Insurance	1.57	\$763	\$0	\$0	\$763	
Executive Implementation of 2015 Pay Increase	0.00	1,400	-	-	1,400	
Fully Fund 2015 Legislatively Authorized FTE	0.00	1,495	-	-	1,495	
Other	0.00	7,715	-	-	7,715	
Personal Services Present Law Adjustments	1.57	\$11,373	\$0	\$0	\$11,373	
FY 2017						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds	
State Share Health Insurance	1.57	\$763	\$0	\$0	\$763	
Executive Implementation of 2015 Pay Increase	0.00	1,400	-	-	1,400	
Fully Fund 2015 Legislatively Authorized FTE	0.00	1,495	-	-	1,495	
Other	0.00	7,508	-	-	7,508	
Personal Services Present Law Adjustments	1.57	\$11,166	\$0	\$0	\$11,166	

Other adjustments include:

- Strategic pay adjustment
- 0.07 FTE added to one part-time position

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing a slight increase in costs and funding when compared to the FY 2015 legislative appropriation.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	1.50	1.50	1.50	1.50	1.50	1.50	0.00	0.00 %
Personal Services	109,615	125,088	135,941	135,976	234,703	271,917	37,214	15.86 %
Operating Expenses	134,339	128,056	193,716	196,463	262,395	390,179	127,784	48.70 %
Total Costs	\$243,954	\$253,144	\$329,657	\$332,439	\$497,098	\$662,096	\$164,998	33.19 %
General Fund	243,954	253,144	329,657	332,439	497,098	662,096	164,998	33.19 %
Total Funds	\$243,954	\$253,144	\$329,657	\$332,439	\$497,098	\$662,096	\$164,998	33.19 %

Program Description

The Air Transportation Program provides the Governor with air transportation.

Program Highlights

Air Transportation Program Major Budget Highlights
<ul style="list-style-type: none"> • The increase in operating expenses is attributable to a new proposal to fund aircraft maintenance • The remaining increases are due to present law adjustments

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

- Actual FY 2014 expenditures are \$9,190 below the FY 2015 legislative appropriation
- Vacancy savings – the program experienced a vacancy savings rate of 25.2% in FY 2014

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 03-Air Transportation Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	662,096	0	0	662,096	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$662,096	\$0	\$0	\$662,096		

The Air Transportation Program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	253,144	253,144	506,288	76.47 %	253,144	253,144	506,288	76.47 %
PL Adjustments	11,513	14,295	25,808	3.90 %	11,513	14,295	25,808	3.90 %
New Proposals	65,000	65,000	130,000	19.63 %	65,000	65,000	130,000	19.63 %
Total Budget	\$329,657	\$332,439	\$662,096		\$329,657	\$332,439	\$662,096	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	10,853	0	0	10,853	0.00	10,888	0	0	10,888
DP 99 - LEG. Present Law	0.00	660	0	0	660	0.00	3,407	0	0	3,407
Grand Total All Present Law Adjustments	0.00	\$11,513	\$0	\$0	\$11,513	0.00	\$14,295	\$0	\$0	\$14,295

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other includes annualized personal services adjustments like strategic pay adjustment made in FY 2014 and longevity pay.

Personal Services Present Law Adjustments					
FY 2016					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	1.50	\$729	\$0	\$0	\$729
Executive Implementation of 2015 Pay Increase	0.00	2,293	-	-	2,293
Fully Fund 2015 Legislatively Authorized FTE	0.00	2,352	-	-	2,352
Other	0.00	5,479	-	-	5,479
Personal Services Present Law Adjustments	1.50	\$10,853	\$0	\$0	\$10,853
FY 2017					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	1.50	\$729	\$0	\$0	\$729
Executive Implementation of 2015 Pay Increase	0.00	2,293	-	-	2,293
Fully Fund 2015 Legislatively Authorized FTE	0.00	2,352	-	-	2,352
Other	0.00	5,514	-	-	5,514
Personal Services Present Law Adjustments	1.50	\$10,888	\$0	\$0	\$10,888

DP 99 - LEG. Present Law -

The executive is requesting a small increase in operating expenses.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 300301 - Aircraft Maintenance - Biennial	0.00	65,000	0	0	65,000	0.00	65,000	0	0	65,000
Total	0.00	\$65,000	\$0	\$0	\$65,000	0.00	\$65,000	\$0	\$0	\$65,000

DP 300301 - Aircraft Maintenance - Biennial -

The executive requests a general fund appropriation of \$130,000 to fund aircraft maintenance expenditures. Basic annual maintenance expenditures averaged \$59,200 over the three year period of FY 2012 to FY 2014, and prior to that time the average maintenance cost was around \$76,000. No major maintenance projects, beyond the basic, periodically required maintenance and upkeep are foreseen at this time. In past legislative sessions the aircraft maintenance has been provided as a one-time-only appropriation. However, this proposal requests the maintenance become part of the base budget.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	18.00	18.00	18.00	18.00	18.00	18.00	0.00	0.00 %
Personal Services	1,397,755	1,543,087	1,741,599	1,741,359	2,940,842	3,482,958	542,116	18.43 %
Operating Expenses	185,496	209,091	203,683	195,025	394,587	398,708	4,121	1.04 %
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	\$1,583,251	\$1,752,178	\$1,945,282	\$1,936,384	\$3,335,429	\$3,881,666	\$546,237	16.38 %
General Fund	1,583,251	1,752,178	1,945,282	1,936,384	3,335,429	3,881,666	546,237	16.38 %
State/Other Special Rev. Funds	0	0	0	0	0	0	0	0.00 %
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$1,583,251	\$1,752,178	\$1,945,282	\$1,936,384	\$3,335,429	\$3,881,666	\$546,237	16.38 %

Program Description

The Office of Budget and Program Planning (OBPP) assists the Governor in preparing the Governor's Executive Budget and administering the state government budget. In addition, OBPP prepares and monitors revenue estimates and collections, prepares and publishes fiscal notes on proposed legislation and initiatives, and acts as approving authority for operational plan changes, program transfers, and budget amendments in the Executive Branch, in accordance with Title 17, Chapter 7, MCA. OBPP acts as the lead Executive Branch agency for compliance with the federal Single Audit Act.

Program Highlights

Office of Budget and Program Planning Major Budget Highlights
<ul style="list-style-type: none"> • The increase in personal services is due to pay increases in market, competency and longevity increases provided in 2015 biennium • Operating expenses decrease primarily due to lower fixed costs and audit fees

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$168,927 below the FY 2015 legislative appropriation. The primary reason is an experienced vacancy savings rate of 12.9% in hours expended to hours budgeted.

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 04-Ofc Budget & Program Planning Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	3,881,666	0	0	3,881,666	100.00 %	
02038 Governor's Office Ssr	0	0	0	0	0.00 %	
02249 Governor's Office Operations Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03001 Governors Office Federal Grnts	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$3,881,666	\$0	\$0	\$3,881,666		

The Office of Budget and Program Planning is funded completely with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,752,178	1,752,178	3,504,356	90.28 %	1,752,178	1,752,178	3,504,356	90.28 %
PL Adjustments	193,104	184,206	377,310	9.72 %	193,104	184,206	377,310	9.72 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,945,282	\$1,936,384	\$3,881,666		\$1,945,282	\$1,936,384	\$3,881,666	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----						-----Fiscal 2017-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law	0.00	198,512	0	0	198,512	0.00	198,272	0	0	198,272
DP 99 - LEG. Present Law	0.00	(5,408)	0	0	(5,408)	0.00	(14,066)	0	0	(14,066)
Grand Total All Present Law Adjustments	0.00	\$193,104	\$0	\$0	\$193,104	0.00	\$184,206	\$0	\$0	\$184,206

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other personal services adjustments include annualized competency, market, reclassification, and longevity pay increases.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	18.00	\$8,748	\$0	\$0	\$8,748
Executive Implementation of 2015 Pay Increase	0.00	31,000	-	-	31,000
Fully Fund 2015 Legislatively Authorized FTE	0.00	29,102	-	-	29,102
Other	0.00	129,662	-	-	129,662
Personal Services Present Law Adjustments	18.00	\$198,512	\$0	\$0	\$198,512
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	18.00	\$8,748	\$0	\$0	\$8,748
Executive Implementation of 2015 Pay Increase	0.00	31,000	-	-	31,000
Fully Fund 2015 Legislatively Authorized FTE	0.00	29,102	-	-	29,102
Other	0.00	129,422	-	-	129,422
Personal Services Present Law Adjustments	18.00	\$198,272	\$0	\$0	\$198,272

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing small decreases in costs and funding when compared to the FY 2015 legislative appropriation.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	2.00	2.00	2.00	2.00	2.00	2.00	0.00	0.00 %
Personal Services	157,442	163,550	168,172	168,490	320,992	336,662	15,670	4.88 %
Operating Expenses	19,254	19,068	22,415	22,473	38,322	44,888	6,566	17.13 %
Total Costs	\$176,696	\$182,618	\$190,587	\$190,963	\$359,314	\$381,550	\$22,236	6.19 %
General Fund	176,696	182,618	190,587	190,963	359,314	381,550	22,236	6.19 %
Total Funds	\$176,696	\$182,618	\$190,587	\$190,963	\$359,314	\$381,550	\$22,236	6.19 %

Program Description

The Coordinator of Indian Affairs serves as the Governor's liaison with state Indian tribes, provides information and policy support on issues confronting the Indians of Montana, and advises and makes recommendations on these issues to the Legislative and Executive Branches. The coordinator also serves the Montana congressional delegation as an advisor and intermediary in the field of Indian affairs and acts as spokesperson for representative Native American organizations and groups, both public and private, whenever that support is requested. The program is mandated by 2-15-217 and 90-11-101, MCA.

Program Highlights

Office of Indian Affairs Major Budget Highlights
<ul style="list-style-type: none"> • Operating costs increase as a result of fixed cost increases • Personal services increase due to annualization of increases in benefit and pay increases provided during the 2015 biennium

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$5,922 below the 2015 legislative appropriation. The program did not experience vacancy savings in FY 2014 and none is applied in the 2017 biennium

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 05-Office of Indian Affairs Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	381,550	0	0	381,550	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$381,550	\$0	\$0	\$381,550		

The Coordinator of Indian Affairs office is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	182,618	182,618	365,236	95.72 %	182,618	182,618	365,236	95.72 %
PL Adjustments	7,969	8,345	16,314	4.28 %	7,969	8,345	16,314	4.28 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$190,587	\$190,963	\$381,550		\$190,587	\$190,963	\$381,550	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	4,622	0	0	4,622	0.00	4,940	0	0	4,940
DP 99 - LEG. Present Law	0.00	3,347	0	0	3,347	0.00	3,405	0	0	3,405
Grand Total All Present Law Adjustments	0.00	\$7,969	\$0	\$0	\$7,969	0.00	\$8,345	\$0	\$0	\$8,345

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments						
FY 2016						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds	
State Share Health Insurance	2.00	\$972	\$0	\$0	\$972	
Executive Implementation of 2015 Pay Increase	0.00	2,938	-	-	2,938	
Fully Fund 2015 Legislatively Authorized FTE	0.00	3,083	-	-	3,083	
Other	0.00	(2,371)	-	-	(2,371)	
Personal Services Present Law Adjustments	2.00	\$4,622	\$0	\$0	\$4,622	
FY 2017						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds	
State Share Health Insurance	2.00	\$972	\$0	\$0	\$972	
Executive Implementation of 2015 Pay Increase	0.00	2,938	-	-	2,938	
Fully Fund 2015 Legislatively Authorized FTE	0.00	3,083	-	-	3,083	
Other	0.00	(2,053)	-	-	(2,053)	
Personal Services Present Law Adjustments	2.00	\$4,940	\$0	\$0	\$4,940	

DP 99 - LEG. Present Law -

The executive has proposed to increase general fund to pay for increased fixed costs.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00 %
Personal Services	303,235	322,529	336,327	337,053	625,764	673,380	47,616	7.61 %
Operating Expenses	102,356	79,377	113,686	74,186	181,733	187,872	6,139	3.38 %
Total Costs	\$405,591	\$401,906	\$450,013	\$411,239	\$807,497	\$861,252	\$53,755	6.66 %
General Fund	405,591	401,906	450,013	411,239	807,497	861,252	53,755	6.66 %
State/Other Special Rev. Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$405,591	\$401,906	\$450,013	\$411,239	\$807,497	\$861,252	\$53,755	6.66 %

Program Description

The Centralized Services Program provides business services to all programs within the Governor's Office. Services include payroll and personnel, accounting, central asset management and computer replacement, data processing, and budget preparation and monitoring for the entire office.

Program Highlights

<p>Centralized Services Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • The requested increase is entirely due to present law adjustments

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$3,685 above the FY 2015 legislative appropriation.

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 06-Centralized Services Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	861,252	0	0	861,252	100.00 %	
02253 CITIZEN'S ADVOCATE STATE SPECIAL RE	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$861,252	\$0	\$0	\$861,252		

The Central Services Program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	401,906	401,906	803,812	93.33 %	401,906	401,906	803,812	93.33 %
PL Adjustments	48,107	9,333	57,440	6.67 %	48,107	9,333	57,440	6.67 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$450,013	\$411,239	\$861,252		\$450,013	\$411,239	\$861,252	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	13,798	0	0	13,798	0.00	14,524	0	0	14,524
DP 99 - LEG. Present Law	0.00	34,309	0	0	34,309	0.00	(5,191)	0	0	(5,191)
Grand Total All Present Law Adjustments	0.00	\$48,107	\$0	\$0	\$48,107	0.00	\$9,333	\$0	\$0	\$9,333

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	4.00	\$1,944	\$0	\$0	\$1,944
Executive Implementation of 2015 Pay Increase	0.00	5,875	-	-	5,875
Fully Fund 2015 Legislatively Authorized FTE	0.00	6,081	-	-	6,081
Other	0.00	(102)	-	-	(102)
Personal Services Present Law Adjustments	4.00	\$13,798	\$0	\$0	\$13,798
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	4.00	\$1,944	\$0	\$0	\$1,944
Executive Implementation of 2015 Pay Increase	0.00	5,875	-	-	5,875
Fully Fund 2015 Legislatively Authorized FTE	0.00	6,081	-	-	6,081
Other	0.00	624	-	-	624
Personal Services Present Law Adjustments	4.00	\$14,524	\$0	\$0	\$14,524

DP 99 - LEG. Present Law -

As shown in the present law table, overall the executive is proposing increases to general fund in FY 2016 to primarily provide for fixed cost increases.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	3.00	3.00	3.00	3.00	3.00	3.00	0.00	0.00 %
Personal Services	299,859	293,318	292,310	291,538	593,177	583,848	(9,329)	(1.57)%
Operating Expenses	24,882	19,924	23,888	24,227	44,806	48,115	3,309	7.39 %
Total Costs	\$324,741	\$313,242	\$316,198	\$315,765	\$637,983	\$631,963	(\$6,020)	(0.94)%
General Fund	324,741	313,242	316,198	315,765	637,983	631,963	(6,020)	(0.94)%
Total Funds	\$324,741	\$313,242	\$316,198	\$315,765	\$637,983	\$631,963	(\$6,020)	(0.94)%

Program Description

The Office of the Lieutenant Governor is responsible for carrying out duties prescribed by statute established by Article VI, Section 4 of the Montana Constitution, as well as those delegated by the Governor. Statutory authority is Title 2, Chapter 15, part 3, MCA.

Program Highlights

Lieutenant Governor's Office Major Budget Highlights
<ul style="list-style-type: none"> • Personal services decrease as a result of 0.94 FTE transferred to other programs within the Governor's Office • Operating costs increased as result of the increase in fixed costs

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The difference between the FY 2015 appropriation as shown in the main table to the FY 2015 legislative appropriation used for purposes of the budget base, is entirely due to the program transfer of 0.94 FTE and \$42,890 in funding to other programs.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$31,391 below the FY 2015 legislative appropriation primarily due to the program transfer.

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 12-Lieutenant Governor's Office Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	631,963	0	0	631,963	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$631,963	\$0	\$0	\$631,963		

The Office of the Lieutenant Governor's is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	356,132	356,132	712,264	112.71 %	356,132	356,132	712,264	112.71 %
PL Adjustments	(39,934)	(40,367)	(80,301)	(12.71)%	(39,934)	(40,367)	(80,301)	(12.71)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$316,198	\$315,765	\$631,963		\$316,198	\$315,765	\$631,963	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(43,898)	0	0	(43,898)	0.00	(44,670)	0	0	(44,670)
DP 99 - LEG. Present Law	0.00	3,964	0	0	3,964	0.00	4,303	0	0	4,303
Grand Total All Present Law Adjustments	0.00	(\$39,934)	\$0	\$0	(\$39,934)	0.00	(\$40,367)	\$0	\$0	(\$40,367)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other personal services adjustments are a result of the transfer of 0.94 FTE to other programs in the agency:

- 0.50 FTE (\$20,580) to the Citizen's Advocate Program

- 0.37 FTE (\$17,450) to the Executive Office Program
- 0.07 (\$4,860) to the Executive Residence Program

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	3.00	\$1,458	\$0	\$0	\$1,458
Executive Implementation of 2015 Pay Increase	0.00	5,208	-	-	5,208
Fully Fund 2015 Legislatively Authorized FTE	0.00	4,236	-	-	4,236
Other	0.00	(54,800)	-	-	(54,800)
Personal Services Present Law Adjustments	3.00	(\$43,898)	\$0	\$0	(\$43,898)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	3.00	\$1,458	\$0	\$0	\$1,458
Executive Implementation of 2015 Pay Increase	0.00	5,208	-	-	5,208
Fully Fund 2015 Legislatively Authorized FTE	0.00	4,236	-	-	4,236
Other	0.00	(55,572)	-	-	(55,572)
Personal Services Present Law Adjustments	3.00	(\$44,670)	\$0	\$0	(\$44,670)

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, the executive is proposing a small increase in costs and funding when compared to the FY 2015 legislative appropriation.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	2.00	2.00	2.00	2.00	2.00	2.00	0.00	0.00 %
Personal Services	90,421	121,592	127,014	126,702	212,013	253,716	41,703	19.67 %
Operating Expenses	2,844	8,346	744	742	11,190	1,486	(9,704)	(86.72)%
Total Costs	\$93,265	\$129,938	\$127,758	\$127,444	\$223,203	\$255,202	\$31,999	14.34 %
General Fund	93,265	121,592	127,758	127,444	214,857	255,202	40,345	18.78 %
State/Other Special Rev. Funds	0	8,346	0	0	8,346	0	(8,346)	(100.00)%
Total Funds	\$93,265	\$129,938	\$127,758	\$127,444	\$223,203	\$255,202	\$31,999	14.34 %

Program Description

The Citizens' Advocate Office exists to provide access to state government for Montana citizens. The office provides information to citizens and functions as a referral service for public comments, suggestions, and requests for information. The office provides a toll-free number to the public.

Program Highlights

Citizens' Advocate Office Major Budget Highlights
<ul style="list-style-type: none"> The increase in personal services is primarily due to a transfer of 0.50 FTE from the Lt. Governor's Office

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base are the result of a program transfer of \$20,580 in funding and 0.50 FTE.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$16,093 below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Vacancy savings – in FY 2014 the program experienced a vacancy savings rate of 27.7%

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 16-Citizens' Advocate Office Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	255,202	0	0	255,202	100.00 %	
02253 CITIZEN'S ADVOCATE STATE SPECIAL RE	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$255,202	\$0	\$0	\$255,202		

The Citizens' Advocate Office is funded primarily with general fund. The legislature appropriated state special revenue funding in anticipation of the agency collecting fees from the Department of Health and Human Services to provide for the volume of contacts from citizens seeking information and assistance related to health and human services. The 2017 biennium budget proposal is for this program to be funded entirely with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	101,012	101,012	202,024	79.16 %	109,358	109,358	218,716	85.70 %
PL Adjustments	26,746	26,432	53,178	20.84 %	18,400	18,086	36,486	14.30 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$127,758	\$127,444	\$255,202		\$127,758	\$127,444	\$255,202	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	37,796	(11,794)	0	26,002	0.00	37,545	(11,855)	0	25,690
DP 99 - LEG. Present Law	0.00	(11,050)	3,448	0	(7,602)	0.00	(11,113)	3,509	0	(7,604)
Grand Total All Present Law Adjustments	0.00	\$26,746	(\$8,346)	\$0	\$18,400	0.00	\$26,432	(\$8,346)	\$0	\$18,086

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other personal service adjustments include:

- program transfer provided an additional 0.50 FTE from 2015 biennium
- executive proposal to fund only with general fund as explained in the funding section

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	2.00	\$972	\$0	\$0	\$972
Executive Implementation of 2015 Pay Increase	0.00	2,115	-	-	2,115
Fully Fund 2015 Legislatively Authorized FTE	0.00	1,847	-	-	1,847
Other	0.00	32,862	(11,794)	-	21,068
Personal Services Present Law Adjustments	2.00	\$37,796	(\$11,794)	\$0	\$26,002
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	2.00	\$972	\$0	\$0	\$972
Executive Implementation of 2015 Pay Increase	0.00	2,115	-	-	2,115
Fully Fund 2015 Legislatively Authorized FTE	0.00	1,847	-	-	1,847
Other	0.00	32,611	(11,855)	-	20,756
Personal Services Present Law Adjustments	2.00	\$37,545	(\$11,855)	\$0	\$25,690

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing reductions to general fund in costs and funding when compared to the FY 2015 legislative appropriation. As shown in the budget comparison table, FY 2014 actual spending was lower than budgeted. The LGPL captures these reductions as, for the most part, the executive included them in the 2017 biennium.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00 %
Personal Services	371,805	379,731	410,734	410,507	751,536	821,241	69,705	9.28 %
Operating Expenses	51,513	59,209	53,875	54,307	110,722	108,182	(2,540)	(2.29)%
Total Costs	\$423,318	\$438,940	\$464,609	\$464,814	\$862,258	\$929,423	\$67,165	7.79 %
General Fund	423,318	438,940	464,609	464,814	862,258	929,423	67,165	7.79 %
Total Funds	\$423,318	\$438,940	\$464,609	\$464,814	\$862,258	\$929,423	\$67,165	7.79 %

Program Description

The Mental Disabilities Board of Visitors is charged with formally reviewing patient care and assisting people who have complaints about services at Montana's licensed mental health centers, community hospital psychiatric units, children's residential treatment programs, and at the state facilities that serve people with mental illnesses and developmental disabilities. The board provides legal services to patients at Montana State Hospital. The Governor appoints six board members who represent recipients of services and their families, and the mental health and developmental disability professions. The board employs administrative and legal staff and contracts with mental health and developmental disability professionals to carry out its responsibilities for patient representation and facility review. The Mental Disabilities Board of Visitors Program was created by the Developmental Disabilities Act of 1975 and the Mental Commitment and Treatment Act of 1975 and exists as a state mandate.

The Mental Health Ombudsman is statutorily directed to "represent the interests of individuals with regard to need for public mental health services". The office functions with 1.5 FTE responding to statewide requests for service. The Office of the Ombudsman was created by the legislature in 1999 and is appointed by the Governor for a four year term.

Program Highlights

<p>Mental Disabilities Board of Visitors Major Budget Highlights</p>
<ul style="list-style-type: none"> • All increases from the 2015 biennium are due to present law adjustments

Program Discussion -

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$15,622 below the FY 2015 legislative appropriation.

Funding

The following table shows proposed program funding by source from all sources of authority.

Governors Office, 20-Mental Disabilities Board of Visitors Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	929,423	0	0	929,423	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$929,423	\$0	\$0	\$929,423		

The Mental Disabilities Board of Visitors is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	438,940	438,940	877,880	94.45 %	438,940	438,940	877,880	94.45 %
PL Adjustments	25,669	25,874	51,543	5.55 %	25,669	25,874	51,543	5.55 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$464,609	\$464,814	\$929,423		\$464,609	\$464,814	\$929,423	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	31,003	0	0	31,003	0.00	30,776	0	0	30,776
DP 99 - LEG. Present Law	0.00	(5,334)	0	0	(5,334)	0.00	(4,902)	0	0	(4,902)
Grand Total All Present Law Adjustments	0.00	\$25,669	\$0	\$0	\$25,669	0.00	\$25,874	\$0	\$0	\$25,874

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other personal service adjustments annualized include longevity pay.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	5.00	\$2,430	\$0	\$0	\$2,430
Executive Implementation of 2015 Pay Increase	0.00	6,937	-	-	6,937
Fully Fund 2015 Legislatively Authorized FTE	0.00	7,157	-	-	7,157
Other	0.00	14,479	-	-	14,479
Personal Services Present Law Adjustments	5.00	\$31,003	\$0	\$0	\$31,003
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	5.00	\$2,430	\$0	\$0	\$2,430
Executive Implementation of 2015 Pay Increase	0.00	6,937	-	-	6,937
Fully Fund 2015 Legislatively Authorized FTE	0.00	7,157	-	-	7,157
Other	0.00	14,252	-	-	14,252
Personal Services Present Law Adjustments	5.00	\$30,776	\$0	\$0	\$30,776

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative appropriation.

5% Base Budget Reduction Form
[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 31010 - GOVERNOR'S OFFICE

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET			
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund	State Special Revenue
		Annual Savings	Revenue Annual Savings
1	Eliminate the Mental Health Ombudsman Office	\$ 214,000	
2	Reduce the operating budget for Program 01	\$ 62,429	
3			
4			
5			
6			
7			
8			
9			
10			
11			
	TOTAL SAVINGS	\$ 276,429	\$ -
	DIFFERENCE	-276429	0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010 - GOVERNOR'S OFFICE

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Eliminate the Mental Health Ombudsman Office (MHO), including 1.50 FTE.

#2 THE SAVINGS THAT ARE EXPECTED:

\$107,000 in each year of the biennium, for a total of \$214,000.

#3

THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

The MHO exists to represent the interests of individuals with regard to the need for public mental health services, including individuals in transition from public to private services. Without these services the State may see increases in the number of individuals requesting services from other agencies, including DPHHS and Corrections..

#4

HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Services provided by the MHO could be transferred to the Mental Health Board of Visitors Office (BOV). Because of existing workloads within the BOV, it is possible that some constituents requesting assistance may not receive as thorough help as they would like. A BOV staff member might also serve as the ombudsman. Currently the 1.50 FTE in the MHO are vacant and if a new ombudsman was not appointed, either now or when the current term expires in August, 2015, there will be no impact on staff with the MHO. If MHO tasks are assigned to staff within the BOV office, their staff may experience an intense overload of work tasks, and there is the potential that their staff numbers might need to be increased in the future in order to provide staff to maintain the telephone and email connections necessary with the MHO's clients.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

The Mental Health Ombudsman does exist in statute (2-15-210 MCA) and statute would need to be changed to effect this reduction.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010 - GOVERNOR'S OFFICE

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Reduce Program 01 contracted services and travel budgets.

#2 THE SAVINGS THAT ARE EXPECTED:

\$62,429

#3

THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

A decrease in contracted services and travel costs would primarily be allocated to the Governor's Office of Economic Development. This would diminish the Administration's outreach and marketing abilities to expand business opportunities in the state and could impede the work proposed by the Governor's Main Street Montana Initiative.

#4

HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

The office may need to conduct more teleconferencing and reduce their involvement in trade-shows and other marketing efforts. Impact to staff would be insignificant.

#5

WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

The duties of the economic development office are defined in 2-15-219 MCA, but a reduction in the program's budget on the magnitude of this proposal would only hinder the effectiveness of their visibility with some projects, which could diminish an economic development opportunity for the state.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION* OR *REDUCTION*:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION* OR *REDUCTION*:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION* OR
REDUCTION:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION* OR
REDUCTION:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL
STATUTE - YES OR NO:

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION* OR *REDUCTION*:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION* OR *REDUCTION*:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION OR* REDUCTION:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION OR* REDUCTION:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION* OR *REDUCTION*:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION* OR *REDUCTION*:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION OR* REDUCTION:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION OR* REDUCTION:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION OR* REDUCTION:

#2 THE SAVINGS THAT ARE EXPECTED:

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION OR* REDUCTION:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Form B

5% |

AGE

#1

#2

#3

#4

#5

Form

Base Budget Reduction Form

NCY CODE & NAME:

BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION* OR *REDUCTION*:

THE SAVINGS THAT ARE EXPECTED:

THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION* OR *REDUCTION*:

HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

B

The Legislative Fiscal Division Presents an Agency Profile of:

Secretary of State

Contact: Kris Wilkinson, Senior Fiscal Analyst

Rm. 131, State Capitol Building

Phone: (406) 444-2722

E-mail: kwilkinson@mt.gov

Updated August 2014

Agency Description

Definition of Terms

The Office of the Secretary of State:

- Interprets state election laws and oversees state and federal elections
- Maintains the official records of the executive branch and the acts of the legislature
- Reviews, maintains, and distributes public-interest records of businesses and nonprofit organizations
- Publishes administrative rules adopted by state departments, boards, and agencies
- Attests to the governor's signature on executive orders, proclamations, resolutions, extradition papers, and appointments
- Preserves the state seal
- Files and maintains records of secured financial transactions, such as liens
- Serves on the state Board of Land Commissioners and the Board of Examiners
- Commissions notaries public
- Serves on the Capital Finance Advisory Council
- Provides public records management guidance and technical assistance

How Services are Provided

The office is comprised of one program, the Business and Government Services Program, which consists of five divisions that provide the following major functions:

Administration Division

- Office budgeting, accounting, payroll, and administration
- Information technology development, administration, and support
- Establishes and provides general oversight and policy direction for the office

Records and Information Management Division

- Establishes guidelines for inventorying, cataloging, retaining, and transferring all public records of state agencies and operates state records center to store and service public records
- Microfilms documents for state agencies and approves microfilming projects and microfilm equipment purchases of state agencies
- Assists the legislative and judicial branches in establishing records management procedures

Business Services Division

- Files and maintains charter documents for Montana and foreign corporations and limited liability companies
- Registers and maintains records for trademarks, limited liability partnerships, and assumed business names
- Files and maintains lien notices within central lien notification system
- Files and maintains records of Montana and foreign limited partnerships
- Assembles, prepares, and publishes the federal farm products Master List for registered buyers under the authority of the United States Department of Agriculture

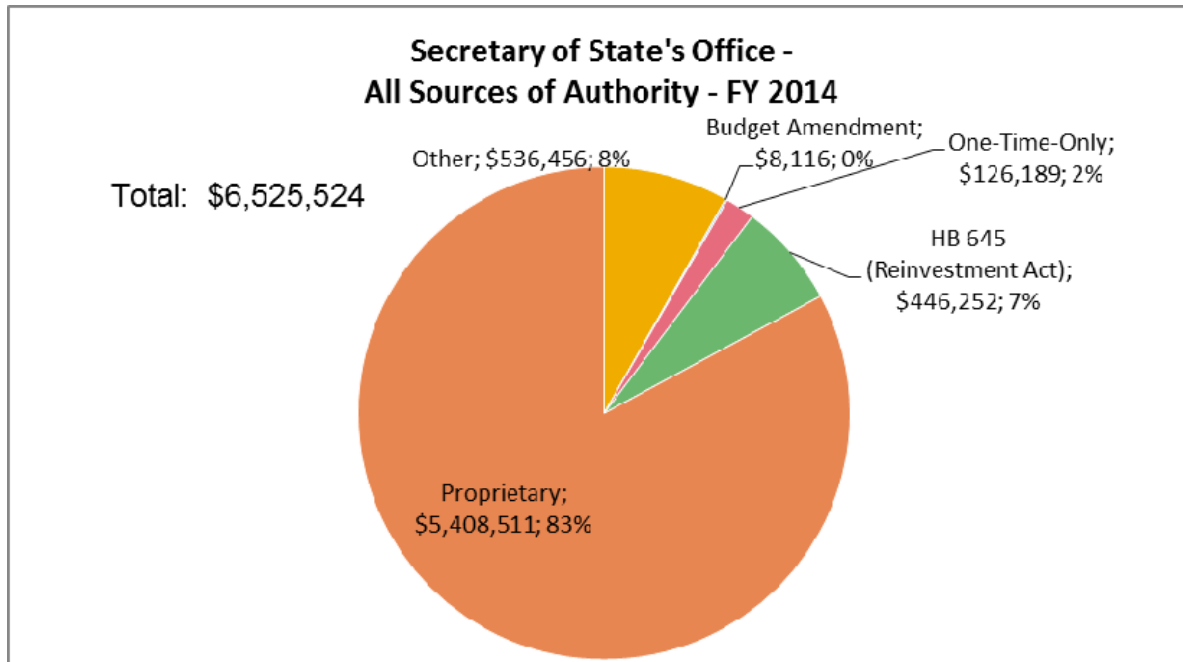
Elections and Government Division

- Files legislative bills from introduction through approval by the Governor and assigns chapter numbers for the session laws of Montana
- Files the journals of the legislature
- Files and maintains the record of declarations of nomination of candidates for state and district offices
- Prepares, publishes, and distributes instruction manuals for election officials and election judges, including forms for use in elections
- Prescribes and certifies official primary and general election ballots
- Assists, trains and advises local election administrators in election matters, and publishes and distributes election laws
- Files petitions for and prepares, publishes, and distributes the voters' information pamphlet on special measures and constitutional amendments
- Maintains the record of executive reorganization, official acts of the Governor, applications for pardons and commutation of sentence, requisitions for extradition

Administrative Rules of Montana and Notary Certification Division

- Prescribes the format for the administrative rules of state agencies
- Publishes and distributes the Montana administrative register of proposed and adopted administrative rules of state agencies
- Publishes and distributes the complete administrative rules on Montana
- Distributes commissions of notaries public issued by the Secretary of State
- Provides training for Montana notaries
- Investigates complaints regarding Montana notaries

Sources of Spending Authority



The above chart shows the sources of authority of the Secretary of State's Office. For a more detailed description of accounting terminology, please refer to the definition of terms. The operations of the Secretary of State are funded primarily with proprietary funds derived from fees for services, document sales, and other fees established in statute.

Funding

The agency did not have HB 2 authority for funding that is considered ongoing, therefore the agency does not have an HB 2 funding table in this agency profile. Beginning in FY 2003, the federal Help America Voter Act of 2002 (HAVA) provided federal special revenue for election reform initiatives. The legislature has provided authority for this funding through one-time-only appropriations.

Expenditures

The agency did not have HB 2 authority for expenditures that are considered base costs, therefore the agency does not have an expenditure table in this Agency Profile.

How the 2015 Legislature Can Effect Change

In order to change expenditure levels and/or agency activity, the legislature must address one or more of the following basic elements that drive costs:

- State laws associated with the requirements and duties associated with election laws
- Laws that impact the frequency of interactions between the office and those served
- Laws associated with requirements and duties associated with election laws

Major Cost Drivers

The personal services and operating expenses incurred by the agency are driven by:

- Number of businesses within Montana that use business services
- Elections and additional costs incurred if a recount is required
- Volume and type of state agency records
- Volume of legislative bills
- Number of notaries and complaints against notaries

Secretary of State		FY 2008	FY 2014
Business Services Division			
Documents process for registration of new Montana domestic corporations		5,625	2,788
Documents process for registration of new Montana foreign corporations		1,652	1,678
Documents processed for registration of new Montana domestic limited liability corporations		8,840	9,241
Documents processed for registration of new Montana foreign limited liability corporations		1,072	1,486
Total Annual Reports		-	121,868
Average document processing turnaround time	10 Days		2-5 days
Customer Servies telephone wait time	3 minutes		20 seconds
Online services available		17	14

Funding/Expenditure History

Since the HAVA funding provided for the SOS has been included as a one-time only appropriation by the 2009, 2011, and 2013 Legislatures, a table showing the last four year of funding and expenditures is not included in this profile.

Major Legislative Changes in the Last Ten Years

Prior to FY 2003, the office was funded exclusively with proprietary funds. Beginning in FY 2003, the office received funding federal funding for election reform activities under the Help America Vote Act of 2002. Under federal requirements, HAVA was used to improve the election process and access to polling places across Montana.

For further information, you may wish to contact the agency at:

Montana Secretary of State
State Capitol Building, 1301 E. 6th Ave.
Helena, MT 59601
Phone: (406) 444-2034
Webpage: <http://sos.mt.gov/>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 %
Personal Services	0	48,000	0	0	48,000	0	(48,000)	(100.00)%
Operating Expenses	0	60,000	105,000	105,000	60,000	210,000	150,000	250.00 %
Equipment & Intangible Assets	0	0	0	0	0	0	0	0.00 %
Grants	0	20,000	0	0	20,000	0	(20,000)	(100.00)%
Total Costs	\$0	\$128,000	\$105,000	\$105,000	\$128,000	\$210,000	\$82,000	64.06 %
Federal Spec. Rev. Funds	0	128,000	105,000	105,000	128,000	210,000	82,000	64.06 %
Total Funds	\$0	\$128,000	\$105,000	\$105,000	\$128,000	\$210,000	\$82,000	64.06 %

Mission Statement

It is the mission of the Secretary of State to provide efficient services to Montana’s voters, business community, and governmental agencies through open communications, effective use of technology, and transparent accountability.

Agency Highlights

Secretary of State Major Budget Highlights
<ul style="list-style-type: none"> • No FY 2014 funding exists for the office as the 2013 Legislature designated the \$256,000 in federal Help America Vote Act (HAVA) funds appropriated for the 2015 bienium as one-time-only • HB 2 funding consists of a request to fund operating costs associated with elections with HAVA funds • The remainder of the office funding is derived from non-budgeted proprietary funds
Legislative Action Issues
<ul style="list-style-type: none"> • State agencies records management and costs related to the ARMS are subsidized by charges to Montana businesses for registration and document filing fees

Agency Discussion

In the 2015 biennium the legislature provided a biennial appropriation of \$256,000 from the Help America Vote Act (HAVA) funds to provide grants to counties for continued voting equipment improvements. HAVA was passed by Congress in the wake of the controversial 2000 presidential election in Florida. The 2013 Legislature designated the HAVA funds as one-time-only for the 2015 biennium. As a result, the agency budget comparison table does not reflect funding in FY 2014.

The executive is requesting \$105,000 each year of the biennium for unallocated operating expenses to meet federal requirements included in the federal act.

Agency Personal Services

Secretary of State does not have any personal services that are funded within HB 2. Personal services for the agency are discussed as part of the "Proprietary Rate" narrative.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

As discussed in the Agency Narrative, FY 2014 expenditures for HAVA are not reflected in the agency budget comparison table as the 2013 Legislature designated the funds as one-time-only.

Funding

The following table shows proposed program funding by source from all sources of authority.

Secretary of States Office, 01-Business & Government Services Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03242 HAVA 251 Part II CFDA 90.401	0	0	0	0	0.00 %	
03340 EAS Grant	0	0	0	0	0.00 %	
03464 EAID Grant Help America Vote	0	0	0	0	0.00 %	
03715 Elections Federal Grant	210,000	0	0	210,000	100.00 %	
Federal Special Total	\$210,000	\$0	\$0	\$210,000	1.70 %	
06053 Sec. Of St. Business Services	0	12,148,097	0	12,148,097	100.00 %	
Proprietary Total	\$0	\$12,148,097	\$0	\$12,148,097	98.30 %	
Total All Funds	\$210,000	\$12,148,097	\$0	\$12,358,097		

The operations of the Secretary of State’s Office are primarily funded with proprietary funds derived from fees for services, document sales, and other fees established in statute. For further discussion regarding these funds refer to the “Proprietary Rate” section of the narrative.

In recent years, the federal Help America Vote Act of 2002 has provided federal revenues for election reform initiatives. Since expenditure of HAVA interest funds in the base were designated as one-time-only, these expenditures were removed from the base and no base exists. Interest accrued on deposit of HAVA funds remains unspent and funding from these funds is proposed for the 2017 biennium.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	105,000	105,000	210,000	0.00 %
Total Budget	\$0	\$0	\$0		\$105,000	\$105,000	\$210,000	

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 100002 - HAVA Interest - (OTO)	0.00	0	0	105,000	105,000	0.00	0	0	105,000	105,000
Total	0.00	\$0	\$0	\$105,000	\$105,000	0.00	\$0	\$0	\$105,000	\$105,000

DP 100002 - HAVA Interest - (OTO) -

The executive includes a request to allow the Secretary of State's Office to spend interest generated from federal Help America Vote Act (HAVA) funds. HAVA money assists the office and counties with HAVA regulations and compliance.

Other Issues -**Proprietary Rates****Business and Government Services - 06053****Program Description**

The Secretary of State 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
- Centralized services for the Secretary of State's Office

While for budgeting purposes the SOS only has one program, SOS does have five divisions, one for each of the described functions above.

*Program Discussion***Expenses**

The figure on the following page shows the expenses and revenues in FY 2014 for each of the division as recorded on the state's accounting system.

Secretary of State Revenues and Expenditures By Division FY 2014					
	Centralized Services	Election Government Services	Business Services	Administrative Rule Services	Records and Information Management
Revenues	\$5,153	\$103,133	\$4,388,473	\$304,260	\$293,526
Expenditures					
Personal services					
Salaries	1,127,975	219,976	580,747	182,490	311,850
Employee Benefits	<u>381,555</u>	<u>75,610</u>	<u>245,858</u>	<u>76,639</u>	<u>137,369</u>
Total Personal Services	1,509,530	295,586	826,604	259,128	449,219
Operating Expenses					
Other Services	(774,948)	421,973	602,051	46,026	15,569
Supplies and materials	30,727	3,749	29,191	7,300	20,770
Communications	27,045	10,882	94,616	20,501	18,132
Travel	17,207	10,190	1,304	1,975	1,338
Rent	44,647	11,370	35,946	10,587	119,292
Utilities	0	0	0	0	3,500
Repair and Maintenance	5,181	961	4,281	749	10,041
Other Expenses	27,729	23,313	6,031	20,556	17,327
Goods Purchased for Resale	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,821</u>
Total Operating Expenses	(622,413)	482,437	773,419	107,693	208,789
Debt Service					
Capital Leases	<u>1,258</u>	<u>0</u>			
Total Debt Service	1,258	0	0	0	0
Total Expenditures	888,375	778,023	1,600,024	366,822	658,008
Net Income (Loss)	<u>(\$883,222)</u>	<u>(\$674,890)</u>	<u>\$2,788,449</u>	<u>(\$62,561)</u>	<u>(\$364,483)</u>

**LFD
ISSUE**State Agency Internal Service Functions Subsidized By Business Services

In FY 2014 SOS operated four of its five divisions at a loss. The income from registration and document filing fees paid by Montana businesses provided the income to offset these losses. As discussed, two of the functions within SOS provide internal service services to other state agencies: administrative rules (ARMS) and records management. Services that are provided by one state agency to other state agencies are generally funded through proprietary rates and budgeted by including them as fixed costs within each state agency's budget. The legislature established SOS as an enterprise fund and included all office functions within the enterprise fund including those that could more appropriately be categorized as internal service operations.

Current practice for both internal service functions is that state agencies include the FY 2014 actual costs for records management and ARMS in their requests for the 2017 biennium unchanged from actual spending. This differs from other internal service rates charged to state agencies, as those include anticipated changes in the underlying costs to provide the service such as increases in personal services or operating expenses. This methodology ensures state agencies pay their "fair share" of the costs from biennium to biennium.

If the legislature required state agencies to pay the costs of ARMS and records management, rates for registration and document filing fees to Montana businesses could be reduced as the revenues would no longer be needed to subsidize the ARMS and records management functions of the agency.

Legislative Option

The legislature may wish to indicate its intent that SOS establish proprietary rates for ARMS and records management that ensure the functions are self-funded. The legislature may also wish to indicate its intention that SOS lower the fees for business registration and document filling fees as the fees do not appear to be commensurate with the costs of providing the services.

Revenues

Revenues are received from fees charged to: 1) businesses and corporations for corporate filings, registration of assumed business names, and trademarks; 2) state agencies and users of ARM for publishing and distributing the ARM and the MAR, and storage and management of public documents; 3) candidates who file for elections; 4) Montana citizens who apply to be notaries. Revenues, by source, have been steadily increasing since FY 2009 and are not projected to deviate from this pattern. The 2017 Biennium Report on Internal Services and Proprietary Funds showing SOS projections of revenues and expenditures is presented on the next page.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 32010	Agency Name: Secretary of States Office			Program Name: Business & Government Services			
	Fund	Fund Name					
	06053	Sec. Of St. Business Services					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		5,013,863	4,802,950	5,186,120	4,901,130	4,902,160	4,899,640
Revenue A		7,406	7,557	4,229	4,000	-	-
Revenue B		650	-	-	-	-	-
Total Operating Revenues		5,021,919	4,810,507	5,190,349	4,905,130	4,902,160	4,899,640
Expenses:							
Personal Services							
Other Operating Expenses		1,399,988	1,450,918	1,100,099	2,141,676	2,101,447	1,946,727
Expense B		55,200	135,522	34,662	12,435	12,435	132,171
Total Operating Expenses		4,416,086	4,556,531	4,477,636	6,054,125	6,092,669	6,055,428
Operating Income (Loss)		605,833	253,976	712,713	(1,148,995)	(1,190,509)	(1,155,788)
Nonoperating Revenues:							
Other Revenue A		5,147	7,528	(70,234)	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		5,147	7,528	(70,234)	-	-	-
Income (Loss) Before Contributions and Transfers		610,980	261,504	642,479	(1,148,995)	(1,190,509)	(1,155,788)
Change in Net Position		610,980	261,504	642,479	(1,148,995)	(1,190,509)	(1,155,788)
Beginning Net Position - July 1		4,237,808	4,853,188	5,114,692	5,757,171	4,608,176	3,417,667
Prior Period Adjustments		4,400	-	-	-	-	-
Change in Net Position		610,980	261,504	642,479	(1,148,995)	(1,190,509)	(1,155,788)
Ending Net Position - June 30		4,853,188	5,114,692	5,757,171	4,608,176	3,417,667	2,261,879
Net Position (Fund Balance) Analysis							

LFD COMMENT

Between FY 2009 and FY 2014 SOS revenues from all sources have increases 15.7%. SOS estimates that for the 2017 biennium revenues will decline when compared to FY 2014 actuals by about 4.7%. In addition, FY 2015 budgeted numbers do not tie to the SOS budget submission for FY 2015, which is \$1.5 million lower than reflected in the figure above. The legislature may wish to discuss the higher projected costs with SOS.

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approved rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

The Legislative Fiscal Division Presents an Agency Profile of:

Commissioner of Political Practices

Contact: Susie Lindsay, Fiscal Analyst
Rm. 110H, State Capitol Building
Phone: (406) 444-4121
E-mail: slindsay@mt.gov

Updated October 2014

Agency Description

Definition of Terms

The Commissioner of Political Practices (COPP) has responsibilities that were defined by a legislative initiative in 1980 requiring disclosure of acts by lobbyists and business interests of elected officials. COPP also has responsibility for the ethical standards of conduct for legislators, public officers, and state employees pursuant to Title 2, Chapter 2, MCA.

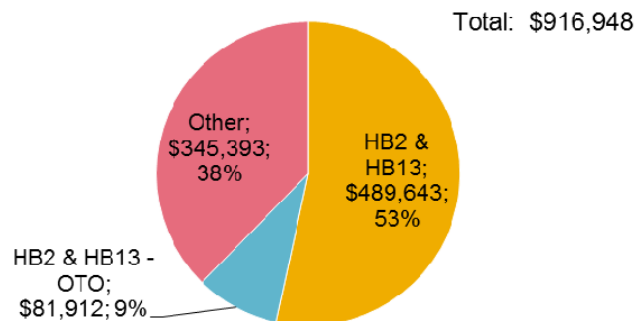
How Services are Provided

The commissioner monitors and enforces campaign practices and campaign finance disclosure, lobbying disclosure, business interest disclosure of statewide and district candidates, elected state officials, and state department directors. The commissioner investigates legitimate complaints that arise concerning any of the foregoing. The commissioner also enforces the Montana Code of Ethics for legislators, public officers, and state employees, acting in a quasi-judicial role in contested case hearings.

Sources of Spending Authority

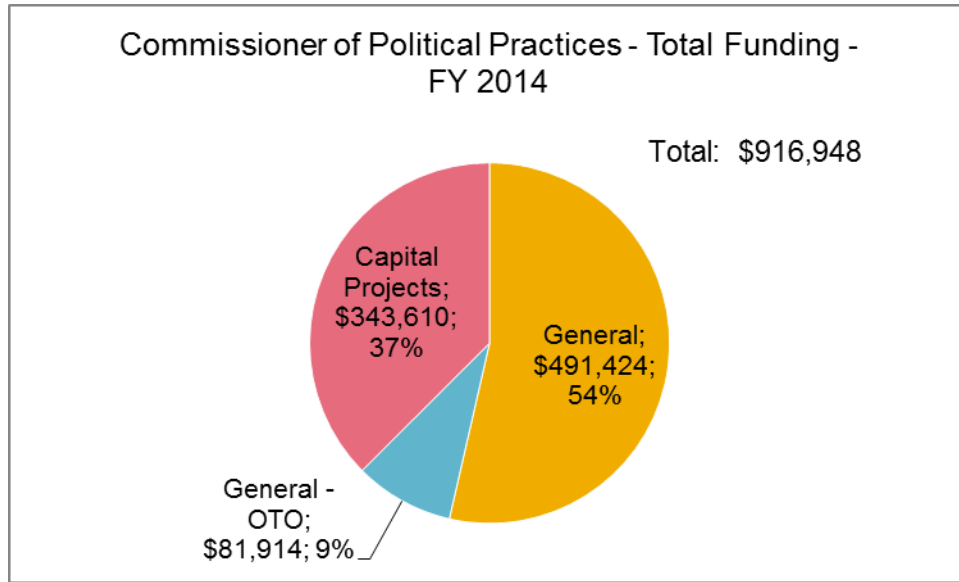
The chart shows the sources of appropriation authority for the Commissioner of Political Practices. The operations of the COPP are entirely funded with general fund. The 2013 legislature provided one-time authority in HB 10 for a new campaign reporting computer project. That authority is shown in "other" on the pie chart. Also, the agency receives fees for printing and distribution, and filing fees from lobbyists, and levies civil penalties for violations of campaign laws. These fees are generally minimal and are deposited into the general fund. A portion of the \$150 lobbyist registration fee is deposited to a state special revenue account and used by the Legislative Branch to support public interest television broadcasts (TVMT). The agency does not have either proprietary funds or statutory appropriations.

Commissioner of Political Practices - All Sources of Authority - FY 2014

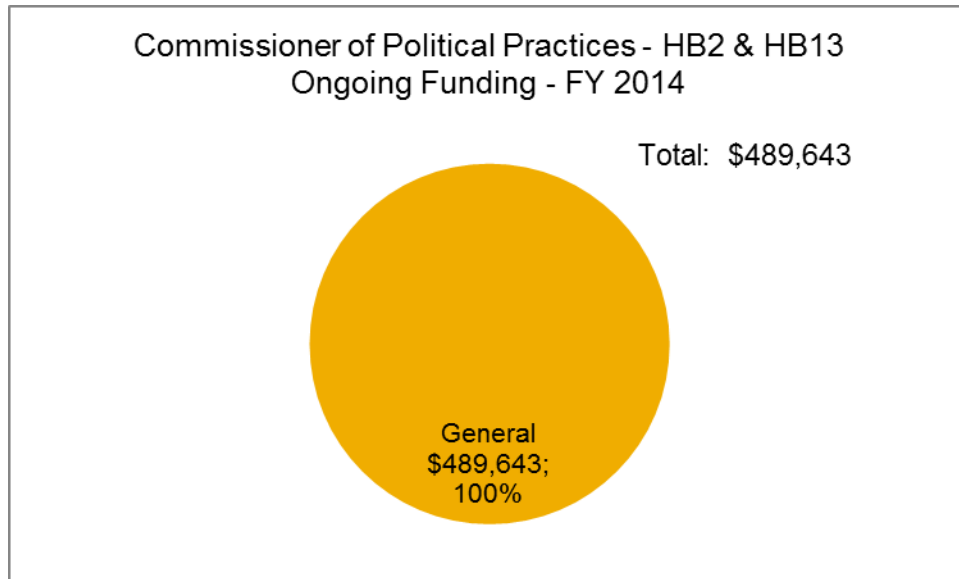


Funding

The 2013 legislature authorized one-time funding in HB 10 for a capital project for the design and implementation of a new campaign reporting computer system. The agency's normal funding authority is authorized through HB 2 and is general fund.

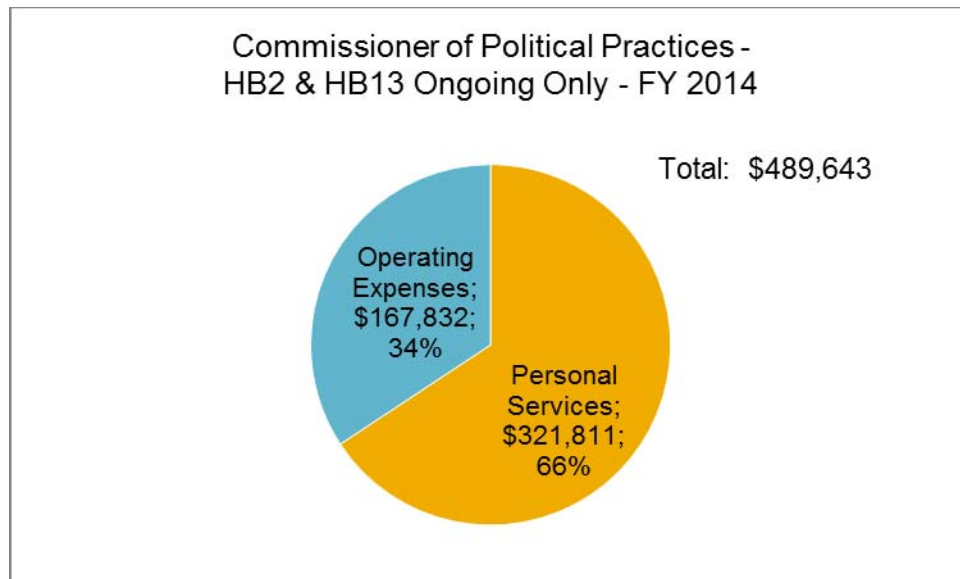


The chart below demonstrates ongoing funding for the agency in FY 2014.



Expenditures

The chart explains how HB 2 & HB 13 (pay plan) authority is spent. This chart matches the agency base expenditure table found in the 2017 Budget Analysis.



How the 2015 Legislature Can Effect Change

- Laws governing lobbyists and candidates such as the filing and reporting process and fees charged
- The code of ethics for public officers, public employees, and legislators

The legislature is less likely to control:

- The number of formal complaints and related compliant dockets
- Federal legislation or decisions by the Supreme Court or lower courts impacting COPP such as the Supreme Court decision on corporate campaign donations

Major Cost Drivers

The Commissioner of Political Practices addresses its mandated duties with one appointed official and six staff members, with 1.00 FTE a one-time funded position. Activity for this agency varies depending on:

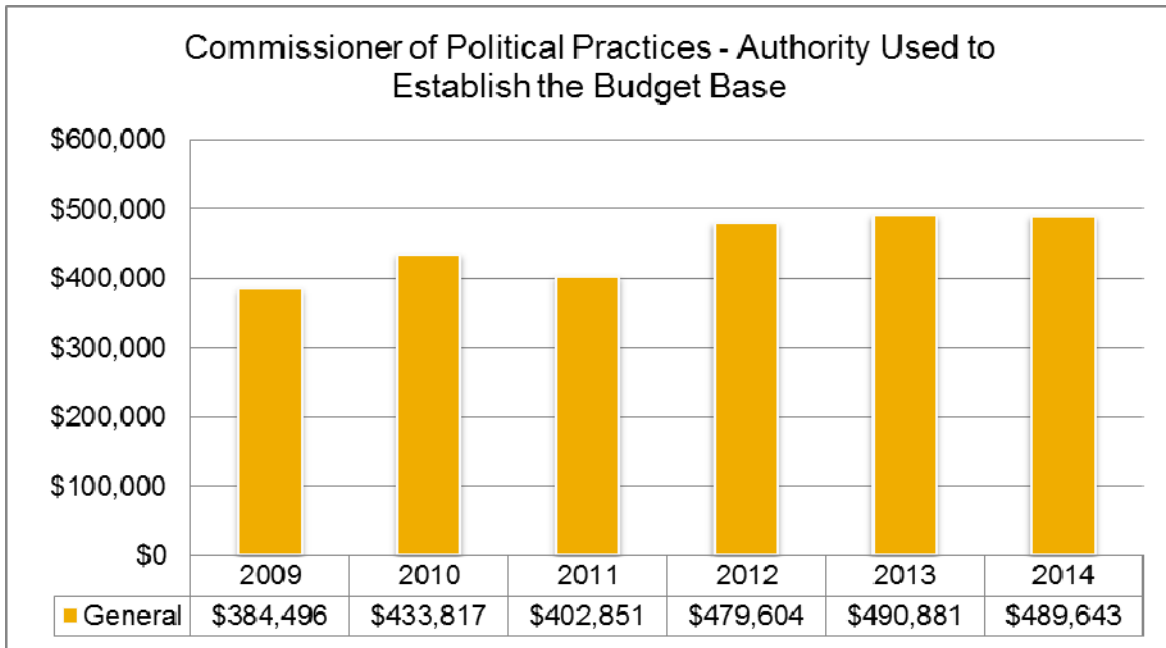
- Elections
- Number of candidates filing for offices
- Level of on-going activity related to campaign issues
- Level of on-going activity related to ethics issues

Commissioner of Political Practices			
Element	2009	2014	Significance of Data
Number of lobbyists	443	432	Decrease in workload
Number of principals	442	442	Increase in workload
Political practice complaints	9	83	Increase in costs and workloads
Advisory Opinions	0	16	Increase in workload
Campaign Finance Form Inspections	2,356	4,296	Increase in costs and workloads

Funding/Expenditure History, Authority Used to Establish the Base Budget

The chart shows historical changes to the agency’s base budget authority. Major reasons for changes are:

- Variations in the amount of legal costs incurred as a result of the number of complaints
- In past biennia the agency contracted with the Department of Justice to provide legal counsel for cases where legal expertise was needed. The 2013 Legislature provided funding authority for 1.00 one-time-only FTE for legal counsel



Major Legislative Changes in the Last Ten Years

- SB 392 passed by the 2013 Legislature increased the authority of the Commissioner of Political Practices to enforce laws pertaining to anonymous election material
- HB 129 passed by the 2013 Legislature revised campaign finance and disclosure laws
- HB 3 passed by the 2009 Legislature provided COPP with a supplemental appropriations for additional legal expenses and for the settlement of a lawsuit with the Canyon Ferry Road Baptist Church that resulted in the Commissioner of Political Practices (COPP) having to compensate the church for its legal expenses after the church successfully contested the charges brought against it by the COPP
- HB 462 passed by the 2007 Legislature provides for establishment of constituent services accounts by persons elected to statewide or legislative office or as a public service commissioner. Surplus campaign funds may be deposited into the account. The bill requires the office holder to file a form establishing the account with the COPP and quarterly reports relating to the account
- SB 253 passed by the 2007 Legislature allows certain broadcast campaign advertising material and an affidavit about the truth of the content of the material to be voluntarily filed with the COPP
- HB 689 passed by the 2003 Legislature revised laws relating to lobbying. It established a payment threshold of \$2,150 that exempts an individual from being required to register as a lobbyist and pay the license fee contained in 5-7-103, MCA, if the individual is paid less than this amount. Of the \$150 filing fee, \$50 is deposited to the general fund and \$100 to a state special revenue account that is appropriated to the Legislative Services Division to fund the state broadcasting system (TVMT)

For further information, you may wish to contact the agency at:

Commissioner of Political Practices

1205 8th Ave.

P.O. Box 202401

Helena, MT 59620-2401

Phone: (406) 444-2942

Webpage: <http://www.politicalpractices.mt.gov/>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	6.00	6.00	7.00	7.00	6.00	7.00	1.00	16.67 %
Personal Services	321,811	416,829	460,181	460,863	738,640	921,044	182,404	24.69 %
Operating Expenses	167,832	171,473	219,999	210,361	339,305	430,360	91,055	26.84 %
Total Costs	\$489,643	\$588,302	\$680,180	\$671,224	\$1,077,945	\$1,351,404	\$273,459	25.37 %
General Fund	489,643	588,302	680,180	671,224	1,077,945	1,351,404	273,459	25.37 %
Total Funds	\$489,643	\$588,302	\$680,180	\$671,224	\$1,077,945	\$1,351,404	\$273,459	25.37 %

Mission Statement

To monitor and to enforce: campaign practices and campaign finance disclosure; lobbying disclosure; business interest disclosure of statewide and state district candidates, elected state officials, and state department directors; ethical standards of conduct for legislators, public officers, and state employees; and to investigate legitimate complaints that arise concerning any of the foregoing.

The Commissioner of Political Practices (COPP) has responsibilities that were defined by a legislative initiative in 1980 requiring disclosure of acts by lobbyists and business interests of elected officials. COPP also has responsibility for the ethical standards of conduct for legislators, public officers, and state employees pursuant to Title 2, Chapter 2, MCA.

For additional information, please refer to the agency profile: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Commissioner of Political Practices Major Budget Highlights
<ul style="list-style-type: none"> • Personal service increases are mainly due to annualization of HB 13, health insurance increases and performance pay adjustments provided in the 2015 biennium • The executive includes a new proposal for 1 FTE for legal counsel

Agency Discussion

The State Administration and Veteran’s Affairs Interim Committee requested three bills for the upcoming 2015 session that may impact the Office of the Commissioner of Political Practices:

- LC0303, which revises how the Commissioner of Political Practices is selected and instructs the Governor to appoint a commissioner from the list of names provided by the selection committee
- LC0146, which revises disclosure on election materials enforced by COPP
- LC0143, which would generally revise election laws

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$27,201 below the FY 2015 legislative appropriation. The primary reason for the difference is an overall vacancy rate of 14.8% in FY 2014 compared to a budgeted 0% rate.

Agency Personal Services

COPP anticipates that one of the program assistants will retire in the 2017 biennium. The remaining program assistant will move into the vacated position. COPP will then fill the other program assistant position. This position in the past has experienced high turnover; this succession system may address the turnover rate.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base. One-time-only appropriations are not included in the budget base. One-time-only appropriations were for 1.00 legal FTE.

FY 2015 Appropriation Transactions - Commissioner of Political Practices			
Program	Legislative Appropriation	Legislative Approp - OTO	Total Executive Implementation
01 Commissioner of Political Practices			
Personal Services	\$345,371	\$71,458	\$416,829
Operating Expenses	171,473		171,473
Equipment & Intangible Assets			
Transfers			
Agency Total	\$516,844	\$71,458	\$588,302

Supplemental Appropriations -

COPP has indicated their need for a \$94,000 supplemental appropriation to pay for anticipated overrun costs for litigation occurring in FY 2015 and for the hiring of a contracted forensic accountant and possibly an auditor in FY 2015.

Funding

The following table shows proposed program funding by source from all sources of authority.

Commissioner of Political Practices, 01-Administration Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,351,404	0	0	1,351,404	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$1,351,404	\$0	\$0	\$1,351,404		

The Office of the Commissioner of Political Practices is funded entirely with general fund. A small amount of revenue is generated from nominal fees for printing and distribution, as well as civil fines for violation of campaign laws. Both are deposited into the general fund. In addition, COPP collects a \$150 lobbyist filing fee that is also deposited into the general fund. Of this amount, \$100 is transferred to a state special revenue account for appropriation to the Legislative Services Division to support the state broadcasting system TVMT. The lobbyist license is a two-year license. The term is based on the legislative session year (odd-numbered year), and the license expires December 31 of the even numbered year, just before the start of the legislative session.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	516,844	516,844	1,033,688	76.49 %	516,844	516,844	1,033,688	76.49 %
PL Adjustments	80,187	71,447	151,634	11.22 %	80,187	71,447	151,634	11.22 %
New Proposals	83,149	82,933	166,082	12.29 %	83,149	82,933	166,082	12.29 %
Total Budget	\$680,180	\$671,224	\$1,351,404		\$680,180	\$671,224	\$1,351,404	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	31,661	0	0	31,661	0.00	32,559	0	0	32,559
DP 99 - LEG. Present Law	0.00	48,526	0	0	48,526	0.00	38,888	0	0	38,888
Grand Total All Present Law Adjustments	0.00	\$80,187	\$0	\$0	\$80,187	0.00	\$71,447	\$0	\$0	\$71,447

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. Other adjustments include performance pay adjustments for secretarial positions.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	6.00	\$2,916	\$0	\$0	\$2,916
Executive Implementation of 2015 Pay Increase	0.00	6,263	-	-	6,263
Fully Fund 2015 Legislatively Authorized FTE	0.00	-	-	-	-
Other	0.00	22,482	-	-	22,482
Personal Services Present Law Adjustments	6.00	\$31,661	\$0	\$0	\$31,661
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	6.00	\$2,916	\$0	\$0	\$2,916
Executive Implementation of 2015 Pay Increase	0.00	6,263	-	-	6,263
Fully Fund 2015 Legislatively Authorized FTE	0.00	-	-	-	-
Other	0.00	23,380	-	-	23,380
Personal Services Present Law Adjustments	6.00	\$32,559	\$0	\$0	\$32,559

DP 99 - LEG. Present Law -

As shown in the present law adjustment table, overall the executive is proposing increases in costs and funding when compared to the FY 2015 legislative appropriation. COPP has requested increases for the following:

- Lease increase
- Online Systems and Database Maintenance
- Fixed Costs

LFD COMMENT

The 2013 Legislature approved one-time funding authority for COPP to move the office in FY 2014 to accommodate all 7.00 FTE, temporary staff employed during the election season, and filing space. Since COPP was unable to locate a site on the Capitol campus that matched their accommodation needs, they split into two small offices, one for compliance and one for enforcement. As a result of renting two spaces instead of one, COPP lease costs increased. The one-time funding to affect the agency move was used. However, COPP requests additional funding for each fiscal year of the biennium to cover the additional cost to rent the second building.

The agency indicated that affordable Capitol campus office space for seven FTE was difficult to find. The main office is located at 1205 8th Ave and the second building is two blocks away. This arrangement allows both offices to be within walking distance of the State Capitol building. COPP did explore other space further from the Capitol campus, but stated they did not find affordable, right-sized accommodations. COPP indicated that a search for an office to house all staff and equipment in one place continues.

LFD COMMENT

The 2013 Legislature appropriated \$0.502 million in long range information technology project funds in HB 10 to COPP. The funding provided for a campaign reporting service/database rewrite for COPP. The project was completed in June 2014. The executive requests additional funding for maintenance of the new system. COPP indicated that maintenance of the system was estimated during a period of time when the system was in development stage and did not capture all anticipated maintenance costs.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 100001 - Staff Attorney - FTE	1.00	83,149	0	0	83,149	1.00	82,933	0	0	82,933
Total	1.00	\$83,149	\$0	\$0	\$83,149	1.00	\$82,933	\$0	\$0	\$82,933

DP 100001 - Staff Attorney - FTE -

During the 2013 legislative session, the legislature eliminated \$85,000 for an attorney within the Department of Justice to provide contracted services to COPP. The legislature then used that authority to establish one-time funding of 1.00 FTE for legal counsel. COPP requests the legal counsel position remain as a permanent FTE and proposes \$166,080 in additional authority to fund the position for the 2017 biennium. The request would continue to provide funding for legal counsel to investigate and issue decisions regarding allegations of campaign finance and practices, ethics and lobbying violations. If necessary, legal counsel would enforce sufficiency findings either through settlement or litigation.

**LFD
COMMENT**

The legislature provided COPP with funding authority for consulting, professional services, legal fees and court costs in their operating budget. Historically, COPP has used this funding authority to pay for additional costs related to litigation. However COPP has indicated potential cost overruns in FY 2015 and requested a supplemental of \$94,000.

If the legislature wishes to fund this new proposal for 1 staff attorney FTE, several options are available:

1. Leave the decision package as is
2. Designate DP 1, restricted so that the appropriation is designated for this specific purpose or function
3. Designate DP 1 one-time-only, restricted to make the appropriation for a one-time purpose, exclude the appropriation from the base budget in the next biennium and restrict the appropriation to this specific purpose or function

The Legislative Fiscal Division Presents an Agency Profile of:

The State Auditor's Office

Updated August 2014

Agency Description

Definition of Terms

The State Auditor is the Commissioner of Insurance and the Commissioner of Securities. The Auditor is charged with licensing, registering, and regulating insurance companies and producers, securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives within the state. The Auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board. The Auditor is an elected position within state government.

The mission of the State Auditor's Office is to assure compliance with the Montana insurance and securities laws, promote captive insurance formations, administer the Insure Montana program, and assist consumers with complaints involving the securities and insurance industries.

The primary statutory references defining duties and responsibilities of the department are summarized below. The Office of the State Auditor is authorized under Article VI of the Montana Constitution, and is designated the Commissioner of Securities in 2-15-1901, MCA and the Commissioner of Insurance in 2-15-1903, MCA. In those capacities, the State Auditor's duties are generally defined in Title 30, Part 10 and Title 33 of the MCA.

The state special revenue generated by fees and taxes that support the State Auditor's Office are identified and defined in 33-2-705–708, MCA. In accordance with 30-1-115, MCA, unspent collections from security licenses and permits are deposited into the general fund.

The Insure Montana program, which funds premium assistance and tax credits for small employers who provide health insurance to their employees, is authorized in 33-22-2006, MCA. The Insure Montana program was funded from a one-time appropriation by the 2013 Legislature, but is requested to continue by the State Auditor.

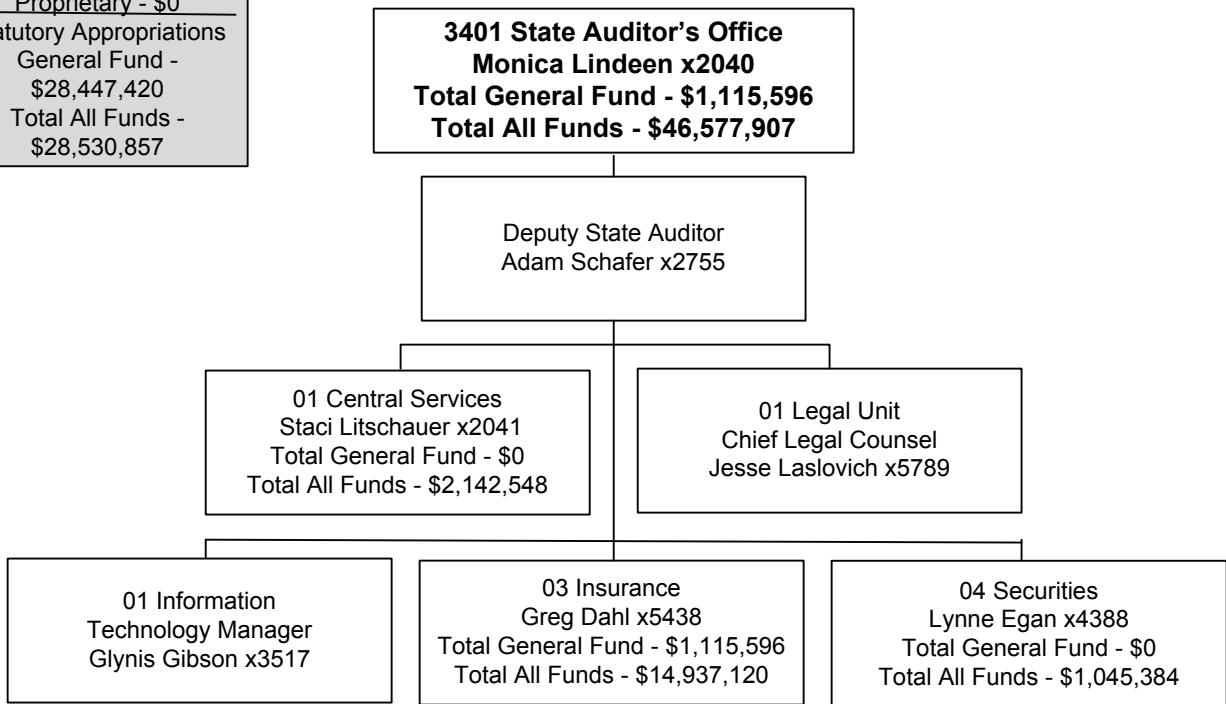
The office manages the forest reserve shared revenue account under 17-2-211, MCA, and the Fire and Police Retirement Program under 33-2-705, and 50-3-109, MCA, the tobacco settlement funds under 17-6-606, MCA.

The office's investigation units are recognized under 44-5-401, MCA.

The organizational chart of the agency on the following page includes full-time equivalent (FTE) numbers, general fund appropriations, statutory appropriations, proprietary funds, and total of all funds. Funds in this chart are based on the funding unit.

Unless otherwise noted, all phone extensions are preceded by (406) 444.

Non – HB 2 Funds Proprietary - \$0
Statutory Appropriations General Fund - \$28,447,420 Total All Funds - \$28,530,857



How Services are Provided

The State Auditor's Office consists of three divisions with the following functions:

- Central Management is responsible for the administrative, personnel, budgeting and accounting functions. It also provides support in fulfilling the duties as a member of the state land and hail insurance boards, and serves as a conduit for the distribution of a “pass through” program: the Fire and Police Retirement program.
- The Insurance Division regulates the insurance industry in Montana and oversees the Insure Montana program, which was funded from one-time appropriations in the 2015 biennium. This division has seven programs:
 - The Market Compliance Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies.
 - The Legal Unit investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.
 - The Examinations Bureau monitors the financial solvency of insurance companies operating in Montana through financial analysis and financial examination, and collecting premium taxes and company fees paid by insurance companies operating in Montana.
 - The Rates Bureau is responsible for reviewing rate filing to ensure compliance with the applicable insurance code
 - The Forms Bureau is responsible for reviewing form filings to ensure compliance with the applicable insurance code.
 - The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjustors.
 - The Insure Montana program provides health insurance for small business with premium assistance or tax credits for health insurance purchases.

- Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and in particular, for the registration of securities issuers, sales people, broker-dealers, investment advisers, and investment adviser representatives. The division is responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets under \$25 million.

The State Auditor conducts the business of the three divisions through employment of FTE and contracted services. Personal services account for 69% of its \$8.1 million in base budget expenditures in FY 2014, which do not include the Insure Montana program.

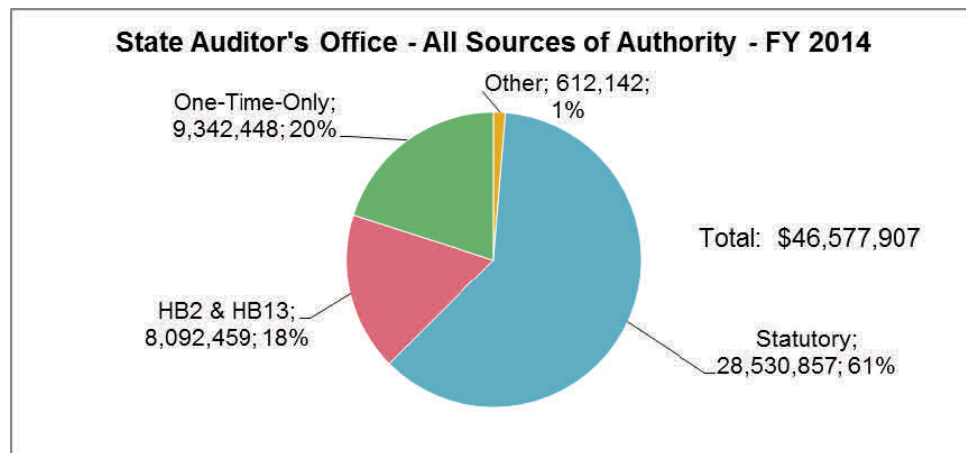
The State Auditor is also responsible for passing through funding for local police and firefighter retirement programs (Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, the Volunteer Fire Fighters' Compensation Act, local fire department relief associations, municipalities with police department trust funds, and local police pension funds for supplemental benefits). The retirement programs are funded from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA) - \$28.5 million in FY 2014. Because these funds are statutorily appropriated, the expenditures are not included in the general appropriations act.

Sources of Spending Authority

The chart shows the sources of authority for the State Auditor's Office. The chart includes:

- HB 2 – state special revenue to fund programs administered by the office
- Statutory - primarily distributions of insurance premium taxes to local police and firefighter retirement programs
- Budget amendment – federal grant funds provided to all states in 2010 for implementation planning for the Patient Protection and Affordable Care Act
- Other and off base – funds from private organizations to provide education about securities fraud and to account for funds that are held in trust for insurance policy holders

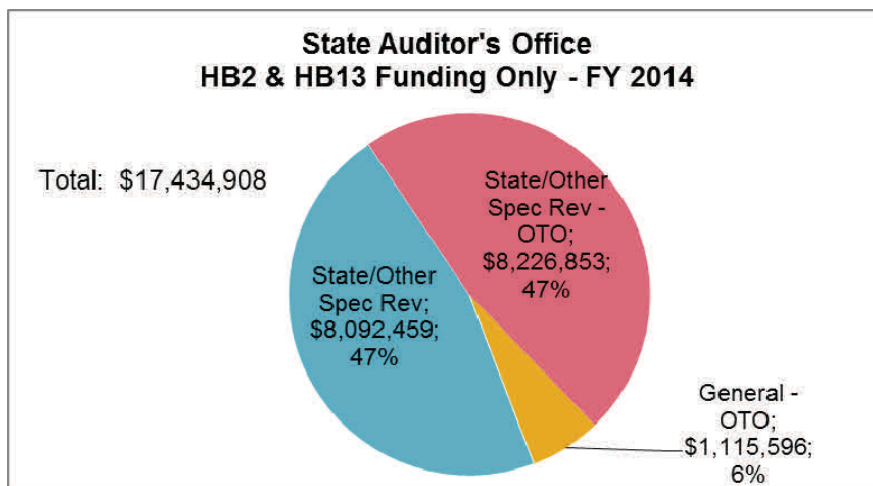
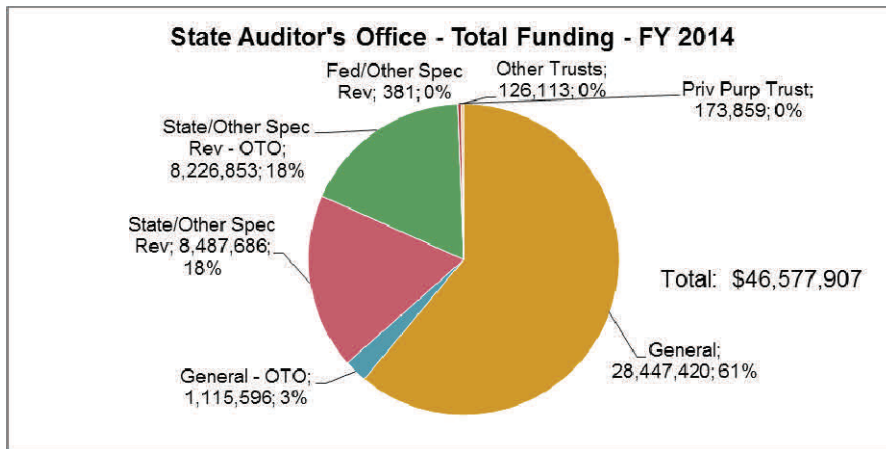
The accounting term, off base, refers to one-time-only spending and non-budgeted items like inventory adjustments. Other legislative appropriations (sometimes called cat and dog bills) are included in the above categories as appropriate. For a more detailed description of accounting terminology, please refer to the definition of terms.



Funding

The following charts show HB 2 funding authority by fund type and all sources of total funding authority. The Total Funding figure includes several sources of authority not budgeted in HB 2 including:

- Statutory appropriations administered by the State Auditor
- Expendable trust funds from private organization funding to provide education securities fraud and to account for funds that are held in trust for insurance policy holders



Insurance

Insurance premium taxes are levied on the net premiums or gross underwriting profit for each insurance company operating in Montana.

As of December 2004, there are two tax rates, the proceeds of which are deposited into the general fund and disbursed by the State Auditor in support of Municipal Police Officers' Retirement System; Firefighters' Unified Retirement System; the Volunteer Fighters' Compensation Act; local fire department relief associations; municipalities with police department trust funds; and local police pension funds for supplemental benefits. Funding for this program was \$21.2 million for FY 2008. The tax rates are:

- 2.75% tax on total direct premium income
- 2.5% tax on the fire portion of net premiums for selected risks, called the fire insurance premium tax

Funding, cont.

The Fire and Police Retirements program funds are from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA).

Insurance license fees are deposited into the state special revenue fund for use by the State Auditor. For a complete list of the fees, please see the Insurance Tax and License Fees section of the Legislative Revenue Analysis.

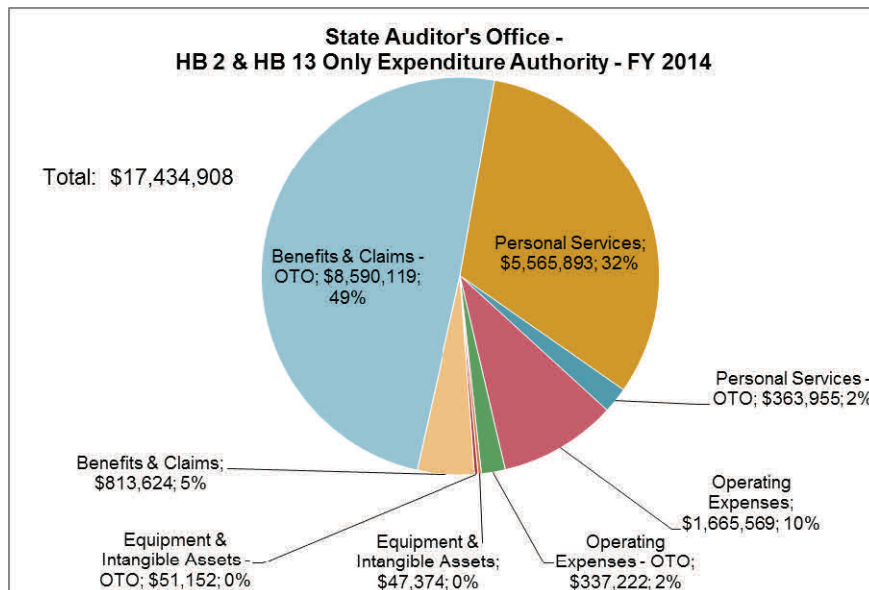
Securities

Investment license fees are assessed to investment advisors and companies for registration of securities and agents, registration of securities by notification, notice of federal filing of a federally secured security, and name changes. All fees except portfolio notice filing fees and examination charges are deposited to the general fund.

Portfolio notice filing fees and examination charges are deposited in a state special revenue account from which the State Auditor pays for expenses associated with the regulation of portfolio activities. The excess in this account is transferred to the general fund throughout the year as a non-budgeted transfer.

Expenditures

The next chart explains how the HB 2 authority is spent. Of the \$17.4 million of HB 2 authority expended in FY 2014, \$9.4 million, or 53%, was spent on benefits and claims, which consists of premium assistance and tax credits for small employers who provide health insurance to their employees and premium assistance for persons who accessed the state high risk pool. The one-time funding represents expenditures for the Insure Montana program. This chart matches the agency chart found in the 2017 Budget Analysis.



How the 2015 Legislature Can Effect Change

In order to change expenditure levels and/or activity, the legislature might address:

- Laws governing how the insurance and security industries do business in Montana and how the office conducts licensing, regulation, examinations, and responds to the consumer
- Laws governing the number of insurance and security companies and individuals doing business in Montana
- Laws governing amount and collection of fees and taxes relating to insurance and securities
- Policies on how the agency handles pass-through accounts
- The code of ethics for insurance and security industries doing business in Montana

Other factors that influence costs, but that the legislature is less likely to control are:

- The number of registered complaints and related court dockets
- Federal legislation impacting the insurance and securities industry
- Telephone or web-based inquiries from consumers
- Initiatives or legislation responding to citizen action
- The health of the national economy

The legislature has the ability to change expenditure levels and/or State Auditor’s Office activity through the following basic elements that drive costs:

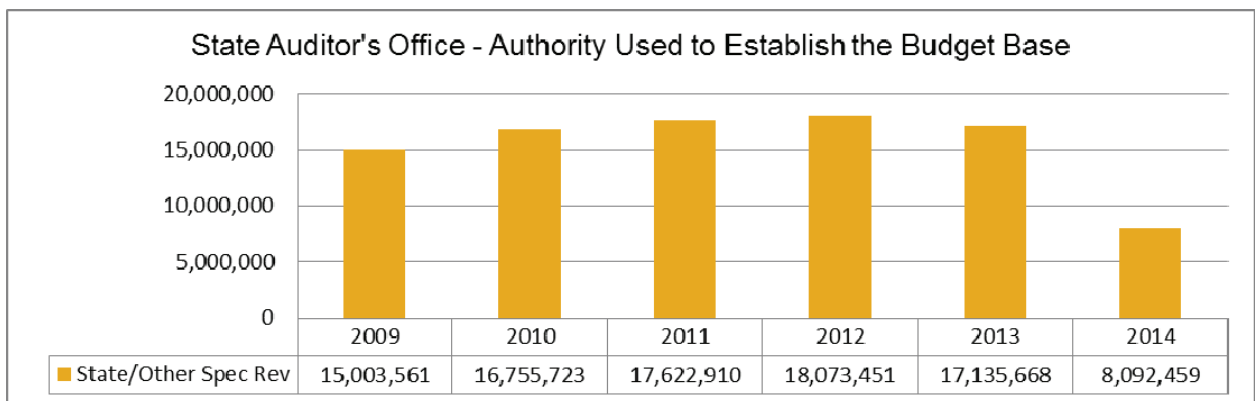
- Insurance or securities regulatory policy changes – these policy changes impact staff workload and costs associated with oversight and regulation of the insurance and securities industries in Montana.

Major Cost Drivers

The major cost drivers for the State Auditor’s Office are:

- The number of insurance companies and the number of securities firms licensed to do business in Montana
- State and federal laws and rules governing the licensing, examination, and monitoring of insurance and security firms
- Major changes in insurance policy that affect individual consumers
- The number of securities fraud investigations and prosecutions

Funding/Expenditure History, Authority Used to Establish the Budget Base



The State Auditor's Office budget decreases significantly from FY 2009 to FY 2014 due to appropriations for the Insure Montana program. From FY 2009 to FY 2013, the Insure Montana program was funded from ongoing HB 2 appropriations. In FY 2014, it was funded from a one-time appropriation, which is not reflected in the table above. The legislature used one-time funds since the Affordable Care Act (ACA) provides opportunities for small businesses to shop for insurance through the federal exchange and because the major funding source for the program - health and Medicaid initiatives state special revenue—was inadequate to cover all ongoing appropriations. Annual expenditures for Insure Montana ranged from a high of \$12.4 million in FY 2012 to \$9.2 million in FY 2014.

Major Legislative Changes in the Last Ten Years

2013 Legislature

- The legislature funded Insure Montana from a one-time appropriation, based eligibility for premium assistance provided by the Insure Montana program on household income rather than an individual employee's salary, and limited premium assistance to households earning no more than 400% of the federal poverty level (about \$94,000 for a family of 4 in 2013)
- The legislature required insurers to file health insurance rates with the State Auditor's Office and to provide documentation supporting the development of the rates. The office is required to review rate filings for each health insurance insurer and consider whether the proposed premium rate is excessive, inadequate, unjustified, or unfairly discriminatory, and provide a notice of deficiencies if any are found to exist

2011 Legislature

- The legislature authorized funding for oversight of the securities industry related to changes implemented as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

2009 Legislature

- The legislature provided a one-time increase over the 2013 biennium to Insure Montana for additional premium assistance and tax credits for small employers who provide health insurance for their employees

2005 Legislature

- The legislature implemented the Insure Montana program funded by a voter passed initiative that raised tobacco and cigarette taxes

For further information, please contact the agency:

Commissioner of Securities and Insurance
840 Helena Ave.
Helena, MT 59601
Phone: (406) 444-2040
Webpage: <http://sao.mt.gov/>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	87.80	87.80	80.54	80.54	87.80	80.54	(7.26)	(8.27)%
Personal Services	5,565,902	6,245,600	6,443,209	6,442,354	11,811,502	12,885,563	1,074,061	9.09%
Operating Expenses	1,665,580	3,333,398	1,352,797	1,198,917	4,998,978	2,551,714	(2,447,264)	(48.96)%
Equipment & Intangible Assets	47,374	8,695	47,374	47,374	56,069	94,748	38,679	68.98%
Benefits & Claims	813,624	10,004,758	5,059,713	0	10,818,382	5,059,713	(5,758,669)	(53.23)%
Total Costs	\$8,092,480	\$19,592,451	\$12,903,093	\$7,688,645	\$27,684,931	\$20,591,738	(\$7,093,193)	(25.62)%
General Fund	0	6,763,375	4,769,387	0	6,763,375	4,769,387	(1,993,988)	(29.48)%
State/Other Special Rev. Funds	8,092,480	12,829,076	8,133,706	7,688,645	20,921,556	15,822,351	(5,099,205)	(24.37)%
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00%
Total Funds	\$8,092,480	\$19,592,451	\$12,903,093	\$7,688,645	\$27,684,931	\$20,591,738	(\$7,093,193)	(25.62)%

Mission Statement

The mission of the State Auditor's Office is to assure compliance with the Montana insurance and securities laws, promote captive insurance formations, administer the Insure Montana program, and assist consumers with complaints involving the securities and insurance industries.

For more information, please refer to the agency profile: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

State Auditor's Office Major Budget Highlights
<ul style="list-style-type: none"> • The 2017 biennium Governor's budget for the State Auditor's Office is a net \$7.1 million lower than the FY 2015 biennium, including \$2.0 million general fund <ul style="list-style-type: none"> ◦ However, the main budget table includes one-time appropriations in FY 2015 for Insure Montana (\$9.8 million, including \$6.8 million general fund) and for examination of insurance and securities firms (\$0.5 million) ◦ If one one-time appropriations are removed, the total change from the 2017 biennium to the 2015 biennium is a net \$3.1 million increase, including \$4.8 million general fund ◦ There is a \$1.6 million reduction in state special revenue funding to balance expenditures and insurance fee revenue • The executive includes extension of the Insure Montana program, which was funded from a one-time appropriation in the 2015 biennium, for the first half of FY 2016 - \$4.8 million general fund • Personal services increases due to market adjustments funded by the 2013 Legislature, annualization of pay plan increases, funding for positions that were vacant during FY 2014, and addition of 1.00 new FTE - \$1.5 million • FTE are a net 7.26 FTE lower due to the following changes: <ul style="list-style-type: none"> ◦ A reduction of 3.26 FTE reduction to comply with legislative intent included in HB 2 ◦ Removal of 5.00 FTE funded from a one-time appropriation and inadvertently included in the base budget ◦ An increase of 1.00 FTE for examination of securities firms • The State Auditor submitted two elected official budget requests that were not included in the executive budget, which are presented for legislative review as a courtesy to elected officials: <ul style="list-style-type: none"> ◦ Contracted health insurance rate review - \$300,000 ◦ 1.00 FTE for captive insurance regulation - \$150,000
Legislative Action Issues
<ul style="list-style-type: none"> • The legislature may wish to review the insurance tax and fee state special revenue account and the captive insurance fee account to determine whether additional funds should be allocated to the account to support mandated work functions <ul style="list-style-type: none"> ◦ The legislature may wish to ask the State Auditor's Office whether it would increase fee revenue to cover projected shortfalls • The legislature may wish to review the plan to terminate the state high risk insurance pool (Montana Comprehensive Health Association) and adjust the amount of funding needed <ul style="list-style-type: none"> ◦ Changes in funding for the high risk pool can be used to offset general fund costs of state Medicaid match for services provided through the Healthy Montana Kids program administered by the Department of Public Health and Human Services

Agency Discussion

The Governor's budget includes \$26.6 million, including a one-time appropriation of \$4.8 million general fund, for the 2017 biennium for the State Auditor's Office. Major increases over the 2015 biennium are:

- \$4.8 million to continue the Insure Montana premium assistance program for the last six months of 2015 (first six months of FY 2016)
- \$1.5 million in personal services to fund 2015 biennium pay plan increases, fully fund positions that were vacant during FY 2014, and fund 1.00 additional FTE
- \$0.4 million for contracted examinations of insurance and security firms

Agency Personal Services

Personal services costs grow despite a decrease in the number of FTE funded in the 2017 biennium. The reduction in FTE is net of the following changes:

- Security examination – addition of 1.00 new FTE
- FTE funded from one-time appropriations inadvertently included in the base budget – reduction of 5.00 FTE
- FTE removed to comply with HB 2 boilerplate language – 3.26 FTE

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The legislative budget analysis uses the FY 2015 legislative appropriation as the budget starting point. The following figure compares the FY 2015 legislative starting point compared to the executive implementation of the FY 2015 appropriation, which is the FY 2015 value included in the main table.

FY 2015 Appropriation Transactions - State Auditor's Office				
Program	Legislative Appropriation	Legislative Approps OTO	Program Transfers	Total Executive Implementation
Central Management	\$1,748,278	\$33,915	\$391,128	\$2,173,322
Personal Services	1,287,800	-	-	1,446,289
Operating Expenses	458,795	33,915	-	725,350
Equipment & Intangible Assets	1,683	-	-	1,683
Insurance	6,375,278	10,248,822	(278,006)	16,346,094
Personal Services	3,603,964	448,029	-	3,966,734
Operating Expenses	1,822,509	739,030	-	2,368,792
Equipment & Intangible Assets	5,109	701	-	5,810
Benefits & Claims	943,696	9,061,062	-	10,004,758
Securities	1,186,158	-	(113,122)	1,073,036
Personal Services	905,807	-	-	832,578
Operating Expenses	279,149	-	-	239,256
Equipment & Intangible Assets	1,202	-	-	1,202
Agency Total	\$9,309,714	\$10,282,737	-	\$19,592,451

The legislative appropriation is \$10.3 million lower than the executive implementation. As noted previously, the legislative appropriation does not include one-time appropriations for Insure Montana and examination of insurance and security firms. In addition, the legislative appropriation does not include a program transfer that moved FTE and operating expenditures to align appropriation authority among programs.

FY 2015 Legislative Base Budget Compared to FY 2014 Expenditures

The legislative staff analysis of the executive budget uses the FY 2015 legislative appropriation with adjustments as a base or starting point. The FY 2015 legislative base is \$1.2 million higher than FY 2014 expenditures. As shown in the following figure, the major differences are:

- Operating costs - \$0.9 million
- Personal services costs - \$0.2 million
- Benefits and claims - \$0.1 million

State Auditor's Office - FY14 Expenditures Compared to FY 2015 Legislative Base			
Expenditure /Fund	FY 2014	FY 2015 Leg Base	FY 2015 Over (Under) FY 2014
FTE	87.80	87.80	-
Personal Services	\$5,565,902	\$5,797,571	\$231,669
Operating Expenses	1,665,580	2,560,453	894,873
Equipment	47,374	7,994	(39,380)
Benefits and Claims	<u>813,624</u>	<u>943,696</u>	<u>130,072</u>
Total Expenditures	8,092,480	9,309,714	1,217,234
State Special Revenue	8,092,480	9,309,714	1,217,234
Total Funding	\$8,092,480	\$9,309,714	\$1,217,234

Operating costs were lower in FY 2014 compared to the FY 2015 appropriation due to fewer contracted examinations of insurance and securities firms. Part of the reduction in contracted services costs was due to staff performing the audits.

Personal services costs were lower due to vacancies in FY 2014 and the increase in pay plan from FY 2014 to FY 2015.

Benefits and claims costs were lower in FY 2014 due to the phase out of the Montana Comprehensive Health Association, which was the state high risk pool for persons who were unable to obtain insurance in the private market. The Affordable Care Act (ACA) made changes requiring insurance companies to sell a policy to any willing buyer (guaranteed issue), eliminating the need for state high risk pools.

Statute allocated a portion of the tobacco settlement interest to fund the MCHA. However, the full amount was not needed in FY 2014 and as outstanding claims are paid, the amount needed in the 2017 biennium will decline.

2017 Biennium Change Using Legislative Base Budget

The figure below shows the 2017 executive budget request for the State Auditor’s Office using FY 2015 as a starting point. The biennial change is a net \$2.0 million lower than the main program budget table, which uses FY 2014 expenditures. General fund is \$5.0 million above the FY 2015 base, while state special revenue is \$3.0 million below.

State Auditor's Office Biennial Change Using FY 2015 Legislative Base Budget				
Expenditure /Funding	2015 Bien	2017 Bien	Difference	%
FTE	87.80	80.54	(7.26)	-8.3%
Personal Services	\$11,595,142	\$12,885,563	\$1,290,421	11.1%
Operating Expenses	5,120,906	2,551,714	(2,569,192)	-50.2%
Equipment	15,988	94,721	78,733	492.5%
Benefits and Claims	<u>1,887,392</u>	<u>5,059,713</u>	<u>3,172,321</u>	<u>168.1%</u>
Total Expenditures	18,619,428	20,591,711	1,972,283	10.6%
General Fund	-	4,769,387	4,769,387	n/a
State Special Rev.	18,619,428	15,822,351	(2,797,077)	-15.0%
Total	\$18,619,428	\$20,591,738	\$1,972,310	10.6%

Elected Official Requests

As a courtesy to elected officials, the LFD Budget Analysis includes any proposals they intend to bring to the legislature that are different and/or excluded from the executive budget. The State Auditor submitted two elected official requests that total about \$450,000 over the biennium and 1.00 FTE, which are not reflected in the table above. Both requests are funded from state special revenue and would raise the biennial difference to \$2.4 million. The figure below shows each request.

Elected Official Requests				
Purpose	FY 2016		FY 2017	
	FTE	Cost	FTE	Cost
Insurance Rate Review	-	\$150,000	-	\$150,000
Captive Insurance FTE	1.00	75,135	1.00	74,924
Total	1.00	\$225,135	1.00	\$224,924

Contracted Health Insurance Rate Review

The State Auditor is requesting funds to contract with actuaries to conduct health insurance rate reviews. State law requires the State Auditor’s Office to review rate filings for each health insurance insurer that issues, delivers, or renews any health plan in the individual or small employer group.

Convert One Time Only (OTO) Position to Permanent

The 2013 Legislature funded 1.00 FTE to support the captive insurance program for the 2015 biennium. This request would make the funding permanent.

LFD COMMENT	<p>Adequacy of State Special Revenue</p> <p>The Governor’s budget for the State Auditor’s Office includes a \$1.5 million unspecified reduction in funding from the insurance fee state special revenue account to bring expenditures and funding in balance. There is inadequate funding to support the elected official requests. The legislature may wish to ask what actions the State Auditor’s Office may take to bring expenditures and funding into alignment. Statute would need to be amended to raise the fee that supports the insurance functions.</p>
--------------------	---

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total State Auditors Office Funding by Source of Authority 2017 Biennium Budget - State Auditors Office						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	4,769,387	0	64,025,951	68,795,338	81.14 %	
State Special Total	15,822,351	0	166,876	15,989,227	18.86 %	
Federal Special Total	0	0	0	0	0.00 %	
Proprietary Total	0	0	0	0	0.00 %	
Other Total	0	0	0	0	0.00 %	
Total All Funds	\$20,591,738	\$0	\$64,192,827	\$84,784,565		
Percent - Total All Sources	24.29 %	0.00 %	75.71 %			

The State Auditor’s Office is funded from general fund and state special revenue. General fund supports a one-time appropriation to continue the Insure Montana through the end of calendar year 2015. Insurance and securities fees provide the funding for ongoing operation of the office.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	9,309,714	9,309,714	18,619,428	90.42 %
PL Adjustments	0	0	0	0.00 %	(131,850)	(575,079)	(706,929)	(3.43)%
New Proposals	4,769,387	0	4,769,387	100.00 %	3,725,229	(1,045,990)	2,679,239	13.01 %
Total Budget	\$4,769,387	\$0	\$4,769,387		\$12,903,093	\$7,688,645	\$20,591,738	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	19.80	19.80	19.80	19.80	19.80	19.80	0.00	0.00 %
Personal Services	1,328,675	1,446,288	1,602,263	1,601,098	2,774,963	3,203,361	428,398	15.44 %
Operating Expenses	641,858	725,350	468,904	458,197	1,367,208	927,101	(440,107)	(32.19)%
Equipment & Intangible Assets	47,374	1,683	47,374	47,374	49,057	94,748	45,691	93.14 %
Total Costs	\$2,017,907	\$2,173,321	\$2,118,541	\$2,106,669	\$4,191,228	\$4,225,210	\$33,982	0.81 %
State/Other Special Rev. Funds	2,017,907	2,173,321	2,118,541	2,106,669	4,191,228	4,225,210	33,982	0.81 %
Total Funds	\$2,017,907	\$2,173,321	\$2,118,541	\$2,106,669	\$4,191,228	\$4,225,210	\$33,982	0.81 %

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the Commissioner of Securities and Insurance.

Program Highlights

Central Management Division Major Budget Highlights
<ul style="list-style-type: none"> The Central Management Division 2017 biennium budget request is about \$34,000 or 0.8% higher than the 2015 biennium primarily due to increases for statewide present law adjustments to personal services

Program Discussion -

Central Management 2017 biennium budget is nearly equal to the 2015 biennium request in the main program budget table. However, there is an increase in personal services that is offset by a reduction in operating and equipment costs. Personal services increase due to a reorganization, vacancies in positions in FY 2014, and the increase in pay plan between FY 2014 expenditures and the FY 2015 appropriation as well as broad band pay plan increases implemented by the State Auditor.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The legislative budget analysis uses the FY 2015 legislative appropriation as a starting point. The following figure shows the FY 2015 legislative appropriation compared to the FY 2015 appropriation as implemented by the executive and included in the main program table.

FY 2015 Appropriation Transactions - State Auditor's Office				
Program	Legislative Appropriation	Legislative Approps OTO	Program Transfers	Total Executive Implementation
01 CENTRAL MANAGEMENT	\$1,748,278	\$33,915	\$126,791	\$2,173,322
01 CENTRAL MANAGEMENT			31,698	
01 CENTRAL MANAGEMENT			186,112	
01 CENTRAL MANAGEMENT			46,528	
Program Total	\$1,748,278	\$33,915	\$391,128	\$2,173,322

The legislative appropriation is about \$420,000 lower than the FY 2015 appropriation as implemented by the executive due to:

- A reorganization that moved appropriation authority to the Central Management program
- Inclusion of a one-time appropriation for continuing education for program staff

Biennial Budget Comparison Using FY 2015 Legislative Base Budget

The legislative staff analysis of the executive budget is based on the FY 2015 appropriation. Therefore the differences that the legislature will consider are about \$700,000 higher than the biennial difference using the FY 2014 expenditures as the base budget. The following figure shows the biennial comparison using the FY 2015 base budget. Again, personal services comprise the largest difference.

Central Management Biennial Change Using FY 2015 Legislative Base Budget					
Expenditure and Funding	2015 Bien	2017 Bien	Difference	%	
FTE	19.80	19.80	-	0.0%	
Personal Services	\$2,575,600	\$3,203,361	\$627,761	24.4%	
Operating Expenses	917,590	927,101	9,511	1.0%	
Equipment	3,366	94,748	91,382	n/a	
Total Expenditures	3,496,556	4,225,210	728,654	20.8%	
	-				
State Special Rev.	3,496,556	4,225,210	728,654	20.8%	
Total	\$3,496,556	\$4,225,210	\$728,654	20.8%	

Both the FY 2015 appropriation and FY 2014 actual expenditures shown in the main program budget table are about \$400,000 higher than the FY 2015 legislative base budget. The difference is due to a reorganization implemented in FY 2014 that transferred funds from the Insurance and Security programs to the Central Management program. The reorganization is not reflected in the FY 2015 legislative appropriation.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

The following figure shows the difference between the FY 2015 legislative appropriation and FY 2014 expenditures. As noted several times, FY 2014 exceeds the legislative base primarily due to the effect of the reorganization.

Central Management - Legislative Base Compared to FY 2014 Expenditures			
Expend/Fund	FY 2014	FY 2015 Leg Base	FY 2015 Over (Under) FY 2014
FTE	19.80	19.80	-
Personal Services	\$1,328,675	\$1,287,800	(\$40,875)
Operating Expenses	641,858	458,795	(183,063)
Equipment	<u>47,374</u>	<u>1,683</u>	<u>(45,691)</u>
Total Expenditures	2,017,907	1,748,278	(269,629)
State Special	2,017,907	1,748,278	(269,629)
Total Funding	\$2,017,907	\$1,748,278	(\$269,629)

Funding

The following table shows proposed program funding by source from all sources of authority.

State Auditors Office, 01-Central Management Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02235 Insurance Fee Account	3,280,628	0	0	3,280,628	77.64 %	
02283 Securities Fee Account	944,582	0	0	944,582	22.36 %	
State Special Total	\$4,225,210	\$0	\$0	\$4,225,210	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$4,225,210	\$0	\$0	\$4,225,210		

The Centralized Services Division is funded entirely from state special revenue. Insurance and securities fee income are the two sources of funding, with insurance fee income supporting 78% of total division costs and the balance coming from securities fee income. The fund balance for the insurance account is discussed in the agency overview since the accounts fund multiple programs.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	1,748,278	1,748,278	3,496,556	0.00 %
PL Adjustments	0	0	0	0.00 %	585,059	573,187	1,158,246	0.00 %
New Proposals	0	0	0	0.00 %	(214,796)	(214,796)	(429,592)	0.00 %
Total Budget	\$0	\$0	\$0		\$2,118,541	\$2,106,669	\$4,225,210	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	314,463	0	314,463	0.00	0	313,298	0	313,298
DP 99 - LEG. Present Law	0.00	0	270,596	0	270,596	0.00	0	259,889	0	259,889
Grand Total All Present Law Adjustments	0.00	\$0	\$585,059	\$0	\$585,059	0.00	\$0	\$573,187	\$0	\$573,187

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
CP 98 PSPL Item	FY 2016				
	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	19.80	\$0	\$9,623	\$0	\$9,623
Executive Implementation of 2015 Pay Increase	-	-	27,788	-	27,788
Fully Fund 2015 Legislatively Authorized FTE	-	-	20,575	-	20,575
Other					
Reorganization	-	-	165,066	-	165,066
Fully Fund Vacant Positions	-	-	72,010	-	72,010
Remainder of Other	0.00	-	19,402	-	19,402
Total Other	0.00	-	256,478	-	256,478
Personal Services Present Law Adjustments	19.80	\$0	\$314,463	\$0	\$314,463
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	19.80	\$0	\$9,623	\$0	\$9,623
Executive Implementation of 2015 Pay Increase	-	-	27,788	-	27,788
Fully Fund 2015 Legislatively Authorized FTE	-	-	20,575	-	20,575
Other					
Reorganization	-	-	165,066	-	165,066
Fully Fund Vacant Positions	0.00	-	72,010	-	72,010
Remainder of Other	0.00	-	18,237	-	18,237
Total Other	0.00	-	255,313	-	255,313
Personal Services Present Law Adjustments	19.80	\$0	\$313,298	\$0	\$313,298

After accounting for the effect of the reorganization, the executive budget for personal services increases by about 5% each year of the 2017 biennium when compared to the FY 2015 legislative appropriation. As shown in the following table, more than half - 52% - of the change is due to the reorganization that moved FTE and personal services funding to the program, and 20% of the change is due to costs associated with HB 13 of the 2013 Legislature. In addition, the program had a 5% vacancy rate, which accounts for 22% of the change in the personal services adjustment. Other adjustments include:

- Broadband pay increases
- Full funding of positions that were unfilled during a portion of the year

DP 99 - LEG. Present Law -

Other Present Law Adjustments

Present law budget adjustments for other costs are shown in the following table. Each is discussed separately. The amount of each change is based on the difference from the FY 2015 legislative appropriation

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Reorganization	\$0	\$232,052	\$0	\$232,052
Rent	-	14,179	-	14,179
Other		24,365	-	24,365
Legislative Present Law Adjustments	\$0	\$270,596	\$0	\$270,596
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Reorganization	-	232,052	-	232,052
Rent	-	14,404	-	14,404
Other		13,433	-	13,433
Legislative Present Law Adjustments	\$0	\$259,889	\$0	\$259,889

DP 101001 Building Rent – This present law adjustment funds additional space and a potential increase in the rental rate.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301001 - Unallocated Reduction	0.00	0	(214,796)	0	(214,796)	0.00	0	(214,796)	0	(214,796)
Total	0.00	\$0	(\$214,796)	\$0	(\$214,796)	0.00	\$0	(\$214,796)	\$0	(\$214,796)

DP 301001 - Unallocated Reduction -

This new proposal is a reduction in state special revenue of \$214,796 each year of the biennium to balance the insurance fee account in the State Auditor's Office.

LFD COMMENT	Specific Reductions The legislature may wish to ask what specific actions the State Auditor's Office will take to reduce spending.
--------------------	---

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	57.00	57.00	48.90	48.90	57.00	48.90	(8.10)	(14.21)%
Personal Services	3,442,061	3,966,734	3,823,904	3,826,021	7,408,795	7,649,925	241,130	3.25%
Operating Expenses	880,313	2,368,792	719,301	581,245	3,249,105	1,300,546	(1,948,559)	(59.97)%
Equipment & Intangible Assets	0	5,810	0	0	5,810	0	(5,810)	(100.00)%
Benefits & Claims	813,624	10,004,758	5,059,713	0	10,818,382	5,059,713	(5,758,669)	(53.23)%
Total Costs	\$5,135,998	\$16,346,094	\$9,602,918	\$4,407,266	\$21,482,092	\$14,010,184	(\$7,471,908)	(34.78)%
General Fund	0	6,763,375	4,769,387	0	6,763,375	4,769,387	(1,993,988)	(29.48)%
State/Other Special Rev. Funds	5,135,998	9,582,719	4,833,531	4,407,266	14,718,717	9,240,797	(5,477,920)	(37.22)%
Federal Spec. Rev. Funds	0	0	0	0	0	0	0	0.00%
Total Funds	\$5,135,998	\$16,346,094	\$9,602,918	\$4,407,266	\$21,482,092	\$14,010,184	(\$7,471,908)	(34.78)%

Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Unit is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. Also housed in this bureau is the captive insurance program, which promotes Montana as a captive domicile and regulates captive insurers in the state. The Rates Bureau and the Forms Bureau are responsible for reviewing rate and form filings, respectively, to ensure compliance with the applicable insurance code. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Insure Montana program administers the Small Business Health Insurance Purchasing Pool and Tax Credit programs. The Legal Bureau, which serves both the Insurance and Securities Divisions, provides legal support to the divisions. The Investigations Bureau, which is under the Legal Bureau, investigates code and rule violations, including possible criminal violations, and recommends referral of cases to county attorneys for prosecution.

Program Highlights

Insurance Division Major Budget Highlights
<ul style="list-style-type: none"> • The main budget table for the Insurance program includes \$10.2 million of one-time appropriations in FY 2015, which causes in the 2017 biennium budget request to be \$7.5 million lower than the 2015 biennium • When the one-time appropriation is removed from FY 2015, the 2017 biennium request is \$2.8 million higher than the 2015 biennium due to: <ul style="list-style-type: none"> ◦ Continuation of the Insure Montana program for the remainder of the 2015 insurance policy year - \$4.8 million general fund ◦ Contracted services costs for financial and market conduct insurance examinations - \$0.4 million • Pay plan increases funded in HB 13 and HB 2 more than offset the reduction in FTE • Increases are net of a new proposal to reduce funding from the insurance fee state special revenue account by \$1.1 million to align expenditures with funding • The State Auditor submitted two elected official budget requests that were not included in the executive budget, which are presented for legislative review as a courtesy to elected officials: <ul style="list-style-type: none"> ◦ Contracted health insurance rate review - \$300,000 ◦ 1.00 FTE for captive insurance regulation - \$150,000
Major LFD Issues
<ul style="list-style-type: none"> • The adequacy of the insurance fee state special revenue account is reviewed in the Agency Budget Discussion with options for legislative consideration

Program Discussion -

The legislative budget analysis is uses the FY 2015 legislative appropriation as a starting point. The following figure shows the FY 2015 legislative appropriation compared to the FY 2015 appropriation as implemented by the executive and included in the main program table.

FY 2015 Appropriation Transactions - State Auditor's Office				
Program	Legislative Appropriation	Legislative Approps OTO	Program Transfers	Total Executive Implementation
03 INSURANCE	\$6,375,278	\$10,248,822	(\$85,259)	\$16,346,094
03 INSURANCE			(192,747)	
Program Total	\$6,375,278	\$10,248,822	(\$278,006)	\$16,346,094

The FY 2015 appropriation as implemented by the executive is a net \$10.0 million higher than the legislative appropriation due to:

- Inclusion of the one-time appropriation to continue the Insure Montana program during the 2015 biennium
- A reorganization that moved appropriation authority to the Central Management program

Biennial Budget Comparison Using FY 2015 Legislative Base Budget

The legislative staff analysis of the executive budget is based on the FY 2015 legislative appropriation. Therefore the legislature will consider budget changes that increase funding \$1.3 million. The following figure shows the biennial comparison using the FY 2015 base budget.

Insurance Program Biennial Change Using FY 2015 Legislative Base Budget				
	2015 Bien	2017 Bien	Difference	%
FTE	57.00	48.90	(8.10)	-14.2%
Personal Services	\$7,207,928	\$7,649,925	\$441,997	6.1%
Operating Expenses	3,645,018	1,300,546	(2,344,472)	-64.3%
Equipment	10,218	-	(10,218)	n/a
Benefits and Claims	<u>1,887,392</u>	<u>5,059,713</u>	<u>3,172,321</u>	<u>168.1%</u>
Total Expenditures	12,750,556	14,010,184	1,259,628	9.9%
	-			
General Fund	-	4,769,387	4,769,387	n/a
State Special Revenue	12,750,556	9,240,797	(3,509,759)	-27.5%
Total	\$12,750,556	\$14,010,184	\$1,259,628	9.9%

The biggest difference is in benefits and claims. The 2015 biennium budget includes only appropriations for the MCHA premium assistance program. The 2017 biennium includes funds to pay final outstanding claims for MCHA in FY 2016, with no funds requested for FY 2017. There is also a one-time general fund request to continue the Insure Montana premium assistance program for the last half of calendar year 2015.

Personal services funding increases between the biennia despite the reduction of 8.10 FTE. Increases are due to annualization of pay plan changes authorized by the 2013 Legislature and executive implementation of the FY 2015 pay plan, and broadband pay plan increases implemented by the State Auditor. FTE decrease to comply with legislative boilerplate intent included in HB 2 and because 5.00 FTE funded from one-time appropriations in the 2015 biennium were inadvertently continued in the executive budget.

FY 2014 Expenditures Compared to FY 2015 Legislative Appropriation

The following figure shows the difference between the FY 2015 legislative appropriation and FY 2014 expenditures. The FY 2015 legislative appropriation exceeds FY 2014 expenditures by \$1.2 million. FY 2014 expenditures are lower due primarily to:

- A reorganization that moved about \$278,000 from the Insurance program to Central Management
- Lower expenditures for some appropriations, most notably funding for contracted examinations of insurance companies
- Lower expenditures for the Montana Comprehensive Health Association than anticipated (see Funding section)

Insurance Program - Legislative Base Compared to FY 2014 Expenditures			
Expenditure/ Funding	FY 2014	FY 2015 Leg Base	FY 2015 Over (Under) FY 2014
FTE	57.00	57.00	-
Personal Services	\$3,442,061	\$3,603,964	\$161,903
Operating Expenses	880,313	1,822,509	942,196
Equipment	-	5,109	5,109
Benefits and Claims	<u>813,624</u>	<u>943,696</u>	<u>130,072</u>
Total Expenditures	5,135,998	6,375,278	1,239,280
State Special	5,135,998	6,375,278	1,239,280
Total Funding	\$5,135,998	\$6,375,278	\$1,239,280

Funding

The following table shows proposed program funding by source from all sources of authority.

State Auditors Office, 03-Insurance Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	4,769,387	0	0	4,769,387	34.04 %
02235 Insurance Fee Account	8,785,763	0	0	8,785,763	95.08 %
02528 Captive Account	48,222	0	0	48,222	0.52 %
02769 Health Insurance Premium Assistance	0	0	0	0	0.00 %
02770 Health Insurance Tax Credits	0	0	0	0	0.00 %
02789 6901-CHIP/MCHA Tobacco Sett Fd	406,812	0	0	406,812	4.40 %
State Special Total	\$9,240,797	\$0	\$0	\$9,240,797	65.96 %
03502 Buyer's Guide	0	0	0	0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$14,010,184	\$0	\$0	\$14,010,184	

The Insurance Division is funded with general fund and state special revenue. The following sources support the following functions:

- General fund, which would fund continuation of the Insure Montana premium assistance program through the end of calendar year 2015
- Insurance licensure fees, examination fees, and penalties, which fund program functions related to insurance regulation
- Tobacco settlement revenues, which support premium subsidies for the state high risk insurance pool through the Montana Comprehensive Health Association (MCHA)

The fund balance for the insurance fee state special revenue is discussed in the Agency Budget Discussion.

Montana Comprehensive Health Association

The Montana legislature created the MCHA in 1985 to provide access to health insurance benefits to Montana residents who were otherwise considered uninsurable due to medical conditions. MCHA operations are funded through the

premiums paid by those insured in the program and through assessments on all disability (accident and health) benefit policies written in the state of Montana. MCHA also receives an allocation from the tobacco settlement revenue with expenditures of about \$0.8 million in FY 2014. The statute that allocates tobacco settlement revenue includes both MCHA and Healthy Montana Kids as allowable uses of the funds. The executive budget assumes that MCHA will be concluded by the end of FY 2016.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	6,375,278	6,375,278	12,750,556	91.01 %
PL Adjustments	0	0	0	0.00 %	(670,613)	(1,097,126)	(1,767,739)	(12.62)%
New Proposals	4,769,387	0	4,769,387	100.00 %	3,898,253	(870,886)	3,027,367	21.61 %
Total Budget	\$4,769,387	\$0	\$4,769,387		\$9,602,918	\$4,407,266	\$14,010,184	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	541,707	0	541,707	0.00	0	543,576	0	543,576
DP 99 - LEG. Present Law	0.00	0	(1,212,320)	0	(1,212,320)	0.00	0	(1,640,702)	0	(1,640,702)
Grand Total All Present Law Adjustments	0.00	\$0	(\$670,613)	\$0	(\$670,613)	0.00	\$0	(\$1,097,126)	\$0	(\$1,097,126)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

The present law adjustments that adjust the FY 2015 appropriation to equal the executive budget net to a \$1.8 million reduction over the biennium. Personal services increase due to annualization of pay plan increases and fully funding positions. However, the balance of program costs are lower in the 2017 biennium due primarily to lower contracted examinations of insurance firms in FY 2014 and higher appropriations in FY 2015 for contracted examinations.

Program Personal Services Narrative

The following table shows the adjustment to move personal services funding from the FY 2015 legislative appropriation to the 2017 biennium budget. The personal services adjustment totals \$1.1 million over the biennium.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	48.90	\$0	\$26,195	\$0	\$26,195
Executive Implementation of 2015 Pay Increase		-	71,471	-	71,471
Fully Fund 2015 Legislatively Authorized FTE		-	73,250	-	73,250
Other					
Reorganization		-	(95,571)	-	(95,571)
Fully Fund Vacant Positions	0.00	-	209,850	-	209,850
Market Adjustments/Remainder of Other	0.00	-	256,512	-	256,512
Total Other	0.00	-	370,791	-	370,791
Personal Services Present Law Adjustments	48.90	\$0	\$541,707	\$0	\$541,707

FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	48.90	\$0	\$26,195	\$0	\$26,195
Executive Implementation of 2015 Pay Increase		-	71,471	-	71,471
Fully Fund 2015 Legislatively Authorized FTE		-	73,250	-	73,250
Other					
Reorganization		-	(95,571)	-	(95,571)
Fully Fund Vacant Positions	0.00	-	209,966	-	209,966
Market Adjustments/Remainder of Other	0.00	-	258,265	-	258,265
Total Other	0.00	-	372,660	-	372,660
Personal Services Present Law Adjustments	48.90	\$0	\$543,576	\$0	\$543,576

The executive budget for personal services increases by about 4% each year of the 2017 biennium when compared to the FY 2015 legislative appropriation. As shown in the table, about half of the change is due to costs associated with HB 13 of the 2013 Legislature. Other adjustments include:

- Longevity changes
- Broadband pay increases
- Full funding of positions that were unfilled during a portion of the year

The State Auditor’s Office implemented broadband pay increases to bring salaries up to 95% of market, which accounts for the majority of the difference between FY 2015 legislative appropriation and the 2017 biennium request, and is 7% of the increase in the 2017 biennium personal services requests.

The program experienced a vacancy rate of about 5%, which adds about \$200,000 per year to the total cost of the 2017 biennium personal services budget request.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Total Change		(\$1,212,320)		(\$1,212,320)
Legislative Present Law Adjustments	\$0	(\$1,212,320)		\$0 (\$1,212,320)

CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Total Change		(\$1,640,702)		(\$1,640,702)
Legislative Present Law Adjustments	\$0	(\$1,640,702)		\$0 (\$1,640,702)

There is a \$2.9 million reduction between the executive present law budget and the FY 2015 legislative appropriation. The most significant differences are due to:

- Lower contracted insurance examination costs - \$1.2 million over the biennium
- Lower amounts for MCHA - \$0.6 million in FY 2016 and \$0.9 million in FY 2017

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301001 - Unallocated Reduction	0.00	0	(546,700)	0	(546,700)	0.00	0	(546,700)	0	(546,700)
DP 303001 - Insure Montana OTO	(5.00)	4,769,387	(324,434)	0	4,444,953	(5.00)	0	(324,186)	0	(324,186)
Total	(5.00)	\$4,769,387	(\$871,134)	\$0	\$3,898,253	(5.00)	\$0	(\$870,886)	\$0	(\$870,886)

DP 303001 - Insure Montana OTO -

This new proposal includes \$4.8 million general fund to continue the Insure Montana program through December 31, 2015, which is the end of the policy plan year. The proposal also includes a reduction of \$0.6 million in insurance fee state special revenue.

This new proposal would continue the Insure Montana program, which was supported from a one-time appropriation in the 2015 biennium. The insurance premium assistance component of Insure Montana would end December 31, 2015, which is the close of the policy plan year for the majority of the small businesses participating in the program.

Elected Official Proposals

As a courtesy to elected officials, the legislative budget analysis includes funding requests that were not included in the Governor's recommendation. There are two proposals from the State Auditor's Office. Both are funded from the insurance fee state special revenue account, which is discussed in greater detail in the agency narrative.

Captive Insurance FTE - This request would continue funding for 1.00 FTE supported by a one-time appropriation in the 2015 biennium. This request makes the position permanent. The FTE provides regulatory administrative functions for the captive insurance program. The number of captives insurance companies domiciled in Montana is about 200, up from the 114 that were domiciled when the OTO position was approved. The biennial cost of the proposal is \$90,146 state special revenue.

Rate Review Contract - This request includes \$300,000 of state special revenue over the biennium. It would fund actuarial review of rate filings for each health insurance company that issues, delivers, or renews any health plan in the individual or small employer group. HB 87 passed by the 2013 Legislature required the review and included an annual appropriation of \$204,000. The request would support 500 hours of contracted services each year of the biennium, based on the average rate of \$300 per hour.

LFD Actual Expenditures and Legislative Option**COMMENT**

The actual expenditures for health insurance rate review in FY 2014 were \$176,414, which are not included in the base budget since the funding was authorized in HB 87. If the legislature funds the request, it could consider restricting the use of funds for rate review only. It is problematic to determine ongoing costs of rate review since it is a new function and could vary from the first year experience.

DP 301001 - Unallocated Reduction -

This new proposal reduces state special revenue \$546,700 each year of the biennium to align expenditures from the state special insurance fee account to projected revenues.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	11.00	11.00	11.84	11.84	11.00	11.84	0.84	7.64 %
Personal Services	795,166	832,578	1,017,042	1,015,235	1,627,744	2,032,277	404,533	24.85 %
Operating Expenses	143,409	239,256	164,592	159,475	382,665	324,067	(58,598)	(15.31)%
Equipment & Intangible Assets	0	1,202	0	0	1,202	0	(1,202)	(100.00)%
Total Costs	\$938,575	\$1,073,036	\$1,181,634	\$1,174,710	\$2,011,611	\$2,356,344	\$344,733	17.14 %
State/Other Special Rev. Funds	938,575	1,073,036	1,181,634	1,174,710	2,011,611	2,356,344	344,733	17.14 %
Total Funds	\$938,575	\$1,073,036	\$1,181,634	\$1,174,710	\$2,011,611	\$2,356,344	\$344,733	17.14 %

Program Description

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and the registration of securities issuers, salespeople, broker-dealers, investment advisers, investment adviser representatives and multi-level marketing companies. The division also is responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets of under \$100 million. The division investigates securities code and rule violations, including possible criminal violations, takes appropriate administrative action and refers criminal cases to either federal authorities or county attorneys for prosecution.

Program Highlights

Securities Division Major Budget Highlights
<ul style="list-style-type: none"> • The 2017 biennium budget request is about \$300,000 greater than the 2015 biennium due primarily to increases in personal services costs from: <ul style="list-style-type: none"> ◦ Pay increases funded by the 2013 Legislature in HB 13 and broadband pay adjustments implemented by the State Auditor ◦ A net increase in FTE of 0.84 for 1.00 new FTE for securities examinations and a decrease of 0.16 FTE for the 4% FTE reduction in response to HB 2 boilerplate language • Reductions in operations costs of about \$60,000 offset a portion of personal services increases <ul style="list-style-type: none"> ◦ FY 2015 appropriations for security firm examinations exceed base budget expenditures and the 2017 biennium request, causing the reduction ◦ A request for additional office space and increased lease costs is offset by the reduction

Program Discussion -

The legislative budget analysis uses the FY 2015 legislative appropriation as a starting point. The following figure shows the FY 2015 legislative appropriation compared to the FY 2015 appropriation as implemented by the executive and included in the main program table.

FY 2015 Appropriation Transactions - State Auditor's Office				
Program	Legislative Appropriation	Legislative Approps OTO	Program Transfers	Total Executive Implementation
04 SECURITIES	\$1,186,158		(\$73,229)	\$1,073,036
04 SECURITIES			(39,893)	
Program Total	\$1,186,158		(\$113,122)	\$1,073,036

The FY 2015 appropriation as implemented by the executive is a net \$0.1 million higher than the legislative appropriation due to a reorganization that moved appropriation authority to the Central Management program.

Biennial Budget Comparison Using FY 2015 Legislative Base Budget

The legislative staff analysis of the executive budget is based on the FY 2015 legislative appropriation. Therefore the legislature will consider budget changes that reduce funding by about \$16,000, which is the change needed to bring funding to the level requested in the executive budget. The following figure shows the biennial comparison using the FY 2015 base budget.

Securities Program Biennial Change Using FY 2015 Legislative Base Budget				
Expend/Fund	2015 Bien	2017 Bien	Difference	%
FTE	11.00	11.84	0.84	7.6%
Personal Services	\$1,811,613	\$2,032,277	\$220,664	12.2%
Operating Expenses	558,298	324,067	(234,231)	-42.0%
Equipment	2,404	-	(2,404)	-100.0%
Total Expenditures	2,372,315	2,356,344	(15,971)	-0.7%
State Special Revenue	2,372,316	2,356,344	(15,972)	-0.7%
Total	\$2,372,316	\$2,356,344	(\$15,972)	-0.7%

The biggest difference is personal services. The 2017 biennium is higher than the 2015 biennium due to pay plan increases and broadband market pay adjustments implemented by the State Auditor. Operating costs are lower due to reductions in contracted services costs for examination of securities firms.

FY 2014 Expenditures Compared to FY 2015 Legislative Appropriation

The following figure shows the difference between the FY 2015 legislative appropriation and FY 2014 expenditures. The FY 2015 legislative appropriation exceeds FY 2014 expenditures by \$0.2 million. FY 2014 expenditures are lower due primarily to:

- A reorganization that moved about \$95,000 from the Securities program to Central Management
- Lower expenditures for some appropriations, most notably funding for contracted examinations of insurance companies
- Vacancies in FY 2014

Securities Program - Legislative Base Compared to FY 2014 Expenditures			
Expend/Fund	FY 2014	FY 2015 Leg Base	FY 2015 Over (Under) FY 2014
FTE	11.00	11.00	-
Personal Services	\$795,166	\$905,807	\$110,641
Operating Expenses	143,409	279,149	135,740
Equipment	-	1,202	1,202
Total Expenditures	938,575	1,186,158	247,583
State Special	938,575	1,186,158	247,583
Total Funding	\$938,575	\$1,186,158	\$247,583

Funding

The following table shows proposed program funding by source from all sources of authority.

State Auditors Office, 04-Securities Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0.00 %
02091 Security Restitution Fund	0	0	166,876	166,876	6.61 %
02283 Securities Fee Account	2,356,344	0	0	2,356,344	93.39 %
State Special Total	\$2,356,344	\$0	\$166,876	\$2,523,220	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$2,356,344	\$0	\$166,876	\$2,523,220	

The Securities Division is funded entirely from state special revenue derived from charges to the securities industry for:

- Filing portfolio notices
- Examining issuers, broker-dealers, or investment advisers as part of registration

Other fees related to the securities industry and collected by the SOA, such as registration of securities, are deposited to the general fund. Excess revenue in the state special revenue account that funds program administration is transferred to the general fund at fiscal yearend.

The Securities Division also administers a statutory appropriation for restitution payments to victims of securities fraud. The restitution account receives funds from persons who violated securities statutes, renewal fees for security offerings, and donations. The restitution fund terminates at the end of the 2017 biennium.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	1,186,158	1,186,158	2,372,316	0.00 %	
PL Adjustments	0	0	0	0.00 %	(46,296)	(51,140)	(97,436)	0.00 %	
New Proposals	0	0	0	0.00 %	41,772	39,692	81,464	0.00 %	
Total Budget	\$0	\$0	\$0		\$1,181,634	\$1,174,710	\$2,356,344		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	73,963	0	73,963	0.00	0	72,236	0	72,236
DP 99 - LEG. Present Law	0.00	0	(120,259)	0	(120,259)	0.00	0	(123,376)	0	(123,376)
Grand Total All Present Law Adjustments	0.00	\$0	(\$46,296)	\$0	(\$46,296)	0.00	\$0	(\$51,140)	\$0	(\$51,140)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the following table includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

The present law adjustments that adjust the FY 2015 appropriation to equal the executive budget net to a \$0.1 million reduction. Personal services increase due to annualization of pay plan increases and fully funding positions. However, the balance of program costs are lower in the 2017 biennium due primarily to lower contracted examinations of insurance firms in FY 2014 and higher appropriations in FY 2015 for contracted examinations.

Program Personal Services Narrative

The following table shows the adjustment to move personal services funding from the FY 2015 legislative appropriation to the 2017 biennium budget. The personal services adjustment totals about \$146,000 million over the biennium.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	10.84	\$0	\$5,268	\$0	\$5,268
Executive Implementation of 2015 Pay Increase		-	17,254	-	17,254
Fully Fund 2015 Legislatively Authorized FTE		-	16,393	-	16,393
Market Adjustments/Other		-	35,048	-	35,048
Personal Services Present Law Adjustments	10.84	\$0	\$73,963	\$0	\$73,963

FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	10.84	\$0	\$5,268	\$0	\$5,268
Executive Implementation of 2015 Pay Increase		-	17,254	-	17,254
Fully Fund 2015 Legislatively Authorized FTE		-	16,393	-	16,393
Market Adjustments/Other		-	33,321	-	33,321
Personal Services Present Law Adjustments	10.84	\$0	\$72,236	\$0	\$72,236

The executive budget for personal services increases by about 7% each year of the 2017 biennium when compared to the FY 2015 legislative appropriation. As shown in the table more than half is due to costs associated with HB 13 of the 2013 Legislature. Other adjustments include:

- Longevity changes
- Broad band pay increases
- Full funding of positions that were unfilled during a portion of the year
- Broad band pay increases to bring salaries up to 95% of market salaries.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Other	\$0	(\$120,259)	\$0	(\$120,259)
Legislative Present Law Adjustments	\$0	(\$120,259)	\$0	(\$120,259)

CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Other	-	(123,376)	-	(123,376)
Legislative Present Law Adjustments	\$0	(\$123,376)	\$0	(\$123,376)

Other adjustments that bring the base level of funding to the executive budget request net to a biennial reduction of about \$224,000. The reductions are due to:

- A reorganization that moved funds from the Securities Division to Central Management
- Lower contracted services costs for examinations of securities firms

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 404001 - Securities Examiner FTE	1.00	0	41,772	0	41,772	1.00	0	39,692	0	39,692
Total	1.00	\$0	\$41,772	\$0	\$41,772	1.00	\$0	\$39,692	\$0	\$39,692

DP 404001 - Securities Examiner FTE -

This request adds 1.00 FTE financial examiner for the Securities Division. The examination section of the division has 2.00 FTE to conduct examinations. Each year, the division conducts between 12 and 18 broker-dealer and investment adviser examinations, receives and investigates dozens of investor complaints, and anticipates more than 20 multi-level marketing or pyramid scheme investigations and legal referrals.

The Legislative Fiscal Division Presents an Agency Profile of:

The Department of Revenue

Contact: Sam Schaefer, Fiscal Analyst
Room 110H, State Capitol Building
Phone: 444-1787
e-mail: samschaefer@mt.gov

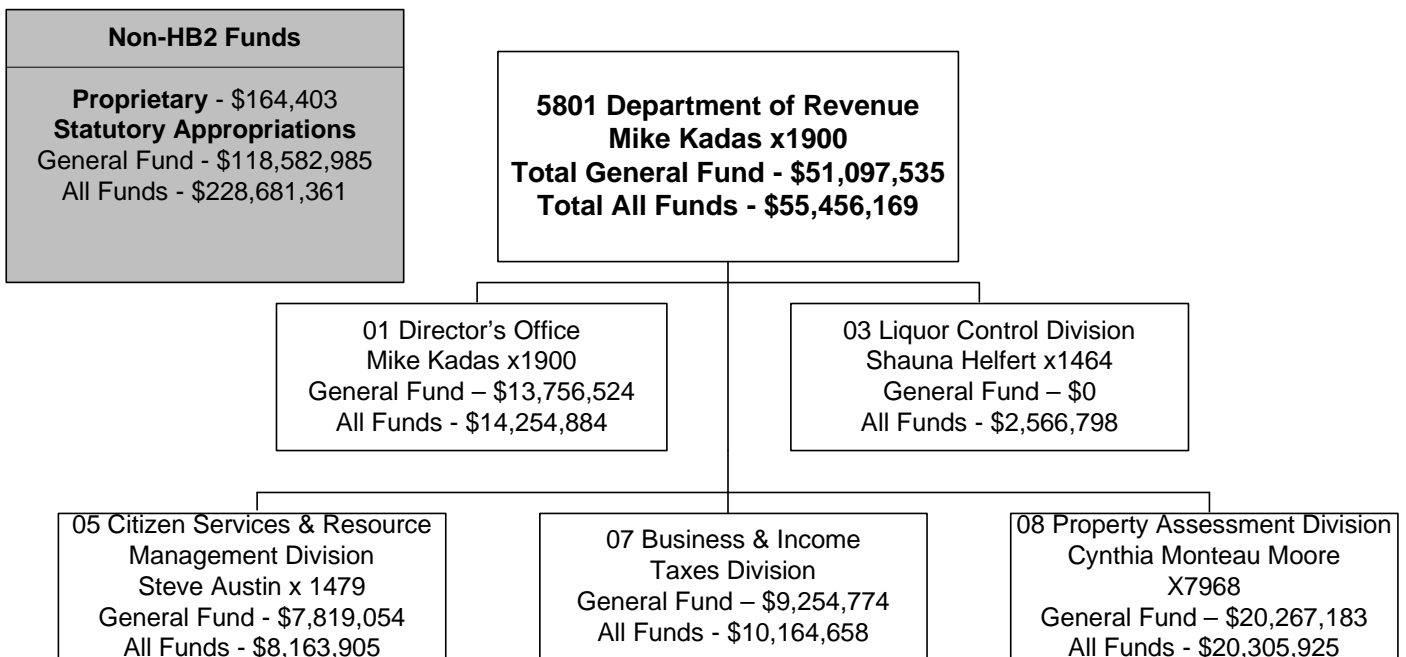
Updated August 2014

Agency Description

Definition of Terms

The Department of Revenue mission is: The quality of life for all Montanans is better because we excel at public service and effective administration of the tax and liquor laws. We do this by ensuring that revenues intended by the legislature to be raised are collected to serve Montanans, advancing equity and integrity in taxation, providing innovative and respectful service, protecting the public health and safety, achieving efficiency in liquor administration, and improving public understanding of Montana's revenue system. The primary statutory references defining duties and responsibilities of the department are found in 2-15-1301, MCA, 15-1-201, MCA, and Title 15, MCA.

Below is an organizational chart of the agency including general fund appropriations and the total of all funds. The chart also includes expenditures funded through statutory appropriations and non-budgeted proprietary funds. Unless otherwise noted, all phone extensions are preceded by (406) 444.

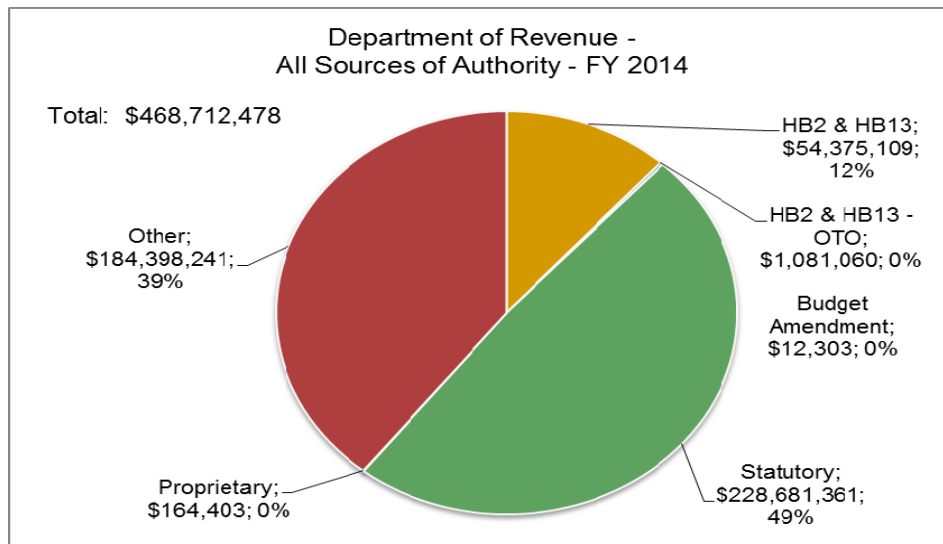


How Services are Provided

The Department of Revenue collects and distributes revenue from and enforces regulations for 40 state taxes and fees through the Director's Office and four divisions. The department also regulates the sale and distribution of alcoholic beverages in the state. In doing so, the department buys, imports, stores, sells, and delivers liquors to agency liquor stores. The department also:

- Administers and enforces Montana's tax laws
- Appraises all property subject to state and local property taxation
- Administers the Montana Alcoholic Beverage Code
- Enforces the Montana Cigarette Sales Act
- Administers abandoned property

Sources of Spending Authority

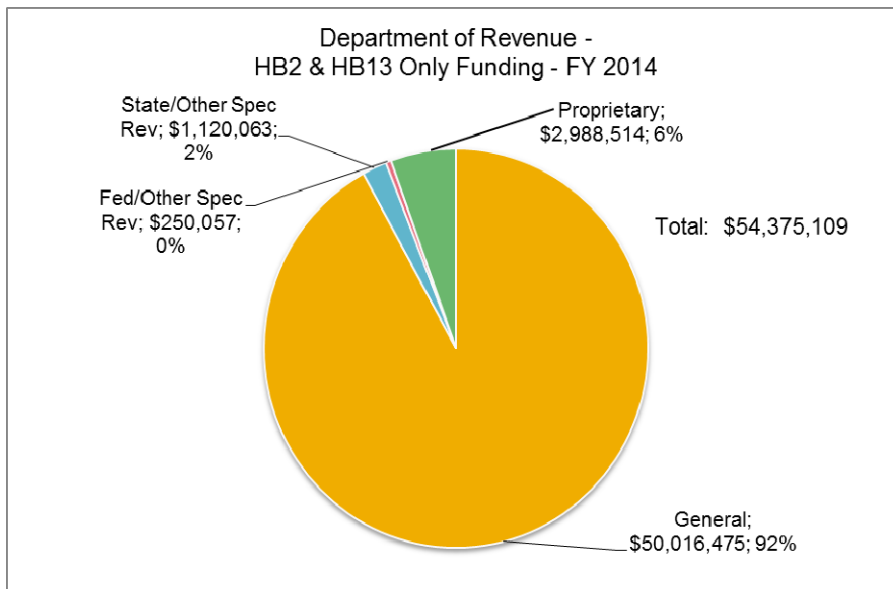
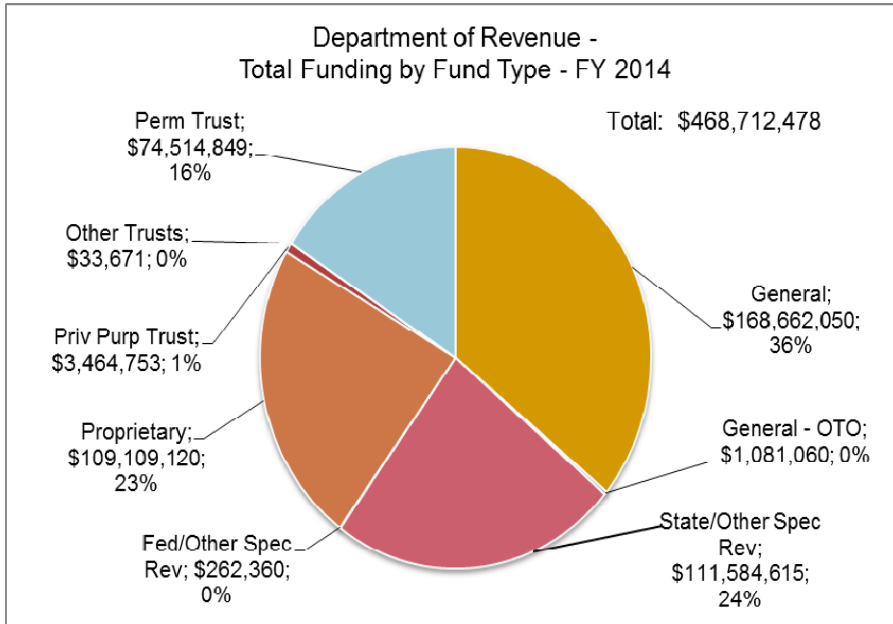


The above chart shows the sources of authority for the Department of Revenue. Other legislative appropriations (sometimes called cat and dog bills) are included in the above categories as appropriate. For a more detailed description of accounting terminology, please refer to the definition of terms.

- HB 2 & HB 13 – all HB 2 & HB 13 authority including the budgeted proprietary expenditures of the Liquor Control Division
- Statutory - primarily distributions of tax revenues to tribal and local governments
- Proprietary - the internal service Collection Services operations
- Other – primarily language appropriations for the Liquor Control Division (\$105.9 million) and non-budgeted transfers (\$78.0 million)

Funding

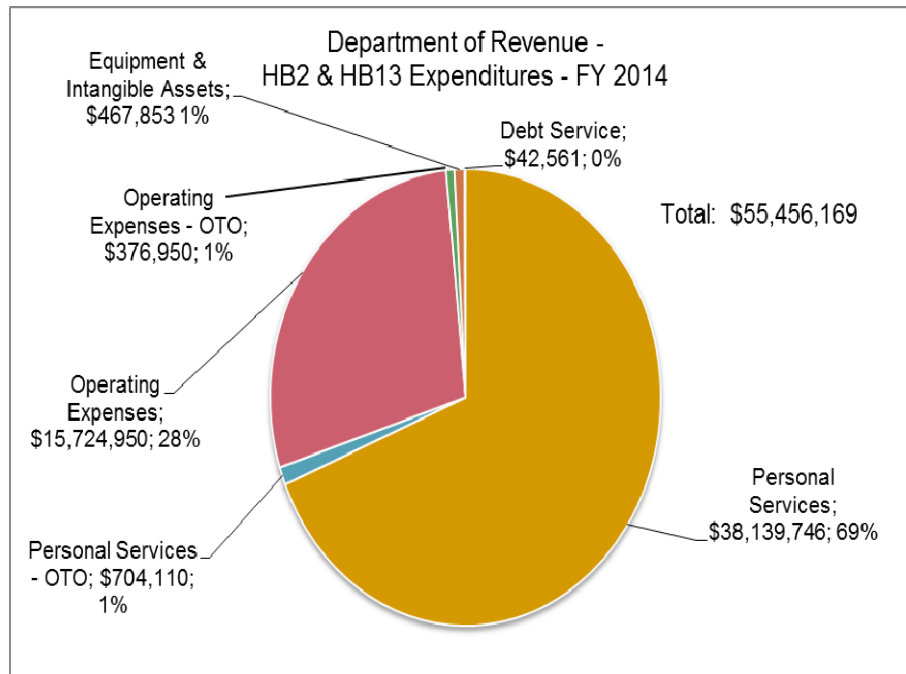
The following charts show the agency's sources of its total funding authority and the HB 2 & HB 13 funding authority by fund type (excluding funding for OTO's).



Total funding of the Department of Revenue includes most of the many taxes collected, which are subsequently distributed by the agency. Funding referred to as expendable trust primarily includes transfers of unclaimed property into private purpose trust funds. Nonexpendable trust funding refers to transfers of tax revenues into permanent trusts, such as the coal tax permanent trust.

Expenditures

The next chart explains how the HB 2 & HB 13 authority is spent. Of the \$55.5 million of HB 2 authority expended in FY 2014, \$38.1 million, or 68.8%, was spent on personal service costs, 28.4% was spent on operating expenses, and the remaining 2.8% was spent on OTO's and equipment and intangible assets.



How the 2015 Legislature Can Effect Change

The legislature has the ability to change expenditure levels and/or Department of Revenue activity through the following basic elements that drive costs:

- Tax policy changes – tax policy changes impact staff workload and costs associated with tax administration systems. The legislature can impact costs to administer and enforce state tax laws by influencing the number and type of taxes administered and the citizenry impacted by the taxes. It can impact tax administering and enforcement costs by affecting the complexity and frequency of tax policy changes. Tax policy changes also impact costs to implement, modify, and maintain computer systems used to administer taxes.
- Revenue distribution – revenues collected by the department are distributed according to statutory requirements. The legislature can impact the costs to administer the distribution of revenues by influencing the statutory requirements for the frequency and complexity of revenue distributions and by the number of distribution requirement changes the department must implement. With most of the department budget authorized coming through statutory appropriations to distribute revenue for local assistance payments, the legislature can influence a portion of the department budget through revenue distribution requirements.

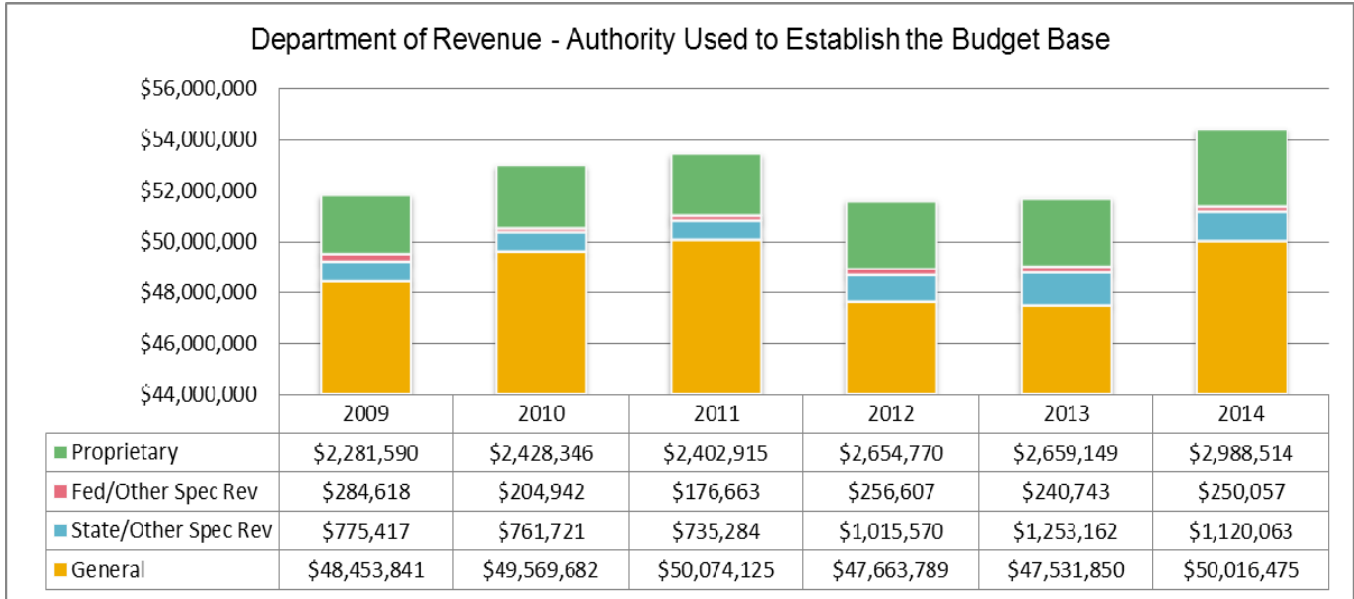
Major Cost Drivers

Driver	2001	2013	Significance of Data
Number of income tax returns processed	529,955	547,558 (12/2013)	Estimate of workload (income tax processing)
Number of income tax returns with refunds	279,641	349,043 (4/2013)	Estimate of workload (income tax processing)
Number of corporation tax returns processed	35,625 (2003)	33,719 (4/2013)	Estimate of workload (corporation tax processing)
Number of metalliferous mine producers filing returns	5	15 (2013)	Estimate of workload (metal mines tax processing)
Total retail liquor licenses	3,300 (2004)	3,232	Estimate of workload (liquor license processing)
Number of wholesaler liquor licenses issued	35 (2004)	32	Estimate of workload (liquor license processing)
Total number of housing units (Source - US Census Dept.)	412,663 (2000)	486,141 (2012)	Estimate of workload (appraisal valuation)

The figure above reflects some of the cost drivers of the department. In addition to the items shown changes in population, economic conditions, and the number of businesses operating in the state will drive workload changes for the department.

Funding/Expenditure History, Authority Used to Establish the Budget Base

The HB 2 & HB 13 budget for the Department of Revenue increased by \$2.7 million or 5.2% in FY 2014 after remaining fairly constant for consecutive years. The increase is primarily due to increases in personal services. Expenditures were reduced in the 2013 biennium as a result of spending reductions imposed on the agency by the 2011 Legislature in reaction to the “great recession.” The figure does not include one-time-only expenditures.



Major Legislative Changes in the Last Ten Years

Major Legislative Changes in the Last 10 Years

- 2013 Legislature
 - The legislature added a total of 16.00 FTE to the department: 5.00 FTE were in the Property Assessment Division as a one-time-only.
 - There was a \$1.0 million increase in GenTax maintenance and development costs.
 - The Legislature adopted an additional 2% vacancy savings for the department.
- 2009 Legislature
 - The legislature added a total of 21.30 FTE to the department: 9.30 FTE for the property tax reappraisal as a one-time-only appropriation (HB 658), 12.00 FTE to continue tax compliance activities
 - HB 10 provided \$3.4 million of general fund for an electronic imaging system
- 2007 Legislature
 - The legislature added a total of 36.75 FTE in present law and new proposals, 16.00 FTE for tax compliance activities and 8.00 FTE for new legislation
 - Developed free electronic tax filing with \$4.7 million in general fund
 - HB 9 (SS) provided a \$400 rebate for property taxes and supported the related DOR activities with \$1.0 million of general fund
- 2005 Legislature:
 - The legislature added a net 6.00 FTE to the department
 - Funded a new property tax information system with \$5.5 million in general funds
 - Increased tax types administered through the Integrated Revenue Information System (IRIS) with \$4.0 million in general fund and added vendor service costs to the base budget

For further information, you may wish to contact the agency at:

Department of Revenue

P.O. Box 6308

Helena, MT 59604

phone: (406) 444-6900

web: <http://revenue.mt.gov/default.mcpX>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	670.28	670.28	651.55	651.55	670.28	651.55	(18.73)	(2.79)%
Personal Services	38,139,750	40,872,977	42,629,679	42,692,281	79,012,727	85,321,960	6,309,233	7.99%
Operating Expenses	15,724,956	15,928,539	15,741,122	15,333,838	31,653,495	31,074,960	(578,535)	(1.83)%
Equipment & Intangible Assets	467,853	55,604	467,853	471,151	523,457	939,004	415,547	79.39%
Transfers	0	0	0	0	0	0	0	0.00%
Debt Service	42,562	35,552	37,864	37,864	78,114	75,728	(2,386)	(3.05)%
Total Costs	\$54,375,121	\$56,892,672	\$58,876,518	\$58,535,134	\$111,267,793	\$117,411,652	\$6,143,859	5.52%
General Fund	50,016,486	52,581,114	54,067,068	53,996,524	102,597,600	108,063,592	5,465,992	5.33%
State/Other Special Rev. Funds	1,120,067	1,078,894	1,252,050	1,042,050	2,198,961	2,294,100	95,139	4.33%
Federal Spec. Rev. Funds	250,054	268,095	241,426	241,426	518,149	482,852	(35,297)	(6.81)%
Proprietary Funds	2,988,514	2,964,569	3,315,974	3,255,134	5,953,083	6,571,108	618,025	10.38%
Total Funds	\$54,375,121	\$56,892,672	\$58,876,518	\$58,535,134	\$111,267,793	\$117,411,652	\$6,143,859	5.52%

Mission Statement

The quality of life for all Montanans is better because we excel at public service and effective administration of the tax and liquor laws. We do this by ensuring that revenues intended by the legislature to be raised are collected to serve Montanans, advancing equity and integrity in taxation, providing innovative and respectful service, protecting the public health and safety and achieving efficiency in liquor administration, and improving public understanding of Montana's revenue system.

For additional information, please refer to the agency profile.

<http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Department of Revenue Major Budget Highlights
<ul style="list-style-type: none"> • The budget would increase in the next biennium due primarily to increases in personal services. These increases in personal service costs are a result of statewide present law adjustments • Increases in the equipment budget are almost entirely offset by decreases in the operating expenses budget. These increases in equipment are expected in the Liquor Control Division as well as in anticipated increases in storage server capacity within the Director's Office.

Agency Discussion*Agency Decision Packages*New FTE

The executive budget includes increases in DOR personal services with decision packages that would add 6.00 FTE requested in present law. The requests are detailed in the figure below.

DOR FTE Present Law Requests 2017 Biennium						
Program	Decision Package #	Total FTE Request	FTE Cost FY 16	FTE Cost FY 17	Total Cost	
Director's Office	DP 102	3.00	-\$18,415	-\$22,971	-\$41,386	
Director's Office	DP 105	1.00	\$70,660	\$68,843	\$139,503	
Liquor Control Division	DP 302	1.00	\$72,379	\$70,165	\$142,544	
Citizen Services & Resource Mgt.	DP 502	1.00	\$53,536	\$51,010	\$104,546	
Business and Income Taxes	N/A	0.00	\$0	\$0	\$0	
Property Assessment Division	N/A	0.00	\$0	\$0	\$0	
Grand Total		6.00	\$178,160	\$167,047	\$345,207	

In the figure above, DP 102 would replace contract developers with three new FTE. This would decrease general fund spending over the biennium. Decision packages 105, 302, and 502 would each add one additional FTE to pursue tax compliance. These additional compliance specialists were requested due to increased workloads within the department.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix. The total reduction for this agency would be \$2,496,066 general fund and \$56,003 state special revenue funds over the biennium.

Agency Personal Services

Overall, the agency does not have difficulty filling positions and most vacancies are filled in a timely fashion. Other information of the DOR personal services include:

- In 2013 the department's turnover rate was 11.2% compared to the State's turnover rate of 12.9% and the hire rate was 10.9% compared to the State's rate of 13.4%
- The overall vacancy savings based upon utilized hours in FY 2014 was 3.9%, compared to a budgeted 6%
- 183 staff representing 27.3% of budgeted FTE were given raises in FY 2014
 - Employees in pay band 1 through 4 did receive scheduled pay increases upon advancement to the next pay level because the Legislature approved and funded across the board pay increases for the biennium
 - Pay raises due primarily to reclassifications and longevity averaged 5.02%
 - The annualized amount of these pay increases is \$415,408, not including increased costs of taxes and insurances
- 46 FTE or 7.4% of the workforce are currently eligible for retirement

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base, by program.

FY 2015 Appropriation Transactions - Department of Revenue						
Program	Legislative Appropriation	Legislative Approps OTO	Direct Transfers	Reorganizations	Total Implementation	Executive
Prgm. 1 Dir. Office	\$5,823,010	\$70,000	\$0	\$7,776,755	\$13,669,765	
Prgm. 2 Inf.Mgmt. & Tech.	12,677,746	-	(76,362)	(12,601,384)	-	
Prgm. 3 Liquor Control	2,556,599	-	-	-	2,556,599	
Prgm. 5 CSRM	3,845,828	-	-	4,824,629	8,670,457	
Prgm. 7 Bus. & Inc. Tax	10,279,979	-	-	-	10,279,979	
Prgm. 8 Prop. Assmt	20,760,646	987,660	(32,434)	-	21,715,872	
Agency Total	\$55,943,808	\$1,057,660	(\$108,796)	\$0	\$56,892,672	

Detailed discussions of each program are included in the corresponding program-level analyses.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department of Revenue Funding by Source of Authority 2017 Biennium Budget - Department of Revenue						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	108,063,592	0	265,676,565	373,740,157	62.41 %	
State Special Total	2,294,100	0	215,370,260	217,664,360	36.35 %	
Federal Special Total	482,852	0	0	482,852	0.08 %	
Proprietary Total	6,571,108	399,982	0	6,971,090	1.16 %	
Other Total	0	0	0	0	0.00 %	
Total All Funds	\$117,411,652	\$399,982	\$481,046,825	\$598,858,459		
Percent - Total All Sources	19.61 %	0.07 %	80.33 %			

The department is primarily funded with general fund, which is 62.4% of total funds in the 2017 biennium. Proprietary funds are 1.2% of total funds and support the operation of the Liquor Control Division and other divisions that support liquor control functions or the staff of the Liquor Control Division.

State special revenue, 36.3% of total funds, supports:

- Tobacco tax compliance activities under the Tobacco Master Settlement Agreement
- Appraisal, assessment, and taxation processes
- Administration of the unclaimed property program

State special revenue from the property valuation improvement fund is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration.

Federal special revenue, 0.1% of total funds, supports federal mineral royalty audits.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	37,638,831	37,638,831	75,277,662	69.66 %	43,266,062	43,266,062	86,532,124	73.70 %
PL Adjustments	16,486,962	16,391,193	32,878,155	30.42 %	15,459,181	15,302,572	30,761,753	26.20 %
New Proposals	(58,725)	(33,500)	(92,225)	(0.09)%	151,275	(33,500)	117,775	0.10 %
Total Budget	\$54,067,068	\$53,996,524	\$108,063,592		\$58,876,518	\$58,535,134	\$117,411,652	

Language and Statutory Authority -

The Liquor Control Division requests the following language be included in HB 2:

"Liquor Control Division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in the amounts not to exceed \$138 million in fiscal year 2016 and \$145 million in fiscal year 2017."

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	83.48	83.48	84.75	84.75	83.48	84.75	1.27	1.52 %
Personal Services	6,552,504	6,784,010	7,375,561	7,451,359	13,336,514	14,826,920	1,490,406	11.18 %
Operating Expenses	7,119,951	6,860,705	7,005,334	6,810,497	13,980,656	13,815,831	(164,825)	(1.18)%
Equipment & Intangible Assets	277,639	25,050	277,639	277,639	302,689	555,278	252,589	83.45 %
Total Costs	\$13,950,094	\$13,669,765	\$14,658,534	\$14,539,495	\$27,619,859	\$29,198,029	\$1,578,170	5.71 %
General Fund	13,451,734	13,185,675	14,165,491	14,046,452	26,637,409	28,211,943	1,574,534	5.91 %
State/Other Special Rev. Funds	112,614	114,097	110,982	110,982	226,711	221,964	(4,747)	(2.09)%
Federal Spec. Rev. Funds	1,000	0	1,000	1,000	1,000	2,000	1,000	100.00 %
Proprietary Funds	384,746	369,993	381,061	381,061	754,739	762,122	7,383	0.98 %
Total Funds	\$13,950,094	\$13,669,765	\$14,658,534	\$14,539,495	\$27,619,859	\$29,198,029	\$1,578,170	5.71 %

Program Description

The Director's Office is responsible for overall management of the department to support and ensure success of the revenue collections and property valuation responsibilities of the operating divisions. To achieve this, the Director's Office is composed of five primary sections that provide services across the department to the four primary operating divisions.

The Executive Office is responsible for the general guidance and management of the agency on a department wide basis. The Executive Office assists the director with administrative functions and communication to the public, other agencies and elected officials and includes the Office of Taxpayer Assistance. In addition, Fiscal Administration, Public Information, Human Resources, and Enterprise Planning & Analysis functions reside here.

The Legal Services Office is responsible for the overall legal efforts of the department including legal representation before various courts, legislation development and review, filing bankruptcy claims, and developing policy and administrative rules. The legal office also oversees the Office of Dispute Resolution that reviews, facilitates, and resolves taxpayer disputes internally through a variety of means including hearings and mediation.

The Security Office provides security and disclosure guidance to the department staff and citizens served by the department. The Security Office is responsible for ensuring compliance with confidentiality requirements including Internal Revenue Service (IRS) security requirements and federal/state information exchanges and ensuring the department appropriately safeguards the integrity of confidential taxpayer information in all forms.

Tax Policy and Research provides accurate and timely information for the Governor, the Legislature, and Montana citizens including the compilation of basic tax data and the publication of the statutory Biennial Report.

The Information Technology Office is responsible to provide effective and efficient IT hardware and software to all department staff so that they can complete the work of tax administration. IT systems are the critical background in the administration of all tax types in Montana.

Program Highlights

Director's Office Major Budget Highlights
<ul style="list-style-type: none"> • Personal services would increase due to statewide present law adjustments • Equipment and intangible assets would increase due to a transfer of authority from operating expenses to the equipment budget. In FY 2014 the department transferred authority to purchase servers which would increase server storage based on the increased capacity of the department. The department anticipates that the server capacity will continue to increase in the next biennium. The increase in the equipment budget over the next biennium will be almost entirely offset by the decrease in operating expenses • A significant difference between the legislatively appropriated FY 2015 base and the executive's FY 2017 biennium request is due to a reorganization of the Information Management and Technology Division. This reorganization transferred personal services and operating expenses authority to the Director's Office and the Citizen Services and Resource Management Division.

Program Discussion -

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Revenue Director's Office FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Difference Between Exec. and Leg.	Total Executive Implementation
Personal Services	\$4,155,305	\$2,628,705	\$6,784,010
Operating Expenses	1,667,705	5,193,000	6,860,705
Equipment & Intangible Assets	<u>0</u>	\$25,050	<u>25,050</u>
Total Costs	<u>\$5,823,010</u>	<u>\$7,846,755</u>	<u>\$13,669,765</u>

The primary difference between the FY 2015 Legislative Appropriation and the Total Executive Implementation is due to the reorganization of the former Information Management and Technology Division. Personal services authority, operating expenses authority, and equipment and intangible assets authority were transferred from this program to the Director's Office and Citizen Services and Resource Management. This reorganization accounted for \$7,776,755 of the total difference. The remaining \$70,000 is due a restricted one-time-only appropriation for fiscal note overtime.

Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures of \$13,950,094 are \$8,127,084 above the FY 2015 Legislative appropriation of \$5,823,010. This large difference is primarily attributable to the aforementioned reorganization.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Revenue, 01-Directors Office Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	28,211,943	0	265,676,565	293,888,508	99.67 %	
02088 SSR ADMINISTRATIVE FUNDS	0	0	0	0	0.00 %	
02790 6901-Statewide Tobacco Sttlmnt	221,964	0	0	221,964	100.00 %	
State Special Total	\$221,964	\$0	\$0	\$221,964	0.08 %	
03928 Royalty Audit - NRCT	2,000	0	0	2,000	100.00 %	
Federal Special Total	\$2,000	\$0	\$0	\$2,000	0.00 %	
06005 Liquor Division	762,122	0	0	762,122	100.00 %	
Proprietary Total	\$762,122	\$0	\$0	\$762,122	0.26 %	
Total All Funds	\$29,198,029	\$0	\$265,676,565	\$294,874,594		

Funding for the HB 2 budget comes primarily from the general fund. State special revenue from tobacco settlement funds supports the dedicated attorney that supports tobacco tax compliance activities. Federal mineral royalty audit special revenue funds a portion of the Legislative Audit fixed cost allocation for the agency. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Control Division share of Director's Office support costs. The allocation is calculated as a percentage of the program's budget. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted.

Total funding for the Directors Office also includes two general fund statutory appropriations. The largest of the statutory appropriations is a pass-through general fund appropriation for the state entitlement shares, as provided in 15-1-121, MCA. This distribution resulted from HB 124 in the 2001 Legislative Session, which reallocated revenue received by local governments, school districts, and some state special revenue accounts to the general fund and replaced foregone revenue with permanent state entitlement grants to counties and cities. A second general fund statutory appropriation included in the Directors Office is a direct use by the department for out of state travel costs for the purpose of tax audits and is provided for in 15-1-218, MCA.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	4,006,860	4,006,860	8,013,720	28.41 %	5,823,010	5,823,010	11,646,020	39.89 %
PL Adjustments	10,158,631	10,039,592	20,198,223	71.59 %	8,835,524	8,716,485	17,552,009	60.11 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$14,165,491	\$14,046,452	\$28,211,943		\$14,658,534	\$14,539,495	\$29,198,029	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	3,281,446	(67,543)	526	3,214,429	0.00	3,353,180	(63,058)	492	3,290,614
DP 99 - LEG. Present Law	0.00	6,877,185	(60,755)	474	6,816,904	0.00	6,686,412	(65,240)	508	6,621,680
Grand Total All Present Law Adjustments	0.00	\$10,158,631	(\$128,298)	\$1,000	\$10,031,333	0.00	\$10,039,592	(\$128,298)	\$1,000	\$9,912,294

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments						
CP 98 PSPL Item	FTE	FY 2016				Total Funds
		General Fund	State Special	Federal Special	Proprietary	
State Share Health Insurance	80.75	39,245	-	-	-	\$39,245
Executive Implementation of 2015 Pay Increase		124,557	-	-	-	124,557
Fully Fund 2015 Legislatively Authorized FTE		127,270	3,014	-	807	131,091
Other	4.00	2,990,374	(70,557)	526	5,020	2,931,190
Personal Services Present Law Adjustments	84.75	\$3,281,446	(\$67,543)	\$526	\$5,827	\$3,220,256
CP 98 PSPL Item	FTE	FY 2017				Total Funds
		General Fund	State Special	Federal Special	Proprietary	
State Share Health Insurance	80.75	39,245	-	-	-	\$39,245
Executive Implementation of 2015 Pay Increase		124,557	-	-	-	124,557
Fully Fund 2015 Legislatively Authorized FTE		127,270	3,014	-	807	131,091
Other	4.00	3,062,108	(66,072)	492	4,633	3,006,601
Personal Services Present Law Adjustments	84.75	\$3,353,180	(\$63,058)	\$492	\$5,440	\$3,296,054

The executive proposes to increase support to personal services by 77.5% in FY 2016 and 79.3% in FY 2017 in comparison to the FY 2015 legislative budget. In addition to the three main line items, this is primarily due to the reorganization mentioned above. Funds for fiscal note overtime during the 2017 Legislative session and the addition of a Paralegal to the bankruptcy unit explain the majority of the remaining other category. Differences between the total funds in the CP 98 table compared to the present law adjustments table are due to the inclusion of the proprietary adjustments above.

DP 99 - LEG. Present Law -

The LGPL adjustments above are almost entirely due to the transfer of operating expenses during the reorganization and increases in fixed costs.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	31.75	31.75	31.75	31.75	31.75	31.75	0.00	0.00 %
Personal Services	1,917,061	1,962,006	2,252,410	2,196,183	3,879,067	4,448,593	569,526	14.68 %
Operating Expenses	423,346	532,114	425,039	420,426	955,460	845,465	(109,995)	(11.51)%
Equipment & Intangible Assets	190,214	30,554	190,214	190,214	220,768	380,428	159,660	72.32 %
Transfers	0	0	0	0	0	0	0	0.00 %
Debt Service	36,177	31,925	31,479	31,479	68,102	62,958	(5,144)	(7.55)%
Total Costs	\$2,566,798	\$2,556,599	\$2,899,142	\$2,838,302	\$5,123,397	\$5,737,444	\$614,047	11.99 %
Proprietary Funds	2,566,798	2,556,599	2,899,142	2,838,302	5,123,397	5,737,444	614,047	11.99 %
Total Funds	\$2,566,798	\$2,556,599	\$2,899,142	\$2,838,302	\$5,123,397	\$5,737,444	\$614,047	11.99 %

Program Description

The Liquor Control Division provides effective and efficient administration of the Montana alcoholic beverage code with an emphasis on customer service and public safety. This is accomplished by applying uniform and fair regulations while ensuring an orderly system for the convenient distribution and responsible consumption of alcoholic beverages. The division consists of the Liquor Distribution Bureau, which maintains a regulated channel of distribution to fulfill the public demand for distilled spirits and fortified wine through agency liquor stores; and the Liquor Licensing Bureau, which protects the welfare and safety of the public by regulating liquor licensing laws in a uniform and fair manner.

Program Highlights

Liquor Control Division Major Budget Highlights
<ul style="list-style-type: none"> • The 2017 Liquor Control Division budget would increase from the 2015 biennium budget primarily due to an increase in the following: <ul style="list-style-type: none"> ◦ Personal services would increase due primarily to statewide present law adjustments ◦ Increases in equipment and intangible assets are due to the department transferring authority from the operating budget to the equipment budget in FY 2014 to purchase additional shelving, pallet jacks, and a forklift. Their current request is based on the FY 2014 base budget. They are requesting to decrease their operating costs budget in the next biennium while increasing their equipment budget as they anticipate future “operational needs”

Program Discussion -

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Revenue Liquor Control Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Difference Between Exec. and Leg.	Total Executive Implementation
Personal Services	\$1,962,006	\$0	\$1,962,006
Operating Expenses	532,114	0	532,114
Equipment and Intangible Assets	30,554	0	30,554
Debt Service	<u>31,925</u>	<u>0</u>	<u>31,925</u>
Total Costs	<u>\$2,556,599</u>	<u>\$0</u>	<u>\$2,556,599</u>

Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures of \$2,566,798 are \$10,199 above the FY 2015 Legislative appropriation of \$2,556,599.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Revenue, 03-Liquor Control Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %
06005 Liquor Division	5,737,444	0	0	5,737,444	100.00 %
Proprietary Total	\$5,737,444	\$0	\$0	\$5,737,444	100.00 %
Total All Funds	\$5,737,444	\$0	\$0	\$5,737,444	

The division is funded with a direct appropriation of Liquor Control Division proprietary funds. Net revenues from liquor sales are transferred to the general fund after operating costs are deducted from gross revenues. Consequently, any proposals funded through this program are an indirect use of state general fund.

Executive Request

The budget proposal includes a language appropriation for up to \$283 million for liquor inventories, freight charges, and to transfer profits and taxes to appropriate accounts.

LFD COMMENT	The liquor division account, which provides funding for the Liquor Control Division and other related functions throughout the Department of Revenue (DOR), is a budgeted enterprise fund. The fund receives collections of the revenues from state liquor operations throughout the state and funds the purchases of liquor and operational costs of the division. Any remaining funds (profits) are transferred to the state general fund. Consequently, any changes in costs from the fund has an impact on the amount of profits transferred to the state general fund.
--------------------	---

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	2,556,599	2,556,599	5,113,198	0.00 %	
PL Adjustments	0	0	0	0.00 %	342,543	281,703	624,246	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$2,899,142	\$2,838,302	\$5,737,444		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments						
FY 2016						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Proprietary	Total Funds
State Share Health Insurance	30.75	-	-	-	\$14,945	\$14,945
Executive Implementation of 2015 Pay Increase		-	-	-	34,172	34,172
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	36,159	36,159
Other	1.00	-	-	-	205,129	205,129
Personal Services Present Law Adjustments	31.75	\$0	\$0	\$0	\$290,404	\$290,404
FY 2017						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Proprietary	Total Funds
State Share Health Insurance	30.75	-	-	-	\$14,945	\$14,945
Executive Implementation of 2015 Pay Increase		-	-	-	34,172	34,172
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	36,159	36,159
Other	1.00	-	-	-	148,902	148,902
Personal Services Present Law Adjustments	31.75	\$0	\$0	\$0	\$234,177	\$234,177

The executive proposes to increase support to personal services adjustments by 14.8% in FY 2016 and 11.9% in FY 2017 in comparison to the FY 2015 legislative budget. As shown in the table, about 30% of the increases are due to health insurance increases, HB 13 pay increases, and the reinstatement of vacancy savings. The other line item is composed of costs associated with termination and overtime pay along with the addition of one compliance specialist. The remaining adjustments are primarily due to longevity and the reclassification of positions.

DP 99 - LEG. Present Law -

The LGPL adjustments are entirely due to anticipated future operational needs in equipment and intangible assets.

Language and Statutory Authority -

The Governor proposes the following language for inclusion in HB 2.

"Liquor Control Division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in the amounts not to exceed \$138 million in fiscal year 2016 and \$145 million in fiscal year 2017."

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	110.25	110.25	108.25	108.25	110.25	108.25	(2.00)	(1.81)%
Personal Services	5,227,727	5,744,295	6,218,045	6,218,774	10,972,022	12,436,819	1,464,797	13.35 %
Operating Expenses	2,914,787	2,926,162	2,878,023	2,884,441	5,840,949	5,762,464	(78,485)	(1.34)%
Total Costs	\$8,142,514	\$8,670,457	\$9,096,068	\$9,103,215	\$16,812,971	\$18,199,283	\$1,386,312	8.25 %
General Fund	7,797,661	8,360,565	8,800,440	8,807,587	16,158,226	17,608,027	1,449,801	8.97 %
State/Other Special Rev. Funds	307,883	271,915	259,857	259,857	579,798	519,714	(60,084)	(10.36)%
Proprietary Funds	36,970	37,977	35,771	35,771	74,947	71,542	(3,405)	(4.54)%
Total Funds	\$8,142,514	\$8,670,457	\$9,096,068	\$9,103,215	\$16,812,971	\$18,199,283	\$1,386,312	8.25 %

Program Description

The Citizen Services and Resource Management Division (CSRM) focuses on providing services to citizens, including the advancement of free electronic filing, and support services to the other divisions of the department. CSRM includes the Financial and Asset Management Bureau, the Citizen Services Bureau, the Collections Bureau, and the Information Management Bureau. The division integrates the department's accounting, purchasing, safety and security, and statewide facility functions through the Financial and Asset Management Bureau. This bureau ensures state tax collections and department expenses are properly accounted for, supports the efficient and safe operation of department facilities, and conducts disaster and emergency preparedness and continuity of government activities. The division's Citizen Services Bureau assists taxpayers by answering questions through the department's call center, coordinates the eStop business licensing program to create efficiencies and reduced costs to businesses, returns unclaimed property that has been remitted to the state to the rightful owners, and strives to create tax forms and instructions that are thorough and understandable. The Collections Bureau establishes payment plans or initiates forced collections using legal actions to resolve delinquent tax liabilities and provides collection services to other state and local agencies for recovery of bad debts. The bureau includes the Bankruptcy Unit responsible for filing and recoveries of debt through bankruptcy proceedings. The Information Management Bureau ensures secure handling and processing of taxpayer information, payments, and data in electronic or paper form. The bureau is organized into four units including Account Maintenance and Cashiering, Information Capture, Electronic Services (E-Services), and Mail and Imaging.

Program Highlights

Citizen Services & Resource Management Program Major Budget Highlights
<ul style="list-style-type: none"> • A portion of the proposed increase is a result of personal services present law adjustments • The remaining difference between the legislatively appropriated FY 2015 base and the executive's FY 2017 biennium request is primarily due to a reorganization of the Information Management and Technology Division. This reorganization transferred personal services and operating expenses authority to the Director's Office and the Citizen Services and Resource Management Division.

Program Discussion -

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Revenue Citizen Services and Resource Management FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Difference Between Exec. and Leg.	Total Executive Implementation
Personal Services	\$3,059,985	\$2,684,310	\$5,744,295
Operating Expenses	<u>785,843</u>	<u>2,140,319</u>	<u>2,926,162</u>
Total Costs	<u>\$3,845,828</u>	<u>\$4,824,629</u>	<u>\$8,670,457</u>

The difference between the FY 2015 Legislative Appropriation and the Total Executive Implementation is due to the reorganization of the former Information Management and Technology Division. Personal services authority and operating expenses authority were transferred from this program to the Director's Office and Citizen Services and Resource Management.

Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures of \$8,142,514 are \$4,296,686 above the FY 2015 Legislative appropriation of \$3,845,828. This large difference is primarily attributable to the aforementioned reorganization.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Revenue, 05-Citizen Services & Resource Mgmt Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	17,608,027	0	0	17,608,027	7.53 %	
02008 Tobacco And Cig. Tribal Agree.	0	0	10,477,384	10,477,384	4.85 %	
02025 Unclaimed Property	301,132	0	0	301,132	0.14 %	
02083 Oil & Gas Local Assistance	0	0	7,507,450	7,507,450	3.48 %	
02088 SSR ADMINISTRATIVE FUNDS	218,582	0	0	218,582	0.10 %	
02168 MT Oil Production Tax	0	0	183,262,702	183,262,702	84.89 %	
02169 Bentonite Production Tax	0	0	5,000,000	5,000,000	2.32 %	
02511 Oil Gas and Coal Natural Res	0	0	9,026,308	9,026,308	4.18 %	
02966 Tribal Agreement - Alcohol	0	0	85,416	85,416	0.04 %	
State Special Total	\$519,714	\$0	\$215,359,260	\$215,878,974	92.27 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06005 Liquor Division	71,542	0	0	71,542	15.17 %	
06554 CSC Collection Services	0	399,982	0	399,982	84.83 %	
Proprietary Total	\$71,542	\$399,982	\$0	\$471,524	0.20 %	
Total All Funds	\$18,199,283	\$399,982	\$215,359,260	\$233,958,525		

The Citizens Services and Resource Management Division is funded primarily by the general fund. State special revenue funds the division’s administration of livestock per capita fee, and for support of the unclaimed property program. The finances of the Collections Services Program are not shown in the HB 2 tables because it is funded with proprietary funds. The Collections Services Program is discussed in the Proprietary Rates Section that follows the HB 2 discussion.

As seen in the figure above, the Citizen Services and Resource Management program is also responsible for the statutorily appropriated distributions of various tax revenues to local and tribal governments.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	3,584,757	3,584,757	7,169,514	40.72 %	3,845,828	3,845,828	7,691,656	42.26 %
PL Adjustments	5,215,683	5,222,830	10,438,513	59.28 %	5,250,240	5,257,387	10,507,627	57.74 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$8,800,440	\$8,807,587	\$17,608,027		\$9,096,068	\$9,103,215	\$18,199,283	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	3,137,274	22,113	0	3,159,387	0.00	3,138,026	22,088	0	3,160,114
DP 99 - LEG. Present Law	0.00	2,078,409	14,650	0	2,093,059	0.00	2,084,804	14,675	0	2,099,479
Grand Total All Present Law Adjustments	0.00	\$5,215,683	\$36,763	\$0	\$5,252,446	0.00	\$5,222,830	\$36,763	\$0	\$5,259,593

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments						
FY 2016						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Proprietary	Total Funds
State Share Health Insurance	107.25	\$52,124	-	-	-	\$52,124
Executive Implementation of 2015 Pay Increase		100,596	-	-	-	100,596
Fully Fund 2015 Legislatively Authorized FTE		108,110	-	-	1,582	109,692
Other	1.00	2,875,691	22,113	-	(2,909)	2,894,322
Personal Services Present Law Adjustments	108.25	\$3,137,274	\$22,113	\$0	(\$1,327)	\$3,158,060
FY 2017						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Proprietary	Total Funds
State Share Health Insurance	107.25	\$52,124	-	-	-	\$52,124
Executive Implementation of 2015 Pay Increase		100,596	-	-	-	100,596
Fully Fund 2015 Legislatively Authorized FTE		108,110	-	-	1,582	109,692
Other	1.00	2,877,197	22,088	-	(4,232)	2,895,053
Personal Services Present Law Adjustments	108.25	\$3,138,026	\$22,088	\$0	(\$2,650)	\$3,157,464

The executive proposes to increase support to personal services adjustments by 103% in FY 2016 and 103% in FY 2017 in comparison to the FY 2015 legislative budget. Approximately 85% of this increase is attributable to the reorganization. The remainder is primarily due to a request for one addition FTE to pursue additional tax compliance opportunities, the implementation of the HB 13 pay increase, and fully funding the legislatively authorized FTE. Differences between the total funds in the CP 98 table compared to the present law adjustments table are due to the inclusion of the proprietary adjustments above.

DP 99 - LEG. Present Law -

LGPL adjustments above are almost entirely due to the transfer of operating expenses authority from the reorganization. The remaining adjustment is due to rent increases for existing lease obligations within the program.

Other Issues -

Program Description

Montana law authorizes the Department of Revenue to assist other agencies in the collection of delinquent accounts. The department retains a percentage of these collections for the costs of assistance in conjunction with 17-4-103 (3)(a), MCA. The department established the Collections Services Program, which includes 3.50 FTE, to administer its statutory responsibilities under Title 17, chapter 4, MCA. These responsibilities include providing collection services for the purpose of centralizing debt collection for the State of Montana.

Proprietary Revenue and Expenses

The department is currently authorized to charge a commission rate up to 5% for its collection services excluding the collection of overpaid child support payments made to custodial parents and collection of delinquent child support payments from noncustodial parents. The commissions collected are used to pay the expenses of the Collection Services Program. Approximately 83% of the expenditures are paid in salaries and benefits with the remaining expenditures representing operating expenses of the program.

Administration of this program requires a minimum of a 9-month working capital balance due to the timing of program collections through offset of other state monies, as the program collects the largest amount of revenues on delinquent accounts during the income tax season and the hunting permitting season.

Proprietary Rate Explanation

The department requests that a maximum commission rate of 5% continue into the 2017 biennium. Exempted from this rate is collection of overpaid child support payments made to custodial parents or collection of delinquent child support payments from noncustodial parents. Commissions associated with child support payments are charged against a separate general fund appropriation designated by the legislature in a prior legislative session.

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

CSRM Collection Services - 06554								
	Actual FY2014	Budgeted FY2015	Budgeted FY2016	Budgeted FY2017	2015 Bien	2017 Bien	Biennial Change	% Change
Operating Revenues:								
Fee revenue								
Charges for Services (non-DOR)	\$150,878	\$198,487	\$199,955	\$200,025	\$349,365	\$399,980	\$50,615	\$0
Charges for Services (DOR)	<u>50,214</u>	<u>2,605</u>	<u>1,137</u>	<u>1,067</u>	<u>52,819</u>	<u>2,204</u>	<u>(50,615)</u>	-95.8%
Total Fee/Operating Revenue	201,092	201,092	201,092	201,092	402,184	402,184	0	0.0%
Operating Expenses:								
Personal Services	142,826	160,000	160,000	160,000	302,826	320,000	17,174	5.7%
Other Post Employment Expense	11,118	11,118	11,118	11,118	22,236	22,236	0	0.0%
Other Operating Expenses	<u>22,041</u>	<u>22,041</u>	<u>22,041</u>	<u>22,041</u>	<u>44,082</u>	<u>44,082</u>	<u>0</u>	<u>0.0%</u>
Total Operating Expenses	\$175,985	\$193,159	\$193,159	\$193,159	\$369,144	\$386,318	\$17,174	4.7%
Operating Income (Loss)	\$25,107	\$7,933	\$7,933	\$7,933	\$33,040	\$15,866	(\$17,174)	

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	138.45	138.45	133.45	133.45	138.45	133.45	(5.00)	(3.61)%
Personal Services	8,655,954	8,807,655	9,219,399	9,255,491	17,463,609	18,474,890	1,011,281	5.79 %
Operating Expenses	1,508,704	1,472,324	1,713,944	1,484,634	2,981,028	3,198,578	217,550	7.30 %
Equipment & Intangible Assets	0	0	0	3,298	0	3,298	3,298	0.00 %
Total Costs	\$10,164,658	\$10,279,979	\$10,933,343	\$10,743,423	\$20,444,637	\$21,676,766	\$1,232,129	6.03 %
General Fund	9,254,776	9,339,739	9,832,442	9,852,522	18,594,515	19,684,964	1,090,449	5.86 %
State/Other Special Rev. Funds	660,828	672,145	860,475	650,475	1,332,973	1,510,950	177,977	13.35 %
Federal Spec. Rev. Funds	249,054	268,095	240,426	240,426	517,149	480,852	(36,297)	(7.02)%
Total Funds	\$10,164,658	\$10,279,979	\$10,933,343	\$10,743,423	\$20,444,637	\$21,676,766	\$1,232,129	6.03 %

Program Description

The Business and Income Taxes Division is responsible for the administration of and collection of over \$1.5 billion annually for 38 Montana taxes and fees including but not limited to corporation license, natural resource, withholding, individual income, lodging facilities, cigarette and tobacco products, contractor's gross receipts, and telecommunications taxes. The division also values all industrial and centrally assessed property in the state which generates \$250 million in state and local revenue annually. Some of the duties associated with administration include: tax type expertise, taxpayer education, auditing, identification of non-filers, delinquent account collection, and overall tax compliance. The Accounts Receivable and Collections Bureau, the Business Tax and Valuation Bureau, and the Income and Withholding Tax Bureau handle these functions for the department.

Program Highlights

Business and Income Taxes Division Major Budget Highlights
<ul style="list-style-type: none"> • The proposed increase in the Business and Income Taxes Division budget is due to: <ul style="list-style-type: none"> ◦ Personal services present law adjustments ◦ Fixed costs

Program Discussion -

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Revenue Business and Income Taxes Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Difference Between Exec. and Leg.	Total Executive Implementation
Personal Services	\$8,807,655		\$0 \$8,807,655
Operating Expenses	<u>1,472,324</u>		<u>0</u> <u>1,472,324</u>
Total Costs	<u>\$10,279,979</u>		<u>\$0</u> <u>\$10,279,979</u>

Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures of \$10,164,658 are \$115,321 below the FY 2015 Legislative appropriation of \$10,279,979.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Revenue, 07-Business and Income Taxes Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	19,684,964	0	0	19,684,964	90.77 %	
02025 Unclaimed Property	613,804	0	0	613,804	40.33 %	
02110 Accommodation Tax Admin	288,578	0	0	288,578	18.96 %	
02260 Cigarette Tax Revenue	0	0	0	0	0.00 %	
02293 Film Production Credit	0	0	11,000	11,000	0.72 %	
02790 6901-Statewide Tobacco Sttlmnt	398,568	0	0	398,568	26.19 %	
02259 Cigarette Tax Administration	210,000	0	0	210,000	13.80 %	
State Special Total	\$1,510,950	\$0	\$11,000	\$1,521,950	7.02 %	
03928 Royalty Audit - NRCT	480,852	0	0	480,852	100.00 %	
Federal Special Total	\$480,852	\$0	\$0	\$480,852	2.22 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$21,676,766	\$0	\$11,000	\$21,687,766		

The Business and Income Taxes Division is primarily funded with general fund, with some state special revenue and federal special revenue. State special revenue comes from the unclaimed property fund for program support and tobacco settlement funds that supports tobacco tax compliance activities. Other state special revenue includes the accommodations tax, funds expenses for administering the tax, and cigarette tax administration. Federal special revenue comes from reimbursements for performing mineral royalty audits.

Additionally, the Business and Income Taxes Division administers a statutory appropriation for the administrative costs of the film production credit. In the 2017 biennium, the statutory appropriation is estimated to provide \$11,000 toward the administrative costs.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	9,339,739	9,339,739	18,679,478	94.89 %	10,279,979	10,279,979	20,559,958	94.85 %
PL Adjustments	551,428	546,283	1,097,711	5.58 %	502,089	496,944	999,033	4.61 %
New Proposals	(58,725)	(33,500)	(92,225)	(0.47)%	151,275	(33,500)	117,775	0.54 %
Total Budget	\$9,832,442	\$9,852,522	\$19,684,964		\$10,933,343	\$10,743,423	\$21,676,766	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	452,205	(17,771)	(22,690)	411,744	0.00	452,832	(17,963)	(22,936)	411,933
DP 99 - LEG. Present Law	0.00	99,223	(3,899)	(4,979)	90,345	0.00	93,451	(3,707)	(4,733)	85,011
Grand Total All Present Law Adjustments	0.00	\$551,428	(\$21,670)	(\$27,669)	\$502,089	0.00	\$546,283	(\$21,670)	(\$27,669)	\$496,944

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
CP 98 PSPL Item	FTE	FY 2016			
		General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	133.45	\$64,857	-	-	\$64,857
Executive Implementation of 2015 Pay Increase		155,649	-	-	155,649
Fully Fund 2015 Legislatively Authorized FTE		160,103	5,573	4,167	169,843
Other		71,596	(23,344)	(26,857)	21,395
Personal Services Present Law Adjustments	133.45	\$452,205	(\$17,771)	(\$22,690)	\$411,744
CP 98 PSPL Item	FTE	FY 2017			
		General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	133.45	\$64,857	-	-	\$64,857
Executive Implementation of 2015 Pay Increase		155,649	-	-	155,649
Fully Fund 2015 Legislatively Authorized FTE		160,103	5,573	4,167	169,843
Other		72,223	(23,536)	(27,103)	21,584
Personal Services Present Law Adjustments	133.45	\$452,832	(\$17,963)	(\$22,936)	\$411,933

The executive proposes to increase support to personal services adjustments by 4.7% in FY 2016 and 4.7% in FY 2017 in comparison to the FY 2015 legislative budget. As shown in the table, health insurance, the HB 13 pay increases, and fully funding legislatively authorized FTE account for approximately 95% of the adjustments. The remaining adjustments are due primarily to longevity and reclassifications of positions.

DP 99 - LEG. Present Law -

The LGPL adjustments are primarily due to increases in fixed costs.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 700701 - Funding Switch Of Cigarette Tax Stamps - Biennial	0.00	(79,300)	210,000	0	130,700	0.00	(79,300)	0	0	(79,300)
DP 700702 - Funding for Apprenticeship Tax Credit	0.00	20,575	0	0	20,575	0.00	45,800	0	0	45,800
Total	0.00	(\$58,725)	\$210,000	\$0	\$151,275	0.00	(\$33,500)	\$0	\$0	(\$33,500)

DP 700702 - Funding for Apprenticeship Tax Credit -

This request is for general fund authority in the Business and Income Taxes Division to administer the Apprenticeship Tax Credit if legislation passes. Changes to tax returns would be made as part of the annual update process with no additional costs. Authority for one-time costs to add the credit to the department's data processing systems in FY 2016 would be \$20,575. Authority for an additional 0.50 FTE and related expenditures in FY 2017 would be \$45,800. This change package is contingent on passage and approval of LC 628.

DP 700701 - Funding Switch Of Cigarette Tax Stamps - Biennial -

Montana law requires all cigarettes sold in the state to be taxed. Like all states, Montana enforces this taxation through affixing a tax stamp to each pack of cigarettes sold. The tax stamp informs customers, retailers, and the department that the appropriate amount of tax was collected on the cigarettes sold. The Department of Revenue, Business and Income Tax Division requests a funding switch from the general fund in the 2017 biennium to purchase cigarette tax stamps. The vendor has indicated an increase during the 2017 biennium.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	306.35	306.35	293.35	293.35	306.35	293.35	(13.00)	(4.24)%
Personal Services	15,786,504	17,575,011	17,564,264	17,570,474	33,361,515	35,134,738	1,773,223	5.32 %
Operating Expenses	3,758,168	4,137,234	3,718,782	3,733,840	7,895,402	7,452,622	(442,780)	(5.61)%
Debt Service	6,385	3,627	6,385	6,385	10,012	12,770	2,758	27.55 %
Total Costs	\$19,551,057	\$21,715,872	\$21,289,431	\$21,310,699	\$41,266,929	\$42,600,130	\$1,333,201	3.23 %
General Fund	19,512,315	21,695,135	21,268,695	21,289,963	41,207,450	42,558,658	1,351,208	3.28 %
State/Other Special Rev. Funds	38,742	20,737	20,736	20,736	59,479	41,472	(18,007)	(30.27)%
Total Funds	\$19,551,057	\$21,715,872	\$21,289,431	\$21,310,699	\$41,266,929	\$42,600,130	\$1,333,201	3.23 %

Program Description

The Property Assessment Division administers the state’s real and personal property tax laws while emphasizing customer service. It accomplishes this through uniform and equitable valuation and assessment regulations for residential, commercial, agricultural, forestland, and business equipment property. The division discovers, appraises, and assesses real and personal property for the local governing bodies that include about 1,200 levy districts and another 1,200 individual taxing jurisdictions. The division provides tax billing information to the local county treasurers for their generation of more than a half million tax bills and \$1 billion in taxes for all classes of property. The division consists of the Central Office Bureau and four regions. The Central Office Bureau provides technical and administrative support to the department’s local office staff in each of the four regions. The department’s local office staff provides the property taxpayers with information and assistance.

Program Highlights

Property Assessment Division Major Budget Highlights
<ul style="list-style-type: none"> • Personal services would increase due to statewide present law adjustments • Operating expenses would decrease due to fixed costs and a reduction in hail insurance authority

Program Discussion -

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Revenue Property Assessment Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Difference Between Exec. and Leg.	Total Executive Implementation
Personal Services	\$16,911,295	\$663,716	\$17,575,011
Operating Expenses	3,849,351	287,883	4,137,234
Debt Service	<u>0</u>	<u>3,627</u>	<u>3,627</u>
Total Costs	<u>\$20,760,646</u>	<u>\$955,226</u>	<u>\$21,715,872</u>

The difference between the FY 2015 Legislative Appropriation and the Total Executive Implementation is due to the inclusion of two restricted one-time-only biennial appropriations for property reappraisal. These appropriations total \$987,660. A decrease of \$32,434 is due to the transfer of the hail insurance authority from the Department of Revenue to the Department of Agriculture.

Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures of \$19,551,057 are \$1,209,589 below the FY 2015 Legislative appropriation of \$20,760,646.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Revenue, 08-Property Assessment Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	42,558,658	0	0	42,558,658	99.90 %	
02088 SSR ADMINISTRATIVE FUNDS	41,472	0	0	41,472	100.00 %	
02320 Property Value. Improv. Fund	0	0	0	0	0.00 %	
State Special Total	\$41,472	\$0	\$0	\$41,472	0.10 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$42,600,130	\$0	\$0	\$42,600,130		

Funding for the Property Assessment Division is almost entirely from the general fund. State special revenue is for the administration of the livestock per capita fee.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	20,707,475	20,707,475	41,414,950	97.31 %	20,760,646	20,760,646	41,521,292	97.47 %
PL Adjustments	561,220	582,488	1,143,708	2.69 %	528,785	550,053	1,078,838	2.53 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$21,268,695	\$21,289,963	\$42,558,658		\$21,289,431	\$21,310,699	\$42,600,130	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	693,021	(40,052)	0	652,969	0.00	698,049	(38,870)	0	659,179
DP 99 - LEG. Present Law	0.00	(131,801)	7,617	0	(124,184)	0.00	(115,561)	6,435	0	(109,126)
Grand Total All Present Law Adjustments	0.00	\$561,220	(\$32,435)	\$0	\$528,785	0.00	\$582,488	(\$32,435)	\$0	\$550,053

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	293.35	\$142,568	-	-	\$142,568
Executive Implementation of 2015 Pay Increase		287,994	-	-	287,994
Fully Fund 2015 Legislatively Authorized FTE		325,483	-	-	325,483
Other		(63,024)	(40,052)	-	(103,076)
Personal Services Present Law Adjustments	293.35	\$693,021	(\$40,052)	\$0	\$652,969
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	293.35	\$142,568	-	-	\$142,568
Executive Implementation of 2015 Pay Increase		287,994	-	-	287,994
Fully Fund 2015 Legislatively Authorized FTE		325,483	-	-	325,483
Other		(57,996)	(38,870)	-	(96,866)
Personal Services Present Law Adjustments	293.35	\$698,049	(\$38,870)	\$0	\$659,179

The executive proposes to increase support to personal services adjustments by 3.9% in FY 2016 and 3.9% in FY 2017 in comparison to the FY 2015 legislative budget. As shown in the table, the increase is entirely due to the three main items, namely health insurance, the HB 13 pay increases, and fully funding legislatively authorized FTE.

DP 99 - LEG. Present Law -

The LGPL adjustments are primarily due to decreases in fixed costs.

5% Base Budget Reduction Form
[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 5801 Department of Revenue

		Minimum Requirement General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 2,496,065	\$ 56,003
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Prorated Reduction - Director's Office	\$ 667,828	\$ 5,631
2	Prorated Reduction - Citizen Services and Resource Management	\$ 389,883	\$ 15,394
3	Prorated Reduction - Business and Income Taxes	\$ 462,739	\$ 33,041
4	Prorated Reduction - Property Assessment	\$ 975,616	\$ 1,937
5		\$ -	\$ -
6		\$ -	\$ -
7		\$ -	\$ -
8		\$ -	\$ -
9		\$ -	\$ -
10		\$ -	\$ -
11		\$ -	\$ -
TOTAL SAVINGS		\$ 2,496,066	\$ 56,003
DIFFERENCE		\$ (1)	\$ -

Director's Office

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

2.73 FTE Boiler Plate Reduction (\$293,223 personal services reduction) and an additional \$380,236 reduction in operating funds. These budget reductions in the Director's Office will decrease state revenues available to fund government services by several times the amount of the expenditure cuts. The personal services reductions would likely be applied in the Information Technology unit, our Tax Policy and Research unit, our Legal Services Office, and our Administrative Support unit. As a central services provider, a decrease will occur in the level of services provided to the entire department that will then have a decreased service level impact upon Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. An operating budget impact of this magnitude could only be applied to maintenance contracts that support the various IT software systems that are the backbone of tax administration. This will have a likely impact upon citizens by slowing income tax processing that will slow tax refunds, put IT software systems at higher risk of security breaches, and diminish the overall efficiency of tax administration to the public; including online/electronic tax filing opportunities.

#2 THE SAVINGS THAT ARE EXPECTED:

\$673,459

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue Loss up to \$3.0 million

Eliminating a Tax Policy Analyst in the Tax Policy Research unit (TPR) will result in slower response to information requests, including both during the legislative session as well as during the interim. This will also have an impact on meeting the deadlines for fiscal note preparation during each legislative session. All of the above will have an impact on those who seek and receive information from TPR including the public, legislators, other state agencies, OBPP, LFD, the Governor's Office and the Director's Office. Eliminating a Sr. Tax Counsel (Attorney) position will have a direct impact on the revenue collections that come through the DOR compliance program. According to DOR research and experience, the impact to revenue collections for those staff involved in compliance work will likely be in the range of 5% - 8% in terms of less revenue collected. Given that attorney's are typically involved in the largest dollar compliance work, it is likely that the impact of this reduction will be closer to the 8% level. This reduction may also slow down DOR capacity in litigation matters that may affect the timelines involved in major litigation cases that will impact the taxpayers involved in those litigation matters. Eliminating a Computer Systems Analyst position in the Network Support unit will increase delays to DOR computer upgrades, both software and hardware, which will have a negative effect on the efficiency of desktop, laptop and mobile computer devices for DOR staff. This will have a negative impact on staff productivity, including on tax compliance work. Eliminating a .50 Executive Assistant will result in slower response time to information requests, taxpayer letters and other administrative responsibilities in the office of the director.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work of legal matters; and slow down efforts to modify existing business processes to meet the demands of expanding IT services and providing electronic services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Citizen Services and Resource Management

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

3 FTE Boiler plate reduction in personal services of \$194,580 and a combined reduction in additional personal services and operating expenses of \$210,697.

#2 THE SAVINGS THAT ARE EXPECTED:

\$405,277

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue loss □ \$1,500,000

Eliminating an Accountant in the Financial and Asset Management Bureau would delay the statutory mandated distribution of tax revenues to state funds, local governments and tribal governments; would impact the timeliness of reconciling activity in Gentax with the state's financial records in SABHRS to ensure the state's financial picture is properly stated; delay the monthly analysis of division expenditures and the corresponding projections of expenses against the granted appropriation authority; impact the payment of department expenses on a timely basis; and could impact the department meeting its obligations in closing the state's accounting records at fiscal year-end. Eliminating an E-Business Analyst within the Information Management Bureau would jeopardize development and support of electronic services currently offered by the department. The negative impact includes delays in capturing data used for tax compliance as well as reducing service to citizens including taxpayers and tax preparers and tax policy making entities. This will also have a negative impact on the department's goal to increase and improve electronic services. Eliminating a Collections Specialist in the Collections Bureau will result in a reduction of customer service and loss of revenue to the state. Collection Specialists work with taxpayers to resolve outstanding tax liabilities including responding to informal tax disputes, establishing payment plans, filing warrants for distraint with district courts which places liens on a taxpayer's property to secure the state's interest and issuing wage and bank levies in cases of forced collections. The loss of one Collection Specialist will result in reduced opportunity to resolve outstanding tax liabilities by an average loss of \$1.5 million annually. Reductions in services would likely be a combination of reduced FTE and operating expenses in the Citizen Services and Information Management Bureaus. This would impact services provided by the department's call center; timely processing of unclaimed property; business licensing coordination through the eStop program; and processing of tax returns and deposits of revenues collected. A reduction in the service levels provided would negatively impact tax compliance, burden taxpayers interacting with the department, delay income tax refund processing and ultimately slow the deposit and distribution of state, local and tribal government revenues.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work of legal matters; and slow down efforts to modify existing business processes to meet the demands of expanding IT services and providing electronic services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Business and Income Taxes Division

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The 5.00 FTE Boiler plate FTE reduction \$344,796 and \$150,984 operating reduction. Budget reductions in the Business and Income Taxes Division will decrease state and local revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts.

#2 THE SAVINGS THAT ARE EXPECTED:

\$495,780

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue Loss \$3,300,000

This budget reduction will have a negative impact upon the department's ability to collect revenue for the state's general fund and for local governments. Based on the past activity within the Business and Income Taxes Division, the lost revenue that would occur is estimated to be 6.6 times the value of the budget reduction or approximately a \$3.3 million revenue loss per year.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work of legal matters; and slow down efforts to modify existing business processes to meet the demands of expanding IT services and providing electronic services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Property Assessment

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

13.00 FTE Boiler Plate reduction \$668,539

Operating Expenses \$309,014

#2 THE SAVINGS THAT ARE EXPECTED:

\$977,553

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

The Property Assessment Division generates approximately \$950,000,000 in revenue annually for state, local governments, and schools. Almost \$200,000,000 in annual revenue comes into the state general fund. Not a single penny of this revenue gets collected until the Property Assessment Division completes certification of values; which includes picking up new construction, completing sales verifications, completing field reviews, processing business equipment values, completing property ownership and use changes, administering the property tax assistance programs and property tax exemption programs and calculating nearly 800,000 individual tax bills for the County Treasurers.

A reduction of this magnitude in the Property Assessment Division will have severe impacts on the division in the many business functions that it performs. For every \$1 invested in the Property Assessment Division \$50 is generated in revenue. A \$977,553 budget reduction for this division will reduce property tax revenue by at least 50 times that amount or approximately \$49,000,000. The state general fund receives approximately 20% of the total revenue generated; the maximum reduction in the state general fund would be almost \$10 million. Although through management and prioritizing the loss could be limited to about 30% of the \$10 million or approximately \$3,000,000. The property assessment division's 307 FTE provide the taxable valuations that result in the collect of the estimated \$950,000,000 in revenue annually, a reduction of 13 FTE reduce revenue by approximately \$40,000,000.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

The impacts of this reduction compromise the effectiveness of state property tax administration resulting in lost property tax revenue at both the state and local government level, loss of funding for schools, as well as, reducing the quality of valuations, and increasing the time and inconvenience spent by taxpayers and local governments on otherwise unnecessary reviews, appeals, and conflicts over their valuations.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

The Legislative Fiscal Division Presents an Agency Profile of:

The Department of Administration

Contact: Contact: Kris Wilkinson, Senior Fiscal Analyst

Rm. 131, State Capitol Building

Phone: (406) 444-2722

E-mail: kwilkinson@mt.gov

Updated August 2014

Agency Description

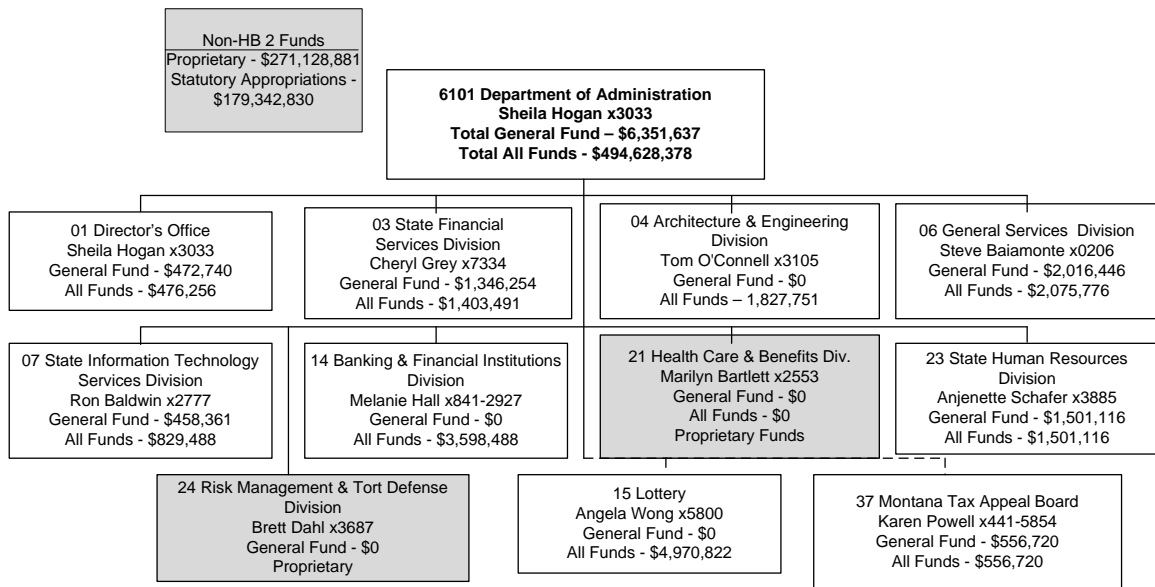
Definition of Terms

The Department of Administration provides services to state agencies, local governments, and Montana citizens in the following areas:

- Human resource management, workforce development, labor relations, and policy development
- Information systems service hosting, telecommunications, 9-1-1 program management, tax revenue distribution to Public Safety Answering Points (PSAPS), data processing, public safety radio communications, and continuity planning
- Statewide Information Technology (IT) policies and standards development
- State financial institution oversight and regulation
- Insurance procurement/administration and risk management services
- Property/casualty claims administration and tort litigation services
- Accounting, financial reporting, warrant writing, and policy development
- State treasury services
- Federal Social Security Section 218 program administration
- State bonded indebtedness administration
- Capitol complex building and grounds maintenance and security
- Procurement, surplus property administration and policy development
- Printing, mail, and messenger services
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- Long-Range Building Program
- State employee group benefits
- Workers' compensation management

The Board of Examiners, Burial Preservation Board, Information Technology Board, State Banking Board, State Board of County Printing, State Compensation Insurance Board (Montana State Fund), State Tax Appeal Board, Office of the State Public Defender, Public Employee Retirement Board, Teachers' Retirement Board, and the Montana State Lottery are attached to the department for administrative purposes only.

Below is an organizational chart of the agency including full time-equivalent (FTE) numbers, general fund appropriations, statutory appropriations, proprietary funds, and total funds.



How Services are Provided

The department's budget consists of 9 major programs and two administratively attached agencies with the following functions:

Director's Office – provides the overall supervision and coordination of agency programs. The office provides legal, IT management, financial, budgeting, accounting, human resource management, and payroll services for the department and some of its attached agencies. The Offices of Labor Relations, representing the Governor's Office in all matters relating to collective bargaining, and Continuity and Emergency Management providing oversight and management in case of a catastrophic event. (27.01 FTE all authority types composed of 4.5 FTE funded in HB 2 and 22.51 FTE funded with proprietary funds)

Governor-Elect – provides the Governor-elect and necessary staff with office space in the capitol complex, together with furnishings, supplies, equipment, and telephone service for the period between the general election and the inauguration. The program is funded only for one year every other biennium.

State Accounting – provides the statewide functions of the state treasury, payment processing, and accounting and financial reporting policies. Treasury functions include the performance of the central banking function for state agencies, reconciliation of state bank accounts, and oversight of bank account collateralization. The division manages the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS). It establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, prepares and negotiates the Statewide Cost Allocation Plan (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). The division also administers the warrant writer program, which provides check writing and automatic-deposit services for most agencies, along with the replacement, cancellation, and stale date processing for all agencies. The division provides technical assistance and training to local government accounting and financial personnel, and the audit review function for local governments. It administers the federal Social Security Section 218 program for the state and local governments. (48.00 FTE all authority types composed of 18.67 FTE funded in HB 2 and 29.33 FTE funded with proprietary funds)

How Services are Provided, cont.

Architecture and Engineering – manages remodeling and construction of state buildings. The division's functions include: planning new projects and remodeling projects; advertising, bidding and awarding construction contracts; administering contracts with architects 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.

General Services – provides facilities and grounds maintenance and security for state property in the state capitol area. The division also manages state procurement, printing and the photocopy pool, mail distribution, surplus property, central stores, statewide leasing, the statewide fueling network, energy procurement, and the procurement card program.

State Information Technology Services – manages the central computing and telecommunications services for state government. The division provides central mainframe and mid-tier computers, data center, and hosting services; manages the statewide data network SummitNet; provides local and long-distance telephone network services; provides the statewide video network services; coordinates electronic government services; and manages the state's Internet presence at mt.gov. In addition, the division manages the Public Safety Services Office including the state's 911 and public safety communications programs; develops the statewide IT strategic plan and coordinates agency IT strategic plans; develops and oversees state IT standards and policies; and reviews and approves IT equipment and software acquisitions, including an IT project management office.

Banking and Financial Institutions – licenses, charters, supervises, regulates, and examines a variety of financial institutions operating in Montana. These institutions include: state-chartered banks and trust companies; savings and loans and credit unions; consumer loan and sales finance companies; title loan companies; escrow companies; deferred deposit loan companies; and mortgage brokers, mortgage loan originators, mortgage lenders, and mortgage loan originators.

Health Care and Benefits—administers employee benefit plans that include health, life, dental, prescription drugs, long-term disability, long-term care insurance, vision insurance, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. The Workers' Compensation Management Program provides a central resource for agencies in working to enhance safety, loss prevention, and return to work programs, and, works with the workers' compensation insurer to coordinate workers' compensation coverage and policy management issues.

State Human Resources – provides state agencies with a variety of human resource management programs. These programs include: human resource rules, policies, and standards for the Executive Branch agencies; training and other professional development services to state agencies; the human resource portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS); and human resource information services, supplying payroll and other human resource information systems for all branches of state government.

Risk Management and Tort Defense – administers a comprehensive plan of property and casualty insurance protection on behalf of state agencies and universities. The division insures state agencies/universities against risk of loss from aircraft, airports, boilers and machinery, cyber information security, fidelity bond, fine art, Health Insurance Portability and Accountability Act (HIPAA), professional liability, property, surety bond, and vehicles. In addition, the division provides risk management training, on-site hazard inspections, consulting services, and claims administration. The division also investigates, evaluates, and resolves property/casualty claims, and coordinates the adjudication and settlement of tort claims involving personal injury/property damage.

Attached-to Agencies in the DOA budget:

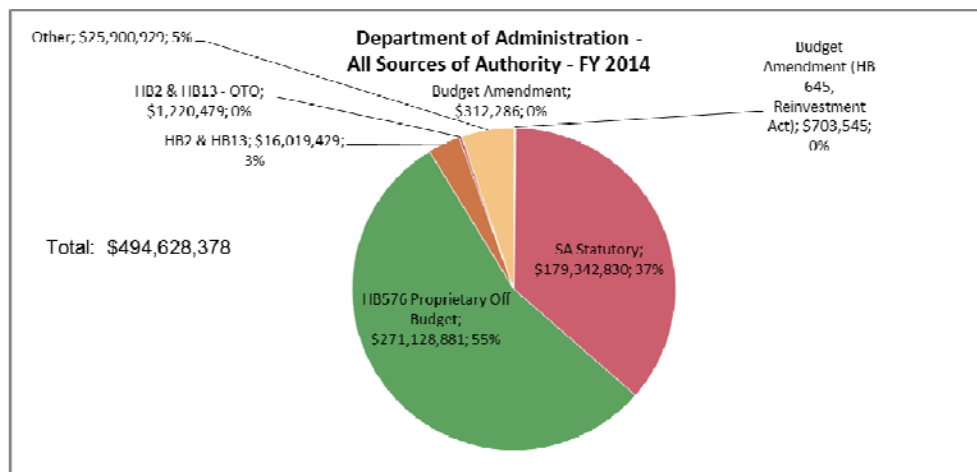
Montana State Lottery – designs, markets, and administers lottery games operating in Montana. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. The net revenue is deposited in the state general fund on a quarterly basis, after prizes, sales commissions, and operating expenses are taken out.

State Tax Appeal Board – provides a tax appeal system for all actions of the Department of Revenue. The Board hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, motor fuel taxes, vehicle taxes, and cabin site leases.

Sources of Spending Authority

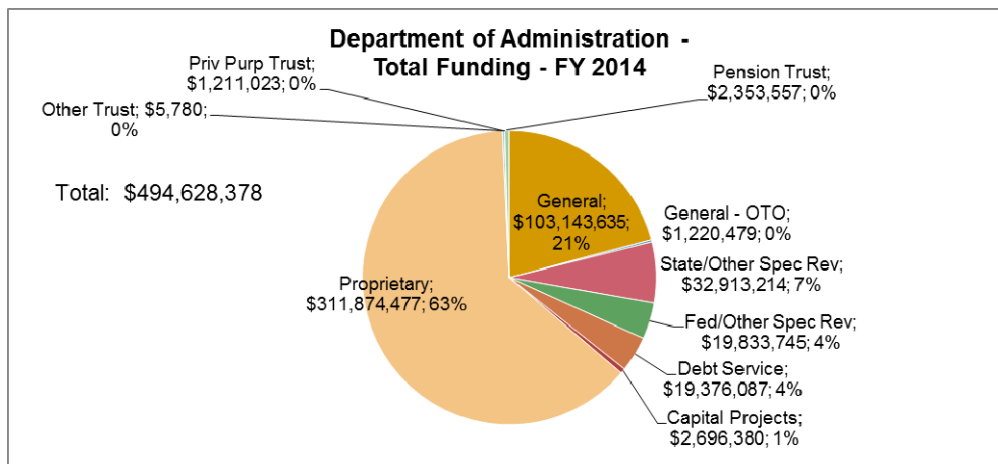
The chart below shows the sources of appropriation authority. For a more detailed description of accounting terminology, please refer to the definition of terms. A significant portion of the divisions within the agency are supported by proprietary funds, including the operations of the Director's Office, State Accounting Division, General Services Division, State Information Technology Division, Health Care and Benefits Division, State Human Resource Division, Risk Management and Tort Division and the Montana State Lottery. The funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and other games of chance by the Montana State Lottery; or from human service-related activities, such as group benefit premiums. Funding for common areas of the State Capitol, the Governor's Mansion, and the Montana Historical Society was provided from the general fund as one-time-only.

The majority of the funds are derived from proprietary rates including 1) Benefits and claims for state employee health insurance \$181.1 million; 2) State information technology services \$38.5 million; 3) General services for rent, grounds maintenance, mail, and printing; 4) Insurance and tort claims \$16.9 million.



Funding

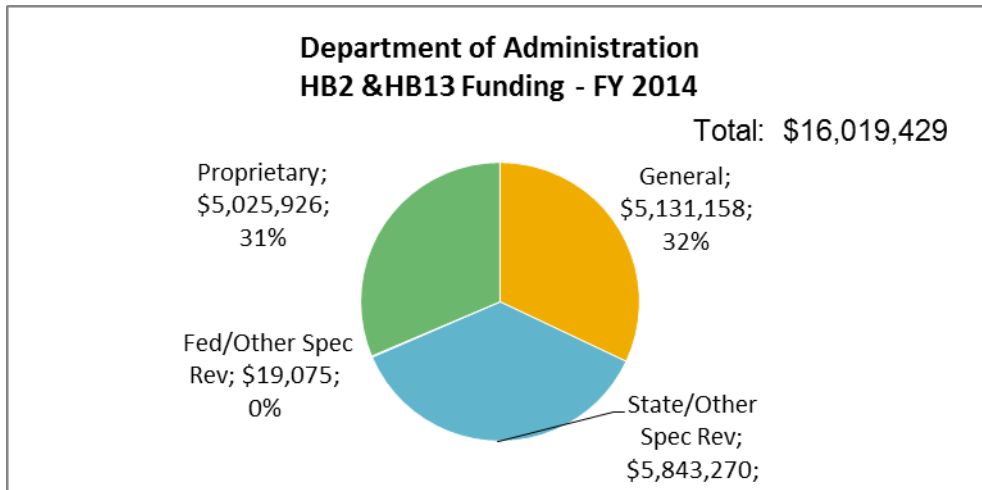
The following charts show agency's HB 2 funding authority by fund type and all sources of its funding authority.



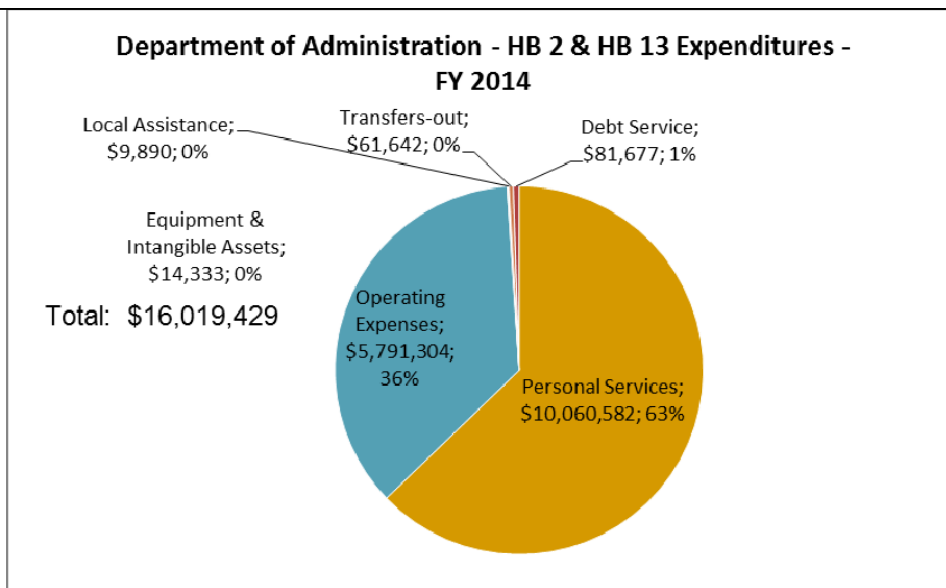
Expenditures

Of the total authority shown on the previous page, 5.8% was spent on personal services costs to support 528.47 FTE and 16.6% provided for operating expenses, 29.3% supported benefits and claims with the majority for state employee health claims, and 33.2% for transfers to pensions and the Old Fund providing for injured workers' claims for accidents occurring prior to July 1, 1990.

The chart below shows the funding was spent in FY 2014. This chart matches the agency base funding found in the 2017 Budget Analysis. Most proprietary funds are not appropriated and do not appear in this chart. However, lottery proprietary funds, because any unspent balance reverts to the general fund, are appropriated in HB 2.



The next chart explains how the HB2 & HB 13 authority is spent. Of the total authority 63% provides for personal services supporting 142.91 FTE and 36% is spent on operating costs. This chart matches the FY 2014 actual spending found in the agency budget comparison tables found in the 2017 Budget Analysis.



Funding, cont.

Proprietary funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and other games of chance by the Montana State Lottery; or from human service-related activities such as group benefit contributions.

Debt services funds provide for Long-Range Building Program bond payments, and capital project funds are used to support capital building projects and communications programs for interoperability radio projects. Nonexpendable trust funds are generated through a voluntary employee beneficiary association program, and private purpose trust funds are derived from private grants and funds.

How the 2015 Legislature Can Effect Change

In order to change expenditure levels and/or agency activity, the legislature must address one or more of the following basic elements that drive costs.

- Risk management practices to reduce exposure to insurance claims against the state
- Tort defense practices and policies for insurance claims against the state of Montana
- The state group health insurance usage and costs
- Effectiveness of information technology management, development, and usage
- Changes to financial institution and banking regulation laws, changing workload
- Changes to state employee human resource laws impacting workload
- Changes to state procurement laws impacting workload

Major Cost Drivers

Activity for this agency varies depending upon:

- Level of services and complexity of computer systems required by state agencies
- Number of employees within state government
- Changes to the accounting requirements issued by the Governmental Accounting Standards Board
- Size and complexity of the state's finances
- Number and associated level of damage for state buildings, vehicles, and airplanes
- Size of damage awards for legal settlements in which the state is found responsible
- Activity level of the Montana State Lottery
- Size and number of medical and dental claims for employees that are self-insured through the State Employee Group Health Plan
- Number of charter banks within Montana and level and complexity of concerns discovered through bank examinations
- Number of state buildings, level of maintenance, construction, and repair required on the various properties

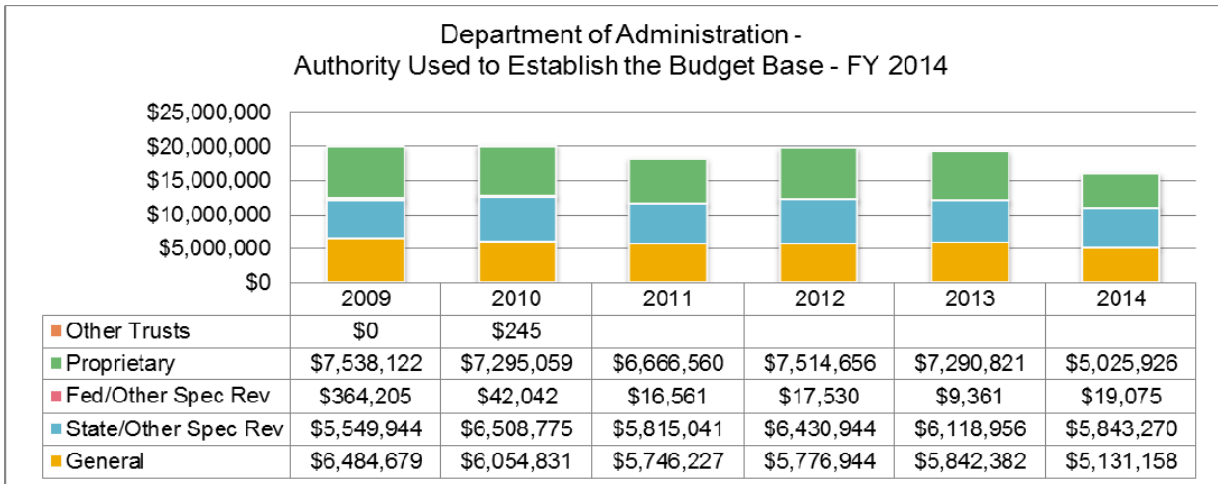
Major Cost Drivers, cont.

Division	Element	FY 2008	FY 2014	Significance of Data
State Financial Services Division	Total number of payments generated by states' computerized accounting system	2,223,956	2,573,362	Workload
	% of payments made using electronic means	44%	66%	Success of moving to electronic payments
	Total audit and financial reviews analyzed	510	506	Workload
Architecture and Engineering (A&E)	Number of active projects	204	207	*Workload
	Total capital projects budget	\$481,098,996	\$353,361,014	A&E financial responsibility for construction administration
General Services	Number of active building leases	380 leases	396 leases	Workload
	Number of buildings managed by GSD	46 buildings	48 buildings	Workload
State Information and Technology Services	Number of SummitNet video sites across the state	30	206	Availability reduces the need to travel to attend some meetings
	Total % of SMDS capacity filled	N/A	Helena Max Cabinets: 96 Space Used: 51.6% Miles City Max Cabinets: 96 Space Used: 44.2%	Workload
	Data Protection Services	N/A	600,000,000 unauthorized attempts per month	Prevention of data
Banking and Financial Institutions	Number of financial and lending entities supervised	1,477	1,848	Workload
	Total assets of state chartered banks and state credit unions	\$20.6 billion	\$27.9 billion	Asset growth in Montana
Montana State Lottery	Lottery transfers to the general fund	\$11.0 million	\$12.1 million	Sales of lottery tickets
State Human Resources	Number of paychecks processed	327,739	359,231	Workload
	Average number of state employees	12,605	13,817	Workload
	Number of participants in training	3,806	4,017	Workload
Health Care and Benefits (HCBD)	Number of employees, retirees, and their dependents covered by the State Employee Group Health Plan	32,740	32,435	Size of plan managed by HCBD
	Number of workers' compensation claims filed during the year	804	769	Success of improving worker safety
Risk Management and Tort Claims	Total insured values of state/university buildings and contents	\$3.9 billion	\$5.0 billion	Size of liability for the self-insurance plan for property insurance

* FY 2013 numbers FY 2014 not yet available

Funding/Expenditure History

The table below shows historical changes to the agency's base budget authority.



State special revenue spending fluctuates mainly due to 9-1-1 wireless provider fund balance distributions to wireless providers as required by statute

The major reasons for expenditure growth between 2009 and 2012 are:

- Enhanced supervision of residential mortgage services to protect Montanans from mortgage fraud. In addition, there was a significant increase in the dollar amount of banking and credit union assets supervised in the State due to growth in the agricultural, energy and commercial real estate sectors. This resulted in more complex examinations.
- Montana State Lottery – expenditure growth is due to growth in sales revenue. Since 2009, the Montana Lottery has increased revenue by \$8,765,559 and increased the transfer to the state general fund by \$2,946,489. This is a 19.99% growth in revenue between 2009 and 2012. Retailer commissions, prize expenses and vendor fees are all in direct relation to this increase in revenue.

Between FY 2013 and FY 2014 the legislature provided a statutory appropriation for lottery vendor fees. This reduced proprietary funding in HB 2 by \$2.98 million annually.

Major Legislative Changes in the Last Ten Years

It should be noted that legislative changes listed below do not include the long-range planning bills which are generally approved by the legislature each session and contains both approved building projects and information system projects.

Computer Systems

The 2003 Legislature required Process Oriented Integrated System (POINTS) computer system of the Department of Revenue be replaced and the data in the current system that is needed for the replacement system be corrected and transferred to the new system. (SB 271)

The 2005 Legislature appropriated \$2.1 million general fund as a supplemental appropriation for FY 2005 to make payments to the contractor developing the Process Oriented Integrated Tax System (POINTS) for the Department of Revenue for existing work to complete the phase of the project funded by SB 271 of the 2003 Legislature. (HB 745)

The 2009 Legislature, in the long-range planning section of HB 645, provided \$4.5 million in general fund for two information technology projects: 1) \$3.5 million for enterprise system center equipment; and 2) \$1.0 million for interoperability Montana. (HB 645 implemented the federal American Reinvestment and Recovery Act)

The 2011 Legislature created a budget database website for taxpayer right to know. The legislature did not add funding of \$395,407 general fund for the 2013 biennium to develop the Internet database and did not add 1.00 FTE to administer it. (HB 444)

Banking and Financial Regulation

The 2003 Legislature – created the Montana Mortgage Broker and Loan Originator Licensing Act to license residential mortgage brokers and loan originators.

The 2007 Legislature (regular session) created a structure for licensing, supervising, and regulating of business and industry development corporations and assigned the regulatory oversight to the department. (SB 321)

The 2009 Legislature revised mortgage lending laws by expanding the mortgage broker and loan originator act to include mortgage lenders. (SB 351)

The 2011 Legislature required the licensure and regulation of residential mortgage loan servicers. (HB 90)

Pension funds

The 2005 Legislature – established a statutory appropriation for the annual general fund contribution to the highway patrol officers' retirement pension trust fund. (HB 102)

The 2007 Legislature (regular session) increased the employer contribution rates for certain public employee retirement plans. (HB 131)

The 2013 Legislature increased employer and employee contribution rates for certain public employee retirements plans and provided for additional transfers from the general fund to improve the solvency of the trusts. (HB 377 and HB 454)

Buildings maintenance and grounds

The 2005 Legislature transferred responsibility for capitol complex grounds maintenance from the Department of Fish, Wildlife, and Parks to the Department of Administration. In addition to transferring the responsibility for the function, the bill transferred associated assets and staff. (HB 109)

The 2009 Legislature provides guidance on the selection of a location for establishment of a veteran's home in southwestern Montana. (HB 213)

Major Legislative Changes in the Last Ten Years, cont.

Purchasing

HB 745 appropriates \$2.1 million general fund as a supplemental appropriation for FY 2005 to make payments to the contractor developing the Process Oriented Integrated Tax System (POINTS) for the Department of Revenue for existing work to complete the phase of the project funded by SB 271 of the 2003 Legislature.

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

Emergency telephone services (911)

The 2007 Legislature (regular session) increased the 9-1-1 fee from \$0.50 per subscriber to \$1.00 per subscriber for use to establish the enhanced 9-1-1 emergency capacity for wireless telephone services. (HB 27)

The 2009 Legislature reduced and redirects the portion of 9-1-1 fees collected by the state and used to fund costs to administer the fees for basic, enhanced, and wireless enhanced 9-1-1 services. (HB 82)

The 2011 Legislature raised the age from 25 to 26 that dependents may remain covered under their parents state employee group health insurance. The change was made to comply with the federal Patient Protection and Affordable Care Act of 2010. (HB 53)

State Employee Group Health

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

Emergency telephone services (911)

The 2007 Legislature (regular session) increased the 9-1-1 fee from \$0.50 per subscriber to \$1.00 per subscriber for use to establish the enhanced 9-1-1 emergency capacity for wireless telephone services. (HB 27)

The 2009 Legislature reduced and redirects the portion of 9-1-1 fees collected by the state and used to fund costs to administer the fees for basic, enhanced, and wireless enhanced 9-1-1 services. (HB 82)

State Employee Group Health

The 2011 Legislature raised the age from 25 to 26 that dependents may remain covered under their parents state employee group health insurance. The change was made to comply with the federal Patient Protection and Affordable Care Act of 2010. (HB 53)

For further information, you may wish to contact the agency at:

Department of Administration

125 N Roberts St

P.O. Box 200101

Helena, MT 59620-0101

Phone: (406) 444-2032

Webpage: <http://doa.mt.gov>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	149.13	149.13	143.42	143.42	149.13	143.42	(5.71)	(3.83)%
Personal Services	10,060,576	11,012,224	11,967,031	11,949,173	21,072,800	23,916,204	2,843,404	13.49%
Operating Expenses	5,791,314	7,828,103	9,664,112	8,983,578	13,619,417	18,647,690	5,028,273	36.92%
Equipment & Intangible Assets	14,333	19,500	334,333	134,333	33,833	468,666	434,833	1,285.23%
Capital Outlay	0	0	0	0	0	0	0	0.00%
Local Assistance	9,890	32,228	26,640	26,640	42,118	53,280	11,162	26.50%
Transfers	61,642	0	25,900	27,250	61,642	53,150	(8,492)	(13.78)%
Debt Service	81,678	89,977	81,678	81,678	171,655	163,356	(8,299)	(4.83)%
Total Costs	\$16,019,433	\$18,982,032	\$22,099,694	\$21,202,652	\$35,001,465	\$43,302,346	\$8,300,881	23.72%
General Fund	5,131,158	6,540,899	8,319,123	8,173,245	11,672,057	16,492,368	4,820,311	41.30%
State/Other Special Rev. Funds	5,843,269	6,326,034	6,953,406	6,882,544	12,169,303	13,835,950	1,666,647	13.70%
Federal Spec. Rev. Funds	19,075	947,499	29,825	29,825	966,574	59,650	(906,924)	(93.83)%
Proprietary Funds	5,025,931	5,167,600	6,797,340	6,117,038	10,193,531	12,914,378	2,720,847	26.69%
Total Funds	\$16,019,433	\$18,982,032	\$22,099,694	\$21,202,652	\$35,001,465	\$43,302,346	\$8,300,881	23.72%

Mission Statement

Agency Mission: The Department of Administration's (DOA) mission is to serve as the backbone of state government by providing leading edge services to our customers and business partners.

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Department of Administration Major Budget Highlights
<ul style="list-style-type: none"> • About 2.4% of the agency's budget is appropriated in HB 2 • Executive proposes increases of 23.7% for HB 2 spending for DOA • The executive proposes increased premiums ranging from 20.4% for automobiles to 39.2% for property insurance for state agencies insured through the self insurance program • Fixed costs to state agencies for information technology services are proposed to increase \$11.3 million in the 2017 biennium
Legislative Action Issues
<ul style="list-style-type: none"> • Changes in budgeting methodology for personal services results in proprietary rate increases for state agencies • Rate increases for State Financial Services Division could be mitigated using available fund balance • Fund balance in the Central Stores proprietary fund available for transfer to the general fund • Fees not commensurate with cost of providing services to banking and financial institutions

Agency Personal Services

The personal services budget for the 2017 biennium for HB 2, proprietary, and statutory appropriations would increase \$12.9 million or 17.4% when compared to the appropriations for personal services provided for the 2015 biennium in HB 2, HB 13, and HB 454. In addition to annualization of HB 13 salary and benefit adjustments, increases for the 2017 biennium are due to:

- Restoration of the 2% reduction to general fund support of personal services
- Full funding for personal services costs supported through proprietary funds
- Change in employer pension costs
- Adjustments for longevity
- An overall vacancy saving rate of 12.5% in HB 2 positions compared to a budgeted 6.0% vacancy rate for all HB 2 positions. For those FTE supported with proprietary funds, there was an overall vacancy savings rate of 7.6% compared to a budgeted 4.0% vacancy rate
- Broadband pay adjustments, including reclassification of positions

LFD ISSUE

DOA Implementation of Boilerplate Language Regarding Personal Services Has Following Issues:

- Changes in Budgeting Methodology for Personal Services Results in Proprietary Rate Increases
 - Positions Eliminated in HB 2 Were Moved to Proprietary Programs

The 2013 Legislature included boilerplate language in HB 2 outlining its intent that requests for personal services funding in the 2017 biennium be only for the level of personal services contained in the bill for fiscal years 2014 and 2015. The 2013 Legislature included a reduction of 4% in each position funded in HB 2 in DOA for anticipated reductions of FTE in the 2015 biennium.

Changes in Budgeting Methodology for Personal Services Results in Proprietary Rate Increases

The 2013 Legislature included boilerplate language in HB 2 outlining its intent that requests for personal services funding in the 2017 biennium be only for the level of personal services contained in the bill for fiscal years 2014 and 2015. The 2013 Legislature included a reduction of 4% in each position funded in HB 2 in DOA for anticipated vacancy savings in the 2015 biennium. The legislature's intent was that the agencies eliminate a sufficient number of positions from the 2015 budget request to equal the amount of funding reduced through the 4% vacancy savings component of the budget.

The positions within DOA that are supported by proprietary rates also had vacancy savings included in the calculation of the costs for personal services that were used to establish the rates in the 2015 biennium. The figure below shows the total 4% vacancy savings amounts used to reduce personal services costs in the 2015 biennium by program for all appropriation types.

Department of Administration 2015 Biennium Vacancy Savings											
Program	General Fund		State Special Revenues		Federal Revenues		Proprietary		Program Total		
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	
Director's Office	\$2,156	\$1,946	\$0	\$0	\$293	\$501	\$60,389	\$60,544	\$62,838	\$62,991	
State Financial Services Division*	47,449	47,406	0	0	38	38	82,829	82,843	130,316	130,288	
Architecture and Engineering Program	0	0	55,519	55,534	0	0	0	0	55,519	55,534	
General Services Division	28,388	28,377	4,615	4,609	0	0	198,429	198,651	231,432	231,637	
State Information Technology Services Division*	13,190	13,311	28,371	28,409	0	0	604,801	605,472	646,362	647,192	
Banking and Finance Division	0	0	114,399	114,456	0	0	0	0	114,399	114,456	
Montana State Lottery	0	0	0	0	0	0	74,729	74,850	74,729	74,850	
Health Care and Benefits Division	0	0	0	0	0	0	190,639	191,420	190,639	191,420	
State Human Resources Division	57,533	57,541	0	0	0	0	80,410	80,721	137,943	138,262	
Risk Management and Tort Defense Division	0	0	0	0	0	0	50,980	51,011	50,980	51,011	
State Tax Appeal Board	19,274	19,304	0	0	0	0	0	0	19,274	19,304	
Total Vacancy Savings	\$167,990	\$167,885	\$202,904	\$203,008	\$331	\$539	\$1,343,206	\$1,345,511	\$1,714,431	\$1,716,944	

As shown, the majority of the 4% reduction assessed in the 2015 biennium was included in the personal services costs supported by proprietary rates, \$2.7 million over the biennium or 78.4% of the total. In the 2017 biennium the assessment of an equivalent reduction in FTE of 4% is not included as part of the calculation of the positions funded through proprietary rates, increasing the cost of personal services between biennia and increasing fixed costs in the programs within DOA. This increase is then passed on in higher fixed costs assessments on agencies, including those funded with general fund.

Legislative Option

Should the legislature wish to ensure budget neutrality and at the same time reduce fixed costs, it could consider eliminating funding supporting the number of FTE that is equal to the total amount of the 4% vacancy savings as was done for the HB 2 positions.

Positions Eliminated in HB 2 Were Moved to Proprietary Programs

In both the State Accounting Division and the State Information Technology Services Division some of the HB 2 funded positions that were eliminated as part of compliance with the boilerplate language included in HB 2 were moved to the programs funded through proprietary rates. Adding positions to the proprietary programs increases fixed costs to the entities receiving services.

The figure below shows, by program, the FTE and funding that were moved from HB 2 to the proprietary programs.

Department of Administration Positions Moved to the Proprietary Programs			
Program	FTE	Costs	Costs
		FY 2016	FY 2017
State Financial Services Division	1.00	77,712	77,739
State Information Technology Services Division	0.41	47,111	46,972
	1.41	124,823	124,711

Unlike changes in HB 2, proprietary program changes for internal service funds are adopted by approving or disapproving proprietary rates, which are driven by anticipated costs. The legislature does not appropriate or approve rates for enterprise funds.

The State Financial Services Division proposes to provide an additional accountant in the Local Government Audit and Reporting Program. Costs for this program are charged to local governments and recorded in the enterprise fund. The impact of this increase is an additional \$155,451 in costs over the biennium that would be charged to local governments.

The State Information Technology Services Division (SITSD) costs are charged to state agencies and recovered through various rates. Part of the increased costs for SITSD rates are additional FTE and the elimination of vacancy savings discussed above. Options for the legislature are discussed in the proprietary rate section of the program narrative for SITSD and the State Financial Services Division.

Recruitment and Retention

Within DOA two programs experienced recruitment and retention issues:

- State Financial Services Division - Accountants
- Banking and Financial Institutions Division- Bank examiners

According to agency staff, retaining accountants at all levels has been a challenge due to the competition for accountants both within state government and in private businesses. Keeping bank examiners has been an issue for several biennia. Vacancies result in retraining costs and higher workload for current staff. The federal government and private banking industry compensate trained examiners at a higher level than the Banking and Financial Institutions Division. To address these issues DOA provided:

- Career tracks
- Additional compensation programs

Retirement

DOA indicates that 14% of its total workforce will be eligible for full retirement in the 2017 biennium. In FY 2014, 6.6% of the workforce retired. The agency paid \$0.4 million in retirement and sick leave payouts that are not included as part of the 2017 biennium personal services funding. To address the potential impacts of pending retirements, organizational reviews have been conducted to identify impacts and to develop plans for the succession planning in light of the retirements. No additional funds were requested for potential retirement payouts in the 2017 biennium.

Agency Wide Decision Packages

DOA has a common present law increase in all programs within the agency. The Department of Administration's Director's Office uses a proprietary rate to allocate the costs of the Offices of Legal Services, Finance and Budget, and Human Resources. Additionally, the Director's Office provides IT management and project management services. The figure below shows the agency-wide impact of the present law proposal.

Department of Administration Allocate Department Indirect/Administrative Costs									
Program	FY 2016				FY 2017				2017
	General Fund	State Special	Proprietary	Total	General Fund	State Special	Proprietary	Total	Biennium Total
Director's Office	\$9,967	\$0	\$15,850	\$25,817	\$9,732	\$0	\$15,252	\$24,984	\$50,801
State Financial Services Division	2,212	0	8,772	10,984	1,287	0	5,723	7,010	17,994
Architecture and Engineering Division	0	(5,306)	0	(5,306)	0	(6,563)	0	(6,563)	(11,869)
General Services Division	6,608	2,768	291,685	301,061	6,060	2,620	282,552	291,232	592,293
State Information Technology Division	8,573	7,269	26,620	42,462	8,258	7,023	77	15,358	57,820
Banking and Finance Division	0	13,876	0	13,876	0	11,400	0	11,400	25,276
Montana State Lottery	0	0	11,587	11,587	0	0	8,783	8,783	20,370
Health Care and Benefits Division	0	0	(22,099)	(22,099)	0	0	(24,225)	(24,225)	(46,324)
State Human Resources Division	83,473	0	363	83,836	80,230	0	144	80,374	164,210
Risk Management and Tort Claims Division	0	0	16,484	16,484	0	0	10,371	10,371	26,855
State Tax Appeal Board	1,734	0	0	1,734	1,351	0	0	1,351	3,085
Total	\$112,567	\$18,607	\$349,262	\$480,436	\$106,918	\$14,480	\$298,677	\$420,075	\$900,511

As shown above, the proposal provides for \$0.9 million in increased costs in the Director's Office by increases in general fund, state special, and proprietary funds in the other divisions within the agency. Over half of the increase is included for the General Services Division proprietary programs. The increases for the Director's Office will thus be passed on to other state agencies through increased proprietary rates.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix.

Reorganization

DOA reorganized a number of programs and offices in FY 2014, including moving:

- Office of Labor Relations, 3.5 FTE, and \$362,058 in general fund in FY 2014 and \$377,765 in FY 2015 from the State Human Resources Division to the Director's Office
- Business Continuity and Emergency Program, 3.0 FTE, and \$467,866 in proprietary funds in FY 2014 and \$471,114 in FY 2015 from the State Information Technology Division (SITSD) to the Director's Office. In addition, 1.0 FTE and \$84,270 in proprietary funds in FY 2014 and \$82,367 in FY 2015 were transferred from the General Services Division
- State Accounting, Budgeting, and Human Resources Program (SABHRS), 2.0 FTE moved from SITSD to the State Financial Services Division

In addition, DOA proposes to transfer 6.50 FTE and \$868,357 in the 2017 biennium to the Director's Office from General Services and State Human Resources Divisions as part of its budget submission.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the agency budget comparison table to the FY 2015 legislative appropriations used for purposes of the base budget, by program.

FY 2015 Appropriation Transactions - Department of Administration							
Program	Legislative Approps	Legislative App OTO	Direct Transfers	Operating Plan	Program Transfers	Reorgs	Total Executive Implementation
01 DIR OFFICE	\$90,960				\$20,352	\$377,765	\$489,077
Pers Svcs	62,443				19,852	327,265	409,560
Op Exp	12,053				500	50,500	63,053
Local Assist	16,464						16,464
03 FINANCIAL SVCS	1,510,039				-		1,510,039
Pers Svcs	1,260,306				(100)		1,260,206
Op Exp	249,733				100		249,833
04 ARCH & ENG DIV	1,968,711						1,968,711
Pers Svcs	1,438,836						1,438,836
Op Exp	529,875						529,875
06 GEN SVCS DIV.	889,083	\$1,173,196	\$27,000				2,089,279
Pers Svcs	725,163						725,163
Op Exp	163,920	1,173,196	27,000				1,364,116
07 IT SERV DIVISION	1,809,642				-		1,809,642
Pers Svcs	658,797				-		658,797
Op Exp	1,150,845				-		1,150,845
14 BANK & FNCL DIV	3,886,988						3,886,988
Pers Svcs	2,870,477						2,870,477
Op Exp	1,016,511						1,016,511
15 MT ST LOTTERY	5,112,576						5,112,576
Pers Svcs	2,039,103						2,039,103
Op Exp	2,963,996						2,963,996
Equip/As	19,500						19,500
Dbt Svc	89,977						89,977
23 HR DIVISION	1,919,476				(20,352)	(377,765)	1,521,359
Pers Svcs	1,465,304				(19,852)	(327,265)	1,118,187
Op Exp	454,172				(500)	(50,500)	403,172
37 TAX APPEAL BD	594,361						594,361
Pers Svcs	491,795						491,795
Op Exp	86,802						86,802
Loc Assist	15,764						15,764
Agency Total	\$17,781,836	1,173,196	\$27,000		-	-	\$18,982,032

In FY 2014 the agency reorganized moving the Office of Labor Relations out of the State Human Resource Division (SHRD) into the Director's Office. The reorganization moved 3.00 FTE, \$327,265 in personal services and \$50,500 in operating expenses. The agency also transferred an additional 0.46 FTE from SHRD to the Director's Office.

FY 2014 Actual Expenditures

In FY 2014 the Department of Administration expended \$641.6 million, of which \$16.0 million or 2.4% was as appropriated in HB 2 as shown on the agency budget comparison. The figure on the following page shows the total expenditures from all funding sources, including statutory appropriations and non-budgeted proprietary funds, in FY 2014 for the agency.

Department of Administration Overall Expenditures and Funding		
Budget Item	FY 2014	% of Total
Expenditures		
Personal Services	\$36,956,651	5.76%
Operating Expenses	106,490,713	16.60%
Equipment	389,159	0.06%
Capital Outlay	1,320,853	0.21%
Local Assistance	74,025,564	11.54%
Grants	14,836,778	2.31%
Benefits and Claims	187,946,841	29.29%
Transfers Out	213,314,282	33.24%
Debt Service	<u>6,371,282</u>	<u>0.99%</u>
Total Expenditures	<u>\$641,652,122</u>	<u>100.00%</u>
Funding		
General Fund	\$234,289,579	36.51%
State Special Revenue	34,699,062	5.41%
Federal Special Revenue	19,938,466	3.11%
Debt Service	6,569,710	1.02%
Capital Projects Funds	10,031,380	1.56%
Proprietary Fund		
Internal Service	271,082,478	42.25%
Enterprise	61,471,087	9.58%
Private Funds	1,216,803	0.19%
Trust Funds	<u>2,353,557</u>	<u>0.37%</u>
Total Funding	<u>\$641,652,122</u>	<u>100.00%</u>

As shown almost 17% of the expenditures in FY 2014 were for operating expenses, the majority of which are provided for by three appropriation types:

- Statutory – 34.9%
- Proprietary funds – 58.7%
- HB 2 – 6.4%

DOA provides for a number of centralized functions for state agencies, which are funded through internal service rates, as well as functions that are funded through enterprise revenues such as the lottery. Operating expenses for these types of services include:

- Insurance and bond payments made by the state's self-insurance
- Legal costs for defending tort claims
- IT consulting services associated with maintaining the state's computer systems
- Data circuits and other communication costs for the states' telephone and computer networks
- Payments to lottery vendors, commissions to lottery retailers, and lottery prize awards

Local assistance includes payments to counties for statutorily appropriated funds, including:

- Local government employee pensions
- School district employee pensions
- Supplemental contributions to teachers' retirement
- Mineral fees distributed to counties from which the mineral were produced

- Taylor Grazing Act funds whereby 50% of the receipts from federal grazing permits and leases on section 15 public lands are returned to the state. By statute these funds are then apportioned to the counties where the leases are located
- Forest reserve funds also distributed to counties where federal forest lands are located

Benefit and claims payments include two categories:

- Payments from state sources of \$173.6 million for medical, dental, and other costs associated with Employee Group Health plan
- Insurance payments of \$14.3 million made by the Risk Management and Tort Defense Division

The majority of the transfers out are supported by general fund and include:

- \$101.5 million to long-range building and IT project funds
- \$35.7 million to the public employee retirement system
- \$42.9 million to local government and school district retirements
- \$16.3 million for debt services
- \$8.6 million transferred to the Montana State Fund for Old Fund claims costs

In addition in FY 2014 the Montana Lottery transferred \$12.1 million of profits to the general fund.

HB 2 Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

As discussed above, only 2.4% of the FY 2014 actual expenditures for DOA were appropriated in HB 2. FY 2014 expenditures were \$1.8 million below FY 2015 legislative base budget. Primary reasons for the difference are:

- Personal services were about \$0.9 million below estimated costs. Lower spending for personal services was mostly due to vacant positions. HB 2 positions had a vacancy rate of 12.5% in FY 2014 compared to a budgeted rate of 6%.
- Operating expenses were about \$2.0 million below budgeted costs. The primary reason for the difference is due lower spending for the federal FirstNet planning grant. The federal grant supports the planning process for a specific frequency for emergency first responders. The program was budgeted at \$0.9 million for FY 2014, actual expenditures were \$13,400. Usage of information technology and professional consulting services lower than anticipated in the budget for the Banking and Finance Division and less advertising for the Lottery Division are part of the reason FY 2014 operating expenses were lower in than budgeted in FY 2015.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department of Administration Funding by Source of Authority 2017 Biennium Budget - Department of Administration					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	16,492,368	0	192,146,469	208,638,837	19.88 %
State Special Total	13,835,950	0	44,341,410	58,177,360	5.54 %
Federal Special Total	59,650	0	37,558,580	37,618,230	3.58 %
Proprietary Total	12,914,378	655,942,275	75,550,755	744,407,408	70.92 %
Other Total	0	0	782,452	782,452	0.07 %
Total All Funds	\$43,302,346	\$655,942,275	\$350,379,666	\$1,049,624,287	
Percent - Total All Sources	4.13 %	62.49 %	33.38 %		

95.9% of the overall funding proposed for Department of Administration is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as a statutory appropriation.

Within HB 2 general fund supports the Governor Elect Program, State Human Resources Division, and the State Tax Appeal Board. In addition, general fund supports the following programs and functions within various agency divisions including:

- Office of Labor Relations, the Board of County Printing, and the Burial Preservation Board within the Director's Office
- Accounting Bureau, the Social Security Administrator, the Treasury Unit, and the Local Government Services Bureau within the State Financial Services Division
- Procurement Bureau and facilities management functions within the General Services Division
- Public safety services within the State Information Technology Division

State special revenues include:

- Assessments, application fees, and examination fees paid by regulated financial institutions
- Fees imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services that support 911 services throughout Montana
- Funds transferred from the long-range building capital projects fund for administrative expenses in support of the state Long-Range Building Program

Proprietary funds in HB 2 are appropriated to the Montana State Lottery Division (lottery). Profits from the lottery are deposited into the general fund. As such, the legislature made a policy decision to appropriate the funds for the lottery so that it can more closely examine the costs of its operations. The increased legislative oversight helps ensure the lottery continues to maximize general fund transfers.

The remaining proprietary funds, over \$655.9 million, are proposed as non-budgeted. About \$454.4 million of this provides for the state employee health insurance plan. The legislature examines proposed rates for internal service funds in this agency as part of its consideration of HB 2. The internal service funds make up 85.6% of the proprietary funds in this agency. The programs within DOA that provide services to other state agencies are proposed to increase by \$24.3 million in FY 2017 when compared to the doubled FY 2014 base. About 26.5% of the increase is related to increases in insurance premiums to ensure financial solvency for the state's self-insured risk pool. Another 46.1% are for increases in the costs of providing information technology services to state agencies. Proprietary funds are discussed in detail in the narrative sections of each program.

Statutory appropriations approved for the agency are discussed in detail in the narrative sections of each program with the majority included in the Director's Office.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	5,340,703	5,340,703	10,681,406	64.77 %	17,781,836	17,781,836	35,563,672	82.13 %
PL Adjustments	2,978,420	2,832,542	5,810,962	35.23 %	4,336,013	3,437,628	7,773,641	17.95 %
New Proposals	0	0	0	0.00 %	(18,155)	(16,812)	(34,967)	(0.08)%
Total Budget	\$8,319,123	\$8,173,245	\$16,492,368		\$22,099,694	\$21,202,652	\$43,302,346	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	4.50	4.50	4.50	4.50	4.50	4.50	0.00	0.00 %
Personal Services	356,414	389,708	432,815	433,007	746,122	865,822	119,700	16.04 %
Operating Expenses	116,326	62,553	171,788	93,297	178,879	265,085	86,206	48.19 %
Local Assistance	3,516	16,464	14,266	14,266	19,980	28,532	8,552	42.80 %
Total Costs	\$476,256	\$468,725	\$618,869	\$540,570	\$944,981	\$1,159,439	\$214,458	22.69 %
General Fund	472,740	452,291	604,603	526,304	925,031	1,130,907	205,876	22.26 %
State/Other Special Rev. Funds	0	0	0	0	0	0	0	0.00 %
Federal Spec. Rev. Funds	3,516	16,434	14,266	14,266	19,950	28,532	8,582	43.02 %
Total Funds	\$476,256	\$468,725	\$618,869	\$540,570	\$944,981	\$1,159,439	\$214,458	22.69 %

Program Description

The Director's Office provides overall leadership and management support to the Department of Administration's divisions and offers administrative support to attached boards and commissions. The office acts as a liaison among the agency's divisions, administratively attached boards and commissions, the cabinet, the legislature, and the Governor's office.

The Director's Office (office) provides overall leadership and management support to the Department of Administration's divisions and offers administrative support to attached boards and commissions. The office acts as a liaison among the agency's divisions, administratively attached boards and commissions, the Governor's office, the Cabinet, and the legislature. The office provides services including:

- Legal
- Human resources
- Financial management
- Labor relations
- Project management and communication
- Continuity of government, emergency management, and homeland security

Program Highlights

Director's Office Major Budget Highlights
<ul style="list-style-type: none"> • Overall costs for the division in HB 2 are proposed to increase 22.7% • The agency reorganized by moving the Office of Labor Relations to the Director's Office from the State Human Resources Division. The transfer included 3.5 FTE and \$0.4 million in appropriation authority • The Director's Office funding includes \$243.3 million in statutory appropriations over the 2017 biennium
Major LFD Issues
<ul style="list-style-type: none"> • Proposed statutory budgets for public employee retirement trust, mineral impact funds, and forest reserve fund do not reflect legislative estimates • Position vacant for two years included in the proprietary rates • Proposed rates do not reflect allocation method to state agencies

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the FY 2015 appropriations implemented by the executive compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Administration Director's Office FY 2015 Appropriation Transactions					
Category	Legislative Appropriation	Category Adjustments	Program Transfers	Reorganization	Total Executive Implementation
Personal Services	\$62,443	\$0	\$19,852	\$327,265	\$409,560
Operating Expenses	12,053	0	500	50,500	63,053
Local Assistance	<u>16,464</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,464</u>
Total Costs	<u>\$90,960</u>	<u>\$0</u>	<u>\$20,352</u>	<u>\$377,765</u>	<u>\$489,077</u>

As shown in the figure above, DOA transferred the Office of Labor Relations with 3.5 FTE and \$327,265 supporting those positions. In addition \$50,500 in operating costs were also transferred. Additional components of the reorganization were included in the proprietary funded programs within the Director's Office and are discussed in the "Proprietary Rate" section of the narrative.

In addition, the agency transferred 0.46 FTE and associated personal services and operating costs from the State Human Resources Division to the Director's Office.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$385,300 higher than the FY 2015 legislative appropriation. Primary reasons for the difference are due to the reorganization of the function within the Director's Office and the transfer of authority.

Executive Request

The program budget comparison tables reflect the reorganization implemented by the executive as it impacted HB 2 appropriations. It should be note that HB 2 is less than 1% of the total program budget. The executive proposes \$250.4

million in total appropriations for the Director's Office in the 2017 biennium. \$193.1 million of the proposed funding is included as statutory appropriations from the general fund including:

- Debt service for bond issues
- Local government and school district public employee retirement contributions
- Teachers' retirement contributions
- Public employee retirement contributions generated from coal severance taxes and interest on the coal tax trust deposited into the general fund

The figure on the following page shows the FY 2014 actual spending for statutory appropriations in the Director's Office and the 2017 biennium budget as proposed by the executive.

Department of Administration Statutory Funds			
	FY 2014	FY 2016	FY 2017
General Fund Transfers			
Debt Service	\$16,460,241	\$12,354,507	\$12,397,233
Local Government PERD Contribution	425,220	447,872	459,647
School District PERD Contribution	526,772	688,871	787,763
TRS GABA	820,871	893,000	928,000
TRS Supplemental Contribution	42,034,705	45,683,000	47,550,000
Public Employees Retirement Trust	<u>35,744,619</u>	<u>35,744,719</u>	<u>35,744,719</u>
Total General Fund Transfers	96,012,428	95,811,969	97,867,362
State Special Revenues			
Mineral Impact	11,428,817	9,017,559	9,017,559
Federal Revenues			
Taylor Grazing	104,721	104,721	104,721
Forest Reserve Shared	<u>18,782,806</u>	<u>18,790,040</u>	<u>18,790,040</u>
Total Federal Revenues	18,887,527	18,894,761	18,894,761
Total Statutory Appropriations	<u>\$126,328,772</u>	<u>\$123,724,289</u>	<u>\$125,779,682</u>

As shown, general fund transfers for debt service have declined by \$4.1 million annually between FY 2014 and the 2017 biennium due to refinancing of various bond issues. Offsetting this reduction, the required contributions for the Teacher's Retirement System supplemental contribution increase \$3.6 million in FY 2016 and \$5.5 million in FY 2017 when compared to FY 2014.

LFD ISSUE	<p><u>Proposed Statutory Budgets for Public Employee Retirement Trust, Mineral Impact Funds, and Forest Reserve Shared Do Not Reflect Legislative Estimates</u></p> <p>The legislature adopted revenue estimates for coal severance taxes and interest income deposited into the general fund and subsequently transferred to the pension employee retirement trust and mineral impact revenues as part of HJR 2.</p> <p>The legislature's adopted revenue estimate for mineral impact revenues was \$8.242 million in FY 2016 and \$8.186 million in FY 2017. As shown in the table above, the executive's estimates for this funding source are \$9.018 million each year of the biennium or \$776,000 higher than the estimate in FY 2016 and \$832,000 in FY 2017. Estimates for coal severance taxes and trust interest are also included as part of the revenue estimates. In FY 2016 the legislature's estimate of the total</p>
----------------------	---

amount to be transferred to the public employees retirement trust is \$35.607 million in FY 2016 and \$37.612 million in FY 2017. The executive's proposed budget is below the legislative estimate by \$167,719 in FY 2016 and \$1,837,281 in FY 2017.

Finally, the federal forest reserve fund is composed of two federal sources: 1) 25% of the value of the timber sold averaged over the prior three years; and 2) Secure rural school payments. On December 16, 2014 federal legislation was passed and approved to fund the federal government through next September 30, 2015. The bill does not include \$330 million for the Secure Rural School Program. Although the Montana Congressional delegation has indicated it will work to have the program reinstated, at this time ongoing funding for the program is not being provided. Additional estimates will need to be completed to determine the amount of funding Montana would receive if payments are based solely on the value of timber sold.

Legislative Option

If the legislature wishes to ensure that the overall division budget accurately reflects costs associated with the program it may request the division provide update estimates of costs for the program given the adopted revenue estimates and the projected shortfall in forest reserve shared funding.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 01-Director's Office Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,130,907	0	187,698,339	188,829,246	75.40 %	
02317 Financial Advisor Fees	0	0	0	0	0.00 %	
02518 State Daycare Program	0	0	0	0	0.00 %	
02858 Mineral Impact	0	0	18,035,118	18,035,118	100.00 %	
State Special Total	\$0	\$0	\$18,035,118	\$18,035,118	7.20 %	
03095 Taylor Grazing Act Dist.	0	0	209,442	209,442	0.56 %	
03369 Flood Control Payments	28,532	0	0	28,532	0.08 %	
03425 Forest Reserve Shared Revenue	0	0	37,349,138	37,349,138	99.37 %	
Federal Special Total	\$28,532	\$0	\$37,558,580	\$37,587,112	15.01 %	
06534 Management Services	0	4,527,562	0	4,527,562	75.81 %	
06535 Continuity Emergency Mgmt	0	1,444,525	0	1,444,525	24.19 %	
Proprietary Total	\$0	\$5,972,087	\$0	\$5,972,087	2.38 %	
Total All Funds	\$1,159,439	\$5,972,087	\$243,292,037	\$250,423,563		

The majority of the office functions are supported by proprietary funds. These funds are considered and approved as rates charged to other divisions in the agency and are discussed in the "Proprietary Rates" section of the narrative.

Within HB 2 general fund provides funding for:

- Board of County Printing
- Burial Preservation Board
- General management and legal support for statewide functions

Federal revenues support administrative functions that support the allocation of federal flood control payments.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	74,526	74,526	149,052	13.18 %	90,960	90,960	181,920	15.69 %
PL Adjustments	530,077	451,778	981,855	86.82 %	527,909	449,610	977,519	84.31 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$604,603	\$526,304	\$1,130,907		\$618,869	\$540,570	\$1,159,439	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	370,557	0	(185)	370,372	0.00	371,173	0	(609)	370,564
DP 99 - LEG. Present Law	0.00	159,520	0	(1,983)	157,537	0.00	80,605	0	(1,559)	79,046
Grand Total All Present Law Adjustments	0.00	\$530,077	\$0	(\$2,168)	\$527,909	0.00	\$451,778	\$0	(\$2,168)	\$449,610

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	4.50	\$2,187	\$0	\$0	\$2,187
Executive Implementation of 2015 Pay Increase		7,552	-	-	7,552
Fully Fund 2015 Legislatively Authorized FTE		1,199	-	-	1,199
Other					
Reorganization	0.00	327,265	-	-	327,265
Burial Board Per Diem	0.00	2,000	-	-	2,000
Remainder of Other	0.00	41,292	-	(185)	41,107
Total Other	0.00	359,619	-	(185)	359,434
Personal Services Present Law Adjustments	11.00	\$370,557	\$0	(\$185)	\$370,372
Personal Services Present Law Adjustments					
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	4.50	\$2,187	\$0	\$0	\$2,187
Executive Implementation of 2015 Pay Increase		7,552	--	--	7,552
Fully Fund 2015 Legislatively Authorized FTE		1,199	--	--	1,199
Other					
Reorganization	0.00	327,265	--	--	327,265
Burial Board Per Diem	0.00	2,000	--	--	2,000
Remainder of Other	0.00	41,908	-(609)	--	41,299
Total Other	6.50	360,235	-(609)	--	359,626
Personal Services Present Law Adjustments	11.00	\$371,173	\$0	(\$609)	\$370,564

The majority of the change in personal services is due to the reorganization bringing the Office of Labor Relations into the Director's Office. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Proficiency agreement progression and strategic pay increases granted throughout FY 2014 that are annualized for the 2017 biennium.
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement

**LFD
ISSUE**

Funding Is Not Contingent on Passage of Bill

22-3-804, MCA provides for the Burial Preservation Board. As currently written, statute does not provide for per diem for board members.

Legislative Option

If the legislature wants to provide support for per diem payments it may wish to make the appropriation contingent on the passage and approval of a bill allowing members to be paid for working on the Burial Preservation Board.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Flood Control	\$0	\$0	\$10,750	\$10,750
Reorganization	50,500	-	-	50,500
Other	109,020	-	(12,733)	96,287
Legislative Present Law Adjustments	\$159,520	\$0	(\$1,983)	\$157,537

CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Flood Control	\$0	\$0	\$10,750	\$10,750
Reorganization	50,500	-	-	50,500
Other	30,105	-	(12,309)	17,796
Legislative Present Law Adjustments	\$80,605	\$0	(\$1,559)	\$79,046

Other Issues -

Proprietary Rates

The Director’s Office provides management services to other divisions within the agency as well as services for state agencies related to labor relations and continuity of government in the event of a major disruption.

Proprietary Program Description

The Director’s Office provides legal, human resources, and financial management services to other divisions of the agency and the administratively attached boards and agencies. These include the:

- Office of Human Resources – processes payroll; assists with recruitment, selection, and orientation of new employees; classifies positions; and develops policies for the department
- Office of Legal Services – advises on legal matters
- Office of Finance and Budget – prepares and presents the biennial budget, processes budget change documents, monitors budgets for compliance with state law and legislative intent, and provides accounting assistance
- Continuity and Emergency Preparedness, and Security Program – prepares to manage and coordinate state government in the event of a major catastrophic disruption

Director's Office (Management Services) - 06534

Program Description

The Director’s Office management services includes the offices of legal services, finance and budget, and human resources as well as the Director’s Office. The figure below shows the costs associated with each of the various offices for the 2015 and 2017 biennia.

Department of Administration Director's Office Proprietary Program Costs						
Director's Office	Actuals FY 2014	Appropriated* FY 2015	Proposed FY 2016	% Change FY 2014	Proposed FY 2017	% Change FY 2014
FTE	5.00	6.00	5.00	0.00%	5.00	0.00%
Personal Services						
Salaries	\$395,112	\$401,894	\$393,218	-0.48%	\$391,718	-0.86%
Employee Benefits	67,752	61,784	65,256	-3.68%	65,397	-3.48%
Health Insurance	47,343	43,980	53,220	12.41%	53,220	12.41%
Vacancy Savings	<u>0</u>	<u>(18,717)</u>	<u>0</u>	0.00%	<u>0</u>	0.00%
Total Personal Services	510,207	488,941	511,694	0.29%	510,335	0.03%
Operating Expenses						
Other Services	32,470	50,300	32,566	0.30%	31,429	-3.21%
Supplies and Materials	15,268	25,309	15,348	0.52%	15,379	0.73%
Communications	10,734	7,269	11,092	3.34%	11,092	3.34%
Travel	3,463	1,420	3,411	-1.50%	3,418	-1.30%
Rent	12,106	12,883	14,367	18.68%	14,403	18.97%
Repair and Maintenance	680	16,606	833	22.50%	833	22.50%
Other Expenses	<u>14,772</u>	<u>18,737</u>	<u>14,898</u>	0.85%	<u>14,898</u>	0.85%
Total Operating Expenses	89,493	132,524	92,515	3.38%	91,452	2.19%
Total Expenditures	<u>\$599,700</u>	<u>\$621,465</u>	<u>\$604,209</u>	0.75%	<u>\$601,787</u>	0.35%

Office of Finance and Budget						
FTE	6.01	5.68	12.51	108.15%	12.51	108.15%
Personal Services						
Salaries	\$263,242	\$352,063	\$703,906	167.40%	\$702,375	166.82%
Employee Benefits	40,613	54,584	117,973	190.48%	118,415	191.57%
Health Insurance	39,965	52,776	142,630	256.89%	142,630	256.89%
Vacancy Savings	<u>0</u>	<u>(16,977)</u>	<u>0</u>	0.00%	<u>0</u>	0.00%
Total Personal Services	343,820	442,447	964,509	180.53%	963,420	180.21%
Operating Expenses						
Other Services	8,457	18,706	11,998	41.87%	11,918	40.92%
Supplies and Materials	7,373	4,073	7,387	0.19%	7,392	0.26%
Communications	6,089	4,928	6,447	5.88%	6,447	5.88%
Travel	0	0	0	0.00%	0	0.00%
Rent	10,180	10,712	25,883	154.25%	25,940	154.81%
Repair and Maintenance	1,001	1,009	2,023	102.10%	2,023	102.10%
Other Expenses	<u>55,714</u>	<u>4,938</u>	<u>60,308</u>	8.25%	<u>60,308</u>	8.25%
Total Operating Expenses	88,814	44,366	114,046	28.41%	114,028	28.39%
Total Expenditures	<u>\$432,634</u>	<u>\$486,813</u>	<u>\$1,078,555</u>	149.30%	<u>\$1,077,448</u>	149.04%
Office of Legal Services						
FTE	0.50	1.83	0.50	0.00%	0.50	0.00%
Personal Services						
Salaries	\$76,852	\$117,513	\$53,698	-30.13%	\$53,494	-30.39%
Employee Benefits	12,792	18,161	8,911	-30.34%	8,932	-30.18%
Health Insurance	7,132	17,592	6,386	-10.46%	6,386	-10.46%
Vacancy Savings	<u>0</u>	<u>(5,673)</u>	<u>0</u>	0.00%	<u>0</u>	0.00%
Total Personal Services	96,776	147,593	68,995	-28.71%	68,812	-28.90%
Operating Expenses						
Other Services	2,222	2,967	1,631	-26.60%	1,628	-26.73%
Supplies and Materials	1,433	3,348	1,433	0.00%	1,433	0.00%
Communications	832	618	832	0.00%	832	0.00%
Travel	0	0	0	0.00%	0	0.00%
Rent	1,388	0	1,388	0.00%	1,388	0.00%
Repair and Maintenance	121	0	121	0.00%	121	0.00%
Other Expenses	<u>5,060</u>	<u>4,664</u>	<u>4,634</u>	<u>-8.42%</u>	<u>4,560</u>	<u>-9.88%</u>
Total Operating Expenses	11,056	11,597	10,039	-9.20%	9,962	-9.90%
Total Expenditures	<u>\$107,832</u>	<u>\$159,190</u>	<u>\$79,034</u>	-26.71%	<u>\$78,774</u>	-26.95%

Office of Human Resources						
FTE	6.00	6.00	6.00	0.00%	6.00	0.00%
Personal Services						
Salaries	\$262,013	\$304,833	\$328,466	25.36%	\$328,472	25.36%
Employee Benefits	42,372	47,040	54,509	28.64%	54,837	29.42%
Health Insurance	50,535	61,572	74,508	47.44%	74,508	47.44%
Vacancy Savings	<u>0</u>	<u>(15,315)</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0.00%</u>
Total Personal Services	354,920	398,129	457,483	28.90%	457,817	28.99%
Operating Expenses						
Other Services	8,833	8,289	9,142	3.50%	9,111	3.15%
Supplies and Materials	6,385	6,944	6,386	0.02%	6,399	0.22%
Communications	9,020	6,681	9,378	3.97%	9,378	3.97%
Travel	655	0	649	-0.92%	650	-0.76%
Rent	9,438	10,012	11,044	17.02%	11,069	17.28%
Repair and Maintenance	495	1,306	678	36.97%	678	36.97%
Other Expenses	<u>7,452</u>	<u>7,367</u>	<u>9,016</u>	<u>20.99%</u>	<u>8,742</u>	<u>17.31%</u>
Total Operating Expenses	42,278	40,599	46,293	9.50%	46,027	8.87%
Total Expenditures	<u>\$397,198</u>	<u>\$438,728</u>	<u>\$503,776</u>	<u>26.83%</u>	<u>\$503,844</u>	<u>26.85%</u>

The 2013 Legislature approved rates that supported 19.51 FTEs funded by the revenues generated from the internal fees charged to the Department of Administration's divisions and its attached-to agencies. As shown in the figure on the previous page, the Director's Office is proposing to fund a reorganization in the Office of Finance and Budget, increasing personal services by 6.83 FTE, from 5.68 FTE to 12.51 FTE and costs by about \$1.0 million. The executive proposes transferring funding and FTE from the State Human Resources Division and the General Services Division. The added positions, FTE, and biennial costs include:

- Financial Operation Supervisor Manager – 1.00 FTE, \$198,166
- Accounting Technician – 2.50 FTE, \$277,540
- Budget Analyst – 1.0 FTE, \$149,729
- Payroll Technician – 1.00 FTE, \$79,201
- Accountant – 1.00 FTE, \$163,722
- Lawyer – 0.33 FTE, \$91,872

Costs for the Office of Finance and Budget increase by more than 149% when compared to the FY 2014 actual spending with the majority of the differences related to the reorganization.

Revenue and Expenses

Total revenues and expenses included in proprietary rates for the Director's Office are shown in the figure on the next page.

Department of Administration Director's Office Proprietary Program Costs								
	Actuals FY 2014	Appropriated* FY 2015	Proposed FY 2016	% Change FY 2014	% Change FY 2015	Proposed FY 2017	% Change FY 2014	% Change FY 2015
Director's Office								
Revenues	<u>\$1,625,563</u>	<u>\$1,989,859</u>	<u>\$2,104,776</u>	<u>24.08%</u>	<u>5.78%</u>	<u>\$2,044,775</u>	<u>25.79%</u>	<u>2.76%</u>
Expenditures								
FTE	17.51	19.51	24.01	37.12%	23.07%	24.01	37.12%	23.07%
Personal Services								
Salaries	\$997,219	\$1,176,302	\$1,479,288	48.34%	25.76%	\$1,476,059	48.02%	25.48%
Employee Benefits	163,529	181,570	246,649	50.83%	35.84%	247,581	51.40%	36.36%
Health Insurance	144,975	175,920	276,744	90.89%	57.31%	276,744	90.89%	57.31%
Vacancy Savings	<u>0</u>	<u>(56,682)</u>	<u>0</u>	<u>0.00%</u>	<u>-100.00%</u>	<u>0</u>	<u>0.00%</u>	<u>-100.00%</u>
Total Personal Services	1,305,723	1,477,110	2,002,681	53.38%	35.58%	2,000,384	53.20%	35.43%
Operating Expenses								
Other Services	51,982	80,262	55,337	6.45%	-31.05%	54,086	4.05%	-32.61%
Supplies and Materials	30,459	39,674	30,554	0.31%	-22.99%	30,603	0.47%	-22.86%
Communications	26,675	19,496	27,749	4.03%	42.33%	27,749	4.03%	42.33%
Travel	4,118	1,420	4,060	-1.41%	185.92%	4,068	-1.21%	186.48%
Rent	33,112	33,607	52,682	59.10%	56.76%	52,800	59.46%	57.11%
Repair and Maintenance	2,297	18,921	3,655	59.12%	-80.68%	3,655	59.12%	-80.68%
Other Expenses	<u>82,998</u>	<u>35,706</u>	<u>88,856</u>	<u>7.06%</u>	<u>148.85%</u>	<u>88,508</u>	<u>6.64%</u>	<u>147.88%</u>
Total Operating Expenses	231,641	229,086	262,893	13.49%	14.76%	261,469	12.88%	14.14%
Total Expenditures	<u>\$1,537,364</u>	<u>\$1,706,196</u>	<u>\$2,265,574</u>	<u>47.37%</u>	<u>32.79%</u>	<u>\$2,261,853</u>	<u>47.13%</u>	<u>32.57%</u>
Net Income (Loss)	<u>\$88,199</u>	<u>\$283,663</u>	<u>(\$160,798)</u>			<u>(\$217,078)</u>		

Expenses

As shown, overall the costs for the Director's Office increase by more than 47% when compared to the FY 2014 base with the majority of the increases in personal services. As discussed in the agency summary, the change in the budgeting methodology for personal services results in an increase of \$237,000 in the 2017 biennium due to the elimination of vacancy savings without a corresponding reduction in FTE.

**LFD
ISSUE**

Positions Vacant for Two Years Included in the Rates

Examination of positions that were vacant at the time of the budget submissions in FY 2013 and FY 2015 shows that two positions included in the rates for the Offices of Finance and Budget and Human Resources were vacant in both submissions:

- Auditor - 1.00 FTE, \$179,100 over the biennium
- Human Resource Specialist – 1.00 FTE, \$128,900 over the biennium

Based on the long-term vacancies it appears that these positions are not needed for operation of the two programs. The present law adjustments include changes to reinstate the funding for the vacant positions. Including the positions in the costs of the program that are allocated to the rates overstates the costs of the services. The legislature could eliminate funding for these positions, reducing overall program costs and at the same time mitigating the effects of the elimination of vacancy savings in this program.

Legislative Option

The legislature may wish to consider reducing the operational costs of the program for the 2.00 FTE that are not used and correspondingly reducing the rates for the functions to reflect the reduction in operational costs.

Revenues

All divisions of the agency and other agencies and boards designated as administratively attached use the services provided in the programs of the Director's Office. Administratively attached agencies or boards with staff to perform functions do not use some of the services and thus are not charged a fee. The revenues for this program are allocated in three ways: 1) the human resources function allocation is based on the annual amount per FTE served; 2) the legal unit a time used study; and 3) the remaining portion on the proportional size of the division budget to the total of all served.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Director's Office			
	Fund	Fund Name					
	06534	Management Services					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		1,228,668	1,229,668	1,625,016	1,624,847	2,104,764	2,044,763
Fee Revenue B		12	36,797	547	12	-	-
Total Operating Revenues		<u>1,228,680</u>	<u>1,266,465</u>	<u>1,625,563</u>	<u>1,624,859</u>	<u>2,104,764</u>	<u>2,044,763</u>
Expenses:							
Personal Services							
Other Operating Expenses		144,993	169,013	188,606	237,152	257,518	256,432
Total Operating Expenses		<u>1,323,217</u>	<u>1,548,727</u>	<u>1,491,195</u>	<u>1,947,046</u>	<u>2,077,981</u>	<u>2,075,031</u>
Operating Income (Loss)		<u>(94,537)</u>	<u>(282,262)</u>	<u>134,368</u>	<u>(322,187)</u>	<u>26,783</u>	<u>(30,268)</u>
Nonoperating Revenues:							
Other Revenue A		-	-	-	365,000	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>-</u>	<u>365,000</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Contributions and Transfers		<u>(94,537)</u>	<u>(282,262)</u>	<u>134,368</u>	<u>42,813</u>	<u>26,783</u>	<u>(30,268)</u>
Transfers In							
Transfers Out		49,667	49,578	-	-	-	-
Change in Net Position		<u>(44,870)</u>	<u>(232,684)</u>	<u>114,846</u>	<u>42,813</u>	<u>26,783</u>	<u>(30,268)</u>
Beginning Net Position - July 1		172,476	127,606	(105,078)	9,768	52,581	79,364
Change in Net Position		(44,870)	(232,684)	114,846	42,813	26,783	(30,268)
Ending Net Position - June 30		<u>127,606</u>	<u>(105,078)</u>	<u>9,768</u>	<u>52,581</u>	<u>79,364</u>	<u>49,096</u>
Net Position (Fund Balance) Analysis							

Rate(s) and Rate Explanation

The Director's Office proprietary fund requests that the legislature approve a "Total Allocation of Costs" of \$2,104,764 in FY 2016 and \$2,044,763 in FY 2017.

Requested Rates for Internal Service Funds Fee/Rate Information					
		Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:					
Management Fees	Services	1,625,016	1,624,847	2,104,764	2,044,763
<p>Management Services requests that the Legislature approve a rate of \$2,104,764 in FY 2016 and \$2,044,763 in FY 2017 to provide revenue for all functions. 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.</p>					

The rate as proposed is below the overall costs of the program by \$160,811 in FY 2016 and \$157,089 in FY 2017. According to DOA this is due to reducing personal services costs by not funding 2.5 FTE in the rates. The rates approved by the legislature are the maximum the program may charge during the biennium. These rates reflect a net biennium increase of \$1.3 million from the expenditures of the 2015 biennium.

LFD ISSUE	<p><u>Rates Proposed Do Not Reflect Allocation Method to Divisions</u></p> <p>In previous biennia the legislature has approved a rate per FTE for the human resources functions of the Director's Office. In its explanation of cost allocations division staff indicated they will allocate costs for the Office of Human Resources to the agency divisions using this methodology. The executive proposes to eliminate this rate from legislative approval and use a fixed amount for allocation instead. This change in rate methodology leaves the rate per FTE charged to the divisions up to the executive to determine.</p> <p>The rates for the Office of Human Resources as proposed by the executive would be:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="5">Department of Administration Office of Human Resources</th> </tr> <tr> <th></th> <th>Actual FY 2014</th> <th>Appropriated FY 2015</th> <th>Proposed FY 2016</th> <th>Proposed FY 2017</th> </tr> </thead> <tbody> <tr> <td>Annually per FTE</td> <td>\$752</td> <td>\$772</td> <td>\$961</td> <td>\$961</td> </tr> </tbody> </table> <p>Legislative Option</p> <p>If the legislature wishes to ensure the rate per FTE charged to divisions remains at a set amount it may consider establishing the rate in HB 2. It could also consider eliminating any funding supporting the vacant human resource specialist position.</p>	Department of Administration Office of Human Resources						Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017	Annually per FTE	\$752	\$772	\$961	\$961
Department of Administration Office of Human Resources																
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017												
Annually per FTE	\$752	\$772	\$961	\$961												

06535 Continuity, Emergency Preparedness and Security Program Proprietary

Program Description

The Department of Administration is responsible for providing centralized management and coordination of the continuity, emergency preparedness, and security program for state agencies to ensure the ability to protect and recover essential

functions of state government in the event of a catastrophic loss. During FY 2014 DOA reorganized this function into the State Continuity and Emergency Management Office (SCEMO).

Revenues and Expenses

Total revenues and expenses included in proprietary rates for the Continuity and Emergency Management Office are shown in the figure on the following page.

Department of Administration Director's Office Proprietary Program Costs						
Director's Office	Actuals FY 2014	Appropriated* FY 2015	Proposed FY 2016	% Change FY 2014	Proposed FY 2017	% Change FY 2014
Continuity and Emergency Management**						
Revenues	\$552,134	\$636,581	\$725,967	31.48%	\$725,967	31.48%
Expenditures						
FTE	5.00	5.00	5.00	0.00%	5.00	0.00%
Personal Services						
Salaries	301,769	N/A	409,369	35.66%	410,486	36.03%
Employee Benefits	49,899	N/A	67,934	36.14%	68,533	37.34%
Health Insurance	36,814	N/A	53,220	44.56%	53,220	44.56%
Vacancy Savings	0	N/A	0	0.00%	0	0.00%
Total Personal Services	388,482	376,924	530,523	36.56%	532,239	37.00%
Operating Expenses						
Other Services	18,901	N/A	22,932	21.33%	21,900	15.87%
Supplies and Materials	25,367	N/A	25,374	0.03%	25,377	0.04%
Communications	4,447	N/A	6,420	44.37%	6,420	44.37%
Travel	32	N/A	28	-12.50%	28	-12.50%
Rent	59,061	N/A	70,329	19.08%	70,370	19.15%
Repair and Maintenance	44,168	N/A	44,895	1.65%	44,895	1.65%
Other Expenses	11,006	N/A	11,006	0.00%	11,006	0.00%
Total Operating Expenses	162,982	176,557	180,984	11.05%	179,996	10.44%
Total Expenditures	\$551,464	\$553,481	\$711,507	29.02%	\$712,235	29.15%
Net Income (Loss)	\$670	\$83,100	\$14,460		\$13,732	
* Effects of FTE transfers not included, adjusted for HB 13 and HB 454						
** Because office was created through a reorganization, the budgeting system does not include amounts beyond first level expenditures for this program.						

As shown, expenses for the program are projected to increase over 29% compared to the FY 2014 actual spending. The majority of the cost increases are in two categories:

- Personal services
- Rent

**LFD
COMMENT**

Personal services increases for the 4.00 FTE transferred from other divisions are 14.4% above the amount provided through HB 13 in the 2017 biennium. In addition SCEMO reclassified 1.00 FTE paralegal assistant from the Office of Legal Services to an emergency management specialist. The reclassification increased the salary for the position by about \$114,900 over the 2017 biennium.

Rate(s) and Rate Explanation

SCEMO bills the State Information Technology Services Division (SITSD) and General Services Division (GSD) quarterly for their services. Because those two divisions are funded through charges on all state agencies, SCEMO is essentially funded from the same sources.

The executive proposes that SITSD pay \$525,000 and GSD pay \$200,967 annually in the 2017 biennium for this function.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	552,134	636,581	725,967	725,967
Allocation to State Information Technology Services Division and General Services Division Internal Service Funds				

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison									
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change	
Operating Expenses	0	0	50,000	0	0	50,000	50,000	0.00 %	
Total Costs	\$0	\$0	\$50,000	\$0	\$0	\$50,000	\$50,000	0.00 %	
General Fund	0	0	50,000	0	0	50,000	50,000	0.00 %	
Total Funds	\$0	\$0	\$50,000	\$0	\$0	\$50,000	\$50,000	0.00 %	

Program Description

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

Program Highlights

Governor Elect Program
<ul style="list-style-type: none"> Executive proposes to provide \$50,000 in FY 2016 to fund the Governor-elect and staff in the event of a change in office
Major LFD Issues
<ul style="list-style-type: none"> Appropriation uses not restricted to Governor-elect

Program Discussion -

Statute requires the Department of Administration to provide funding to a Governor-elect and his or her staff for the period between the general election and the inauguration in the event of a change in office as a result of the 2016 general election. As the potential of a change in the Governor occurs only once every four years, this funding is not included in the 2015 legislative base budget.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 02-Governor Elect Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	50,000	0	0	50,000	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$50,000	\$0	\$0	\$50,000		

This program is entirely funded with general fund provided in HB 2.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	50,000	0	50,000	100.00 %	50,000	0	50,000	100.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$50,000	\$0	\$50,000		\$50,000	\$0	\$50,000	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	50,000	0	0	50,000	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$50,000	\$0	\$0	\$50,000	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

This program does not have FTE or personal services costs and thus does not have present law adjustments for personal services.

DP 99 - LEG. Present Law -

As reflected in the table above, the executive proposes to provide funding for the Governor Elect Program in the event a new Governor is elected in November 2015.

LFD COMMENT	Governor Elect startup costs have been funded at the same level since FY 1993. Inflationary increases have not been considered or included in the funding. If the costs for the new Governor are above the amount provided in statute, the Department of Administration has provided the services from other appropriations.
--------------------	--

**LFD
ISSUE**

Appropriation Uses Not Restricted

The general fund appropriation is not restricted to use by the Governor Elect nor is it designated as one-time-only so that it is included in the base for the next budgeting cycle.

Legislative Option

If the legislature wishes to ensure the uses of the funds it can restrict the appropriations to use only by the Governor-elect and designate the appropriation as one-time-only.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	18.67	18.67	17.67	17.67	18.67	17.67	(1.00)	(5.36)%
Personal Services	1,150,020	1,260,306	1,356,684	1,359,704	2,410,326	2,716,388	306,062	12.70 %
Operating Expenses	253,469	249,733	357,448	356,514	503,202	713,962	210,760	41.88 %
Capital Outlay	0	0	0	0	0	0	0	0.00 %
Total Costs	\$1,403,489	\$1,510,039	\$1,714,132	\$1,716,218	\$2,913,528	\$3,430,350	\$516,822	17.74 %
General Fund	1,346,251	1,453,950	1,656,894	1,658,980	2,800,201	3,315,874	515,673	18.42 %
Federal Spec. Rev. Funds	2,133	1,065	2,133	2,133	3,198	4,266	1,068	33.40 %
Proprietary Funds	55,105	55,024	55,105	55,105	110,129	110,210	81	0.07 %
Total Funds	\$1,403,489	\$1,510,039	\$1,714,132	\$1,716,218	\$2,913,528	\$3,430,350	\$516,822	17.74 %

Program Description

The State Financial Services Division (SFSD) programs supported in HB 2 are made up of the:

- State Accounting Bureau
- Local Government Services Bureau
- Social Security Administrator

The State 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; prepares and negotiates the Statewide Cost Allocation Plan; prepares the state Comprehensive Annual Financial Report; and provides accounting assistance and training to state agencies. The Treasury Unit provides the central banking function for state agencies, reconciles state bank accounts, and insures the collateralization of these bank accounts is maintained at the proper level. Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel. The bureau maintains and publishes the local government Budgetary, Accounting and Reporting System chart of accounts and the county collection and accounting manuals. The bureau collects and provides local government financial information to the public, legislature, federal government, and other public entities. The State Social Security Administrator manages the Social Security Act Section 218 program for the State of Montana including interpreting its provisions, insuring proper application of Social Security coverage to all state and political subdivision employees, conducting referendums as needed, and reporting local government entity changes (dissolutions and consolidations) to federal partners. The administrator provides extensive education and outreach to local governments to support them in this function.

Program Highlights

State Financial Services Division Major Budget Highlights
<ul style="list-style-type: none"> • The majority of the funding in this program is from non-budgeted proprietary funds that do not show in the HB 2 tables • General fund support changes due to: <ul style="list-style-type: none"> ◦ Increased personal service costs ◦ Higher operating costs for the State Accounting Bureau and the Social Security Administrator
Major LFD Issues
<ul style="list-style-type: none"> • Changes in vacancy savings result in personal services increases included in proprietary rates charged to state agencies • Rate increases for SABHRS Financial Services Technology Bureau could be mitigated by using available fund balance • Revenue projections for the Warrant Writer Program appear high given recent trends

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the FY 2015 appropriations implemented by the executive compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Administration State Financial Services Division FY 2015 Appropriation Transactions					
Category	Legislative Appropriation	Category Adjustments	Program Transfers	Reorganization	Total Executive Implementation
Personal Services	\$1,260,306	(\$100)	\$0	\$0	\$1,260,206
Operating Expenses	249,733	100	0	0	249,833
Local Assistance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Costs	<u>\$1,510,039</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,510,039</u>

As shown, the only change made to the 2015 legislative base was a transfer of \$100 from personal services to operating expenses.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$106,500 lower than the FY 2015 legislative appropriation. The primary reason for the difference is due to vacancy savings of 6.7% within the program resulting in lower personal services costs in FY 2014.

Executive Request

Comparisons between actual spending in FY 2014 and the 2017 biennial years by functional unit are shown in the figure on the next page.

Department of Administration State Financial Services Division HB 2 Expenditures Per Function					
Program	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change
State Accounting Bureau					
FTE	7.67	7.67	0.00%	7.67	0.00%
Personal Services	\$524,862	\$721,180	37.40%	\$720,985	37.37%
Operating Costs	<u>116,001</u>	<u>216,995</u>	<u>87.06%</u>	<u>216,575</u>	<u>86.70%</u>
Total Expenditures	640,863	938,175	46.39%	937,560	46.30%
Local Government Services					
FTE	5.00	5.00	0.00%	5.00	0.00%
Personal Services	343,816	301,876	-12.20%	304,209	-11.52%
Operating Costs	<u>98,357</u>	<u>95,073</u>	<u>-3.34%</u>	<u>94,728</u>	<u>-3.69%</u>
Total Expenditures	442,173	396,949	-10.23%	398,937	-9.78%
Social Security Administrator					
FTE	1.00	1.00	0.00%	1.00	0.00%
Personal Services	89,193	94,813	6.30%	95,588	7.17%
Operating Costs	<u>6,116</u>	<u>10,932</u>	<u>78.74%</u>	<u>10,876</u>	<u>77.83%</u>
Total Expenditures	95,309	105,745	10.95%	106,464	11.70%
Treasury Unit					
FTE	4.00	4.00	0.00%	4.00	0.00%
Personal Services	192,149	238,721	24.24%	238,825	24.29%
Operating Costs	<u>32,995</u>	<u>34,448</u>	<u>4.40%</u>	<u>34,335</u>	<u>4.06%</u>
Total Expenditures	<u>225,144</u>	<u>273,169</u>	<u>21.33%</u>	<u>273,160</u>	<u>21.33%</u>
Total Expenditures SFSD	<u>\$1,403,489</u>	<u>\$1,714,038</u>	22.13%	<u>\$1,716,121</u>	22.28%

As shown, proposed expenditures in HB 2 are more than 22% higher than those provided in FY 2014. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Market, proficiency agreement progression, training assignment progression, and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 6.7% in FY 2014 compared to a budgeted rate of 6.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2016 biennium
- Changes in employer retirement
- Reductions in costs related to the implementation of the boilerplate language in HB 2 enacted by the 2013 Legislature

As shown in the figure above, operating cost increases are mainly contained within the State Accounting Bureau and are for the most part due to increased costs for State Information Technology Services Division services. The legislature can impact these costs through changes to the budget of the State Information Technology Services Division.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 03-State Financial Services Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	3,315,874	0	4,320,930	7,636,804	43.03 %
State Special Total	\$0	\$0	\$0	\$0	0.00 %
03320 CMIA Funds	4,266	0	0	4,266	100.00 %
Federal Special Total	\$4,266	\$0	\$0	\$4,266	0.02 %
06042 Single Audit Review - HB328	0	1,076,365	0	1,076,365	10.65 %
06511 SABHRS SERVICES BUREAU	0	7,514,325	0	7,514,325	74.35 %
06527 Investment Division	110,210	0	0	110,210	1.09 %
06564 Warrant Writing	0	1,406,282	0	1,406,282	13.91 %
Proprietary Total	\$110,210	\$9,996,972	\$0	\$10,107,182	56.95 %
Total All Funds	\$3,430,350	\$9,996,972	\$4,320,930	\$17,748,252	

House Bill 2

General fund in the program supports development of statewide accounting standards, treasury functions, and accounting assistance for local governments. Proprietary funding in HB 2 is a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board. Federal support provides for cash management services for federal Cash Management Improvement Act funds that are deposited into the general fund. HB 2 appropriations support about 20% of the costs of the State Financial Services Division.

Proprietary Funding

Over 56% of the office functions are supported with proprietary funds. These funds are considered and approved as rates charged to other divisions in the agency and other state agencies. The rates are discussed in the "Proprietary Rates" section of the narrative.

Statutory Appropriations

About a quarter of the funding in the State Financial Services Division is statutorily appropriated for use by the state treasurer. The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated from the general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,453,950	1,453,950	2,907,900	87.70 %	1,510,039	1,510,039	3,020,078	88.04 %
PL Adjustments	202,944	205,030	407,974	12.30 %	204,093	206,179	410,272	11.96 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,656,894	\$1,658,980	\$3,315,874		\$1,714,132	\$1,716,218	\$3,430,350	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	95,950	0	347	96,297	0.00	98,970	0	347	99,317
DP 99 - LEG. Present Law	0.00	106,994	0	721	107,715	0.00	106,060	0	721	106,781
Grand Total All Present Law Adjustments	0.00	\$202,944	\$0	\$1,068	\$204,012	0.00	\$205,030	\$0	\$1,068	\$206,098

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	17.67	\$8,588	\$0	\$0	\$8,588
Executive Implementation of 2015 Pay Increase		23,302	-	-	23,302
Fully Fund 2015 Legislatively Authorized FTE		23,075	-	1	23,076
Other		40,986	-	346	41,332
Personal Services Present Law Adjustments	17.67	\$95,950	\$0	\$347	\$96,297
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	17.67	\$8,588	\$0	\$0	\$8,588
Executive Implementation of 2015 Pay Increase		23,302	-	-	23,302
Fully Fund 2015 Legislatively Authorized FTE		23,075	-	1	23,076
Other		44,006	-	346	44,352
Personal Services Present Law Adjustments	17.67	\$98,970	\$0	\$347	\$99,317

Other increases include market adjustments, proficiency agreement progression, training assignment progression, and reclassification increases provided in FY 2014 that are annualized for the 2017 biennium. These costs are partially offset by the division's implementation of HB 2 boilerplate language.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases in the costs and funding when compared to the 2015 legislative appropriation. Funding for the increases is from the state's general fund. The additional funding is proposed for professional and consulting services, SITSD charges, and indirect cost rates supporting the Director's Office.

Other Issues -

Proprietary Rates

The State Financial Services Division provides the following functions with proprietary funds:

- Statewide Accounting, Budgeting, and Human Resource System (SABHRS) Financial Services Technology Bureau (FSTB)
- Warrant Writer
- Local Government Audit and Reporting

The figure on the next page shows the costs, by function, supported through proprietary rates to state agencies.

Department of Administration State Financial Services Division Proprietary Funds Per Function						
Program	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change	
Local Government Audit and Reporting Program						
FTE	5.00	6.00	20.00%	6.00	20.00%	
Personal Services	\$331,699	\$446,062	34.48%	\$446,785	34.70%	
Operating Costs	<u>89,207</u>	<u>92,167</u>	<u>3.32%</u>	<u>91,274</u>	<u>2.32%</u>	
Total Expenditures	420,906	538,229	27.87%	538,059	27.83%	
Warrant Writer						
FTE	4.33	4.33	0.00%	4.33	0.00%	
Personal Services	194,982	213,434	9.46%	213,963	9.73%	
Operating Costs	491,132	483,111	-1.63%	482,516	-1.75%	
Equipment and Intangible Assets	<u>6,604</u>	<u>6,604</u>	<u>0.00%</u>	<u>6,604</u>	<u>0.00%</u>	
Total Expenditures	692,718	703,149	1.51%	703,083	1.50%	
SABHRS Financial Services Technology Bureau						
FTE	20.00	20.00	0.00%	20.00	0.00%	
Personal Services	1,717,484	1,922,387	11.93%	1,922,851	11.96%	
Operating Costs	<u>1,999,233</u>	<u>1,869,492</u>	<u>-6.49%</u>	<u>1,799,548</u>	<u>-9.99%</u>	
Total Expenditures	3,716,717	3,791,879	2.02%	3,722,399	0.15%	
Total Proprietary Expenditures	<u>\$4,830,341</u>	<u>\$5,033,257</u>	<u>4.20%</u>	<u>\$4,963,541</u>	<u>2.76%</u>	

These programs are described separately with a discussion of program expenses, revenues, and rates being requested to finance each program.

**LFD
ISSUE**
Changes in Vacancy Savings Result in Personal Service Increases

As discussed in the agency summary, proprietary funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result SFSD proprietary program personal service costs increased by \$90,000 each year of the biennium.

SABHRS Financial Services Technology Bureau includes an administrative support position that has been vacant since FY 2012. Local Government Services Audit function proposes to move a vacant accountant position from HB 2 to the proprietary program. Total costs for these two positions are about \$126,900 annually. The program did not provide a justification for the additional FTE within the proprietary program. It should be noted that the legislature does not appropriate the enterprise fund nor approve related rates for services provided by the Local Government Services Audit function, which is funded from charges to local governments. It can however indicate to the program that its intent is to maintain current resources for the 2017 biennium rather than increase staff and related costs to local governments.

Legislative Option

If the legislature wishes to mitigate the impact of higher personal services costs it may:

1. Eliminate funding for the vacant administrative support position and request that the Local Government Audit Program eliminate funding and the related permanent position for the proposed accountant position; or
2. Assess vacancy savings to permanent proprietary funded positions in the SFSD program to reduce total costs of the programs.

SABHRS Financial Services Technology Bureau - 06511*Program Description*

The SABHRS Financial Services Technology Bureau is responsible for the operational support, hosting, and maintenance for the enterprise financial and budget development information systems. FTSB is also responsible for providing hosting services, system architecture, and maintenance for the SABHRS HR information system for the HR Information Systems Bureau.

*Revenues and Expenses*Expenses

During FY 2014 FSTB added 3.00 FTE to its program, increasing personal service costs by \$0.5 million in the 2017 biennium above that contemplated by the 2013 Legislature. One of the positions was transferred from the Warrant Writer function and the other two database positions were brought over from the State Information Technology Services Division (SITSD). The increases in personal services are partially offset by reductions of about \$215,000 annually in services provided by SITSD.

Revenues

All state agencies are required to use the SABHRS program to ensure consistent, accurate, and transparent financial and budgeting information. Revenues are based on:

- Costs to operate the program as shown in the figure on the previous page
- Maintaining a reasonable working capital balance of 60 working days

These components factor into the maximum allocation of costs in a rate that is approved by the legislature. Unrestricted fund balance in the account at fiscal yearend was \$1.6 million and is projected by the agency to increase to \$1.9 million at the end of the 2017 biennium.

The 2017 Biennium Report on Internal Service and Enterprise Funds on the following page shows the actual and projected costs associated with the fund.

**LFD
ISSUE**Rate Increases Could Be Mitigated By Using Available Fund Balance

SABHRS fixed costs charged to state agencies increase by \$0.4 million in FY 2016 and \$0.2 million in FY 2017. Rather than charging the entire increase to state agencies the legislature could lower the rate approved and allow the agency to utilize fund balance to offset a portion of the increase. According to FSTB a 45 day working capital, or \$0.5 million, is needed for the timing differences between services provided and revenue received from billing. As shown in the figure on the next page, the legislature could lower the rate by \$0.5 million each year, allow FSTB to utilize available fund balance, and provide fixed cost reductions to state agencies.

The funding proposed for state agencies using FSTB follows:

- General fund \$1.2 million or 32%
- State special revenue \$0.8 million or 23%
- Federal special revenue \$0.8 million or 23%
- Proprietary \$0.3 million or 8%
- All other funds \$0.5 million or 14%

Allowing the agency to utilize fund balance rather than charge state agencies could generate up to \$0.3 million in general fund savings over the biennium.

Legislative Option

The legislature may lower the SABHRS rate to state agencies by \$0.5 million each year, thus allowing FTSB to use fund balance to offset fixed costs to state agencies that are charged for this service.

2017 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
6511	SABHRS	6101	State Financial Services Division

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues				
Fees and Charges				
SABHRS Services	\$3,821,496	\$3,532,624	\$4,281,676	\$4,092,380
Other Operating Revenues				
Other Revenue	252	0	0	0
Total Operating Revenues	<u>3,821,748</u>	<u>3,532,624</u>	<u>4,281,676</u>	<u>4,092,380</u>
Expenses				
Personal Services	1,523,404	1,899,800	1,929,013	1,929,013
Other Operating Expense				
Operating Expenses	1,859,257	1,814,917	2,352,663	2,163,367
Total Operating Expense	<u>3,382,661</u>	<u>3,714,717</u>	<u>4,281,676</u>	<u>4,092,380</u>
Operating Income (Loss)	<u>\$439,087</u>	<u>(\$182,093)</u>	<u>\$0</u>	<u>\$0</u>
Income (Loss) Before Contributions and Transfers	<u>\$439,087</u>	<u>(\$182,093)</u>	<u>\$0</u>	<u>\$0</u>
Change in Net Position	<u>\$439,087</u>	<u>(\$182,093)</u>	<u>\$0</u>	<u>\$0</u>
Beginning Net Position - July 1	1,306,075	1,745,162	1,563,069	1,563,069
Prior Period Adjustments				
Change in Net Position	439,087	(182,093)	0	0
Ending Net Position - June 30	<u>\$1,745,162</u>	<u>\$1,563,069</u>	<u>\$1,563,069</u>	<u>\$1,563,069</u>

Rate and Rate Explanation:

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
SABHRS Services:	\$3,689,397	\$3,346,369	\$4,281,676	\$4,092,380

As proposed the rates increase 16% in FY 2016 and 11% in FY 2017 when compared to the FY 2014 rate charged to agencies. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Warrant Writer Program - 06564

Program Description

The Warrant Writer Unit (WWU) provides the check writing and direct-deposit services for most state agencies, including the university system. The WWU processes agency approved payments and tracks the payment status on SABHRS. Warrant printing is provided to the WWU by Print and Mail Services within the General Services Division. The WWU generates, tracks, and reconciles each payment. The services include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, vendor file maintenance, and federal 1099-MISC processing.

Revenues and Expenses

The 2017 Biennium Report on Internal Service and Enterprise Funds on the following page shows the actual and projected costs associated with the fund.

2017 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name	Financial
6564	Warrant Writing	61010	Administrative Services	

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues				
Fees and Charges				
Warrant Writing Revenue	\$645,007	\$688,072	\$891,775	\$849,837
Total Operating Revenues	645,007	688,072	891,775	849,837
Expenses				
Personal Services	194,314	229,143	229,143	229,143
Other Operating Expense				
Other Services	143,749	136,995	136,995	136,995
Supplies & Materials	11,241	6,811	6,811	6,811
Communications	294,394	337,169	337,168	350,665
Travel	203	0	0	0
Rent	16,889	16,811	16,811	16,811
Repair & Maintenance	12,601	18,071	18,071	18,071
Other Operating	12,159	17,756	17,756	17,756
Inventory Adjustment	(39,477)			
Total Operating Expense	646,074	762,756	762,755	776,252
Operating Income (Loss)	(\$1,067)	(\$74,684)	\$129,020	\$73,585
Total Nonoperating Revenues (Expenses)	0	0	0	0
Income (Loss) Before Contributions and Transfers	(\$1,067)	(\$74,684)	\$129,020	\$73,585
Change in Net Position	(\$1,067)	(\$74,684)	\$129,020	\$73,585
Beginning Net Position - July 1	66,601	65,534	(9,150)	119,870
Prior Period Adjustments	0	0	0	0
Change in Net Position	(1,067)	(74,684)	129,020	73,585
Ending Net Position - June 30	\$65,534	(\$9,150)	\$119,870	\$193,455
Net Position (Fund Balance) Analysis				
Unrestricted Net Position	\$65,534	(\$9,150)	\$119,870	\$193,455

Expenses

As shown in the Proprietary Funds by Function table, overall expenditures for the WWU increase 1.5% in both years of the biennium when compared to FY 2014 spending. Personal services changes for the program include:

- Annualization of HB 13 increases for state share contributions to employee insurance
- Annualization of HB 13 FY 2015 pay increases
- Restoration of funding related to vacancy savings of 4% imposed by the 2013 Legislature

These increases are partially offset by reductions in operating expenses for indirect costs allocated to the Director’s Office.

Revenues

Revenues are derived from monthly billings based on the actual warrants issued. Budget authority to pay the costs is a fixed cost item in state agency budgets. The statewide fixed cost in the executive proposed budget is \$450,000 higher in the 2017 biennium than the amount paid by agencies in FY 2014. The executive proposes fee increases for mailed and non-mailed warrants, duplicate warrants, and printed advices for direct deposits. Reductions in fees are proposed for mailers, emergency warrants, external payroll and university warrants, and unemployment insurance transactions.

The figure below shows the projected revenues from each fee.

Department of Administration Warrant Writer Projected Revenues				
Type of Revenue	Actual FY 2014	Approved FY 2015	Proposed FY 2016	Proposed FY 2017
Mailer	\$418,759	\$521,013	\$481,776	\$502,519
Non-Mailer	50,259	91,258	65,703	53,046
Emergency	395	466	371	463
Duplicates	2,519	2,667	7,500	9,383
Externals				
Externals - Payroll	5,631	6,161	4,992	4,234
Externals - Universities	13,798	14,158	11,125	9,284
Direct Deposit				
Direct Deposit - Mailer	31,980	40,961	56,338	50,429
Direct Deposit - No Advice Printed	230,920	231,570	235,223	199,832
Unemployment Insurance				
Mailer - Print Only	18,030	18,472	18,057	12,783
Direct Deposit - No Advice Printed	<u>11,653</u>	<u>11,972</u>	<u>10,193</u>	<u>7,038</u>
Total Projected Revenues	<u>\$783,944</u>	<u>\$938,698</u>	<u>\$891,278</u>	<u>\$849,011</u>

Revenues and expenditures and the related changes in net position (fund balance) are shown in the figure on the previous page.

LFD ISSUE	<p><u>Revenue Projections Appear High Given Recent Trends</u></p> <p>The warrant writer program is an operation that provides fixed costs for state agencies based upon a projected number of warrants processed in a given year. The legislature approves the program rates based on the anticipated number of warrants that will be processed in a year and the rates for the type of warrants processed. The total number of payments processed by the WWU has declined in the last three years:</p> <ul style="list-style-type: none"> • 6.7% between FY 2012 and FY 2013 • 10.5% between FY 2013 and FY 2014 <p>The program is projecting increased revenues based on increases in the total number of warrants that will be processed in the next biennium. The projected increases are:</p> <ul style="list-style-type: none"> • 6.0% in FY 2016 compared to FY 2014 • 4.7% in FY 2017 compared to FY 2014
----------------------	---

However, it appears that revenues may continue to decline instead. Reasons for potential reductions in the number of warrants processed include:

- Declining or stabilized unemployment rate, reducing the need for unemployment insurance warrants
- Move by state agencies to reduce the number of direct deposit advices printed for employees
- Decline in requests for mailer and nonmailer warrants by 10.0% and 45.6% respectively between FY 2012 and FY 2014, indicating reduced reliance on warrants as a means of payment

As shown in the figure on the previous page, if the program's revenue projections are accurate for the FY 2017 biennium revenues would be \$203,000 above the projected costs. Based on the above it appears the revenues projected for the program may be higher than will be realized in the 2017 biennium. If the number of warrants is unchanged from FY 2014 actuals, the program would realize sufficient revenues for projected costs. Any further reductions could result in a need to reduce costs or change proposed rates as the fund balance for the program is projected to be (\$9,150) at the end of FY 2015 as shown in the figure on the previous page.

The majority of the operating expenses for the program are in two categories:

- Postage and Mailing \$290,737, which is \$7,400 higher than anticipated in FY 2014
- Printing costs of \$133,893, which is \$15,000 lower in FY 2014 than anticipated

Cost reductions in these areas do not appear realistic. However, the division proposes \$6,600 in office equipment. The office equipment was purchased in FY 2014 and the expense was continued into the 2017 biennium. The costs can be considered a non-reoccurring cost and could be reduced. The program reduced FTE by 1.00 in FY 2014 and is currently operating with 4.33 FTE. Reductions in FTE could impact the programs ability to function.

Legislative Option

If the legislature wishes to ensure program costs do not exceed projected revenues it may wish to:

1. Reduce program costs by \$6,600;
2. Maintain rates that are proposed by the executive for reduction including external warrants for payroll and the universities, direct deposit advices, and unemployment insurance warrants; or
3. Both reduce program costs and maintain current rates

Rate and Rate Explanation:

For the 2017 biennium the following rates are proposed by the executive. The rates charged in previous biennia are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information					
		Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	Mailer	0.74392	0.74464	0.74010	0.75111
	Non-Mailer	0.28392	0.28464	0.32010	0.32111
	Emergency	14.11292	14.11364	11.97641	11.87743
	Duplicates	3.35417	3.35489	8.60097	8.52199
	Externals				
	Externals - Payroll	0.20512	0.21239	0.16861	0.16368
	Externals - Universities	0.13859	0.13907	0.12081	0.11265
	Direct Deposit				
	Direct Deposit - Mailer	0.81859	0.82907	0.94981	0.95765
	Direct Deposit - No Advice Printed	0.13859	0.13907	0.13981	0.11265
	Unemployment Insurance				
	Mailer - Print Only	0.14533	0.14557	0.13280	0.13141
	Direct Deposit - No Advice Printed	0.04769	0.04785	0.03910	0.03308

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Local Government Audit and Reporting Program - 06042

Program Description

The Audit Review program is responsible for administering the provisions of the Montana Single Audit Act, which specifies the audit requirements for about 900 Montana local government entities. The work of the Audit Review program is mandated primarily in 2-7-5, MCA. The program reviews financial reports and enters selected data into a statewide database and notifies state agencies of audit findings related to financial assistance programs that they administer. The program also maintains a roster of independent auditors authorized to conduct local government audits, provides technical accounting assistance to local governments and other staff within the bureau.

Revenues and Expenses:

Revenues, expense and changes in net positions for the enterprise fund associated with this function are shown on the following page.

Expenses

As shown in the earlier figure, the majority of the costs of the program are for personal services. As previously discussed the executive proposes to increase the number of staff allocated to the program by 1.00 FTE, increasing personal service costs by 21.6% in the 2017 biennium.

Other changes include additional costs to support services provided by the Director's Office, present law personal services adjustments for current FTE, and applicable fixed cost adjustments.

Revenues

Unlike the other proprietary programs in SFSD, the Local Government Audit and Reporting Program is funded with enterprise funds, as it serves entities outside of state government. As an enterprise fund the legislature neither appropriates funding nor approves the proprietary rates charged for the program.

Fees include a:

- Report filing fee based on costs incurred by the department for administering the program. All local government entities are required to submit audit pay the fee, currently \$75
- Roster fee collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana, currently \$100 per year
- Late payment penalty incurred when a local government entity fails to file a report as required, currently 10% per month
- Fine for failure to file audits or reports as required, currently \$50 per publication.

2017 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Program Name			
6042	Single Audit Review - HB328	61010	State Financial Services			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Revenue from Audit Review Roster Fee		\$6,970	\$6,500	\$9,000	\$9,000
	Revenue from Annual Report Filing Fee		356,082	360,000	425,000	425,000
Other Operating Revenues						
	Revenue from Delinquent Report Submissions		40,996	40,000	35,000	35,000
	Miscellaneous Revenue					
Total Operating Revenues			404,048	406,500	469,000	469,000
Expenses						
	Personal Services		333,656	345,540	349,660	356,575
	Software upgrade			294,154		
	Other Operating Expense		89,208	90,100	91,001	91,911
Total Operating Expense			422,864	729,794	440,661	448,486
Operating Income (Loss)			(\$18,816)	(\$323,294)	\$28,339	\$20,514
Total Nonoperating Revenues (Expenses)			0	0	0	0
Income (Loss) Before Contributions and Transfers			(\$18,816)	(\$323,294)	\$28,339	\$20,514
Change in Net Position			(\$18,816)	(\$323,294)	\$28,339	\$20,514
Beginning Net Position - July 1			355,339	336,523	13,228	41,567
	Prior Period Adjustments					
	Change in Net Position		(18,816)	(323,294)	28,339	20,514
Ending Net Position - June 30			\$336,523	\$13,228	\$41,567	\$62,080
Net Position (Fund Balance) Analysis						
Restricted Net Position (Enterprise Funds Only)						
Unrestricted Net Position						

Proprietary Rates

Funding for the program is with enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for this proprietary funded program. The fees shown below are adopted in the Administrative Rules of Montana or are required in statute.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Major Fee:				
Local Government Report Filing Fee				
Annual revenues equal to or greater than \$500,000, but less than \$1,000,000	\$435 635	\$435 635	\$440 640	\$440 640
Annual revenues equal to or greater than \$1,500,000, but less than \$2,500,000	760	760	830	830
Annual revenues equal to or greater than \$2,500,000, but less than \$5,000,000	845	845	1,000	1,000
Annual revenues equal to or greater than \$5,000,000, but less than \$10,000,000	890	890	1,200	1,200
Annual revenues are equal to or greater than \$10,000,000, but less than \$50,000,000	965	965	1,400	1,400
Annual revenues are equal to or greater than \$50,000,000	1,000	1,000	1,600	1,600
Minor Fee:				
Auditor Roster Fee				
Annual Fee	100	100	150	150

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	17.00	17.00	16.50	16.50	17.00	16.50	(0.50)	(2.94)%
Personal Services	1,282,052	1,438,836	1,518,777	1,517,270	2,720,888	3,036,047	315,159	11.58 %
Operating Expenses	545,698	529,875	598,280	594,697	1,075,573	1,192,977	117,404	10.92 %
Total Costs	\$1,827,750	\$1,968,711	\$2,117,057	\$2,111,967	\$3,796,461	\$4,229,024	\$432,563	11.39 %
State/Other Special Rev. Funds	1,827,750	1,968,711	2,117,057	2,111,967	3,796,461	4,229,024	432,563	11.39 %
Total Funds	\$1,827,750	\$1,968,711	\$2,117,057	\$2,111,967	\$3,796,461	\$4,229,024	\$432,563	11.39 %

Program Description

The Architecture and Engineering Division (A&E) 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 division also formulates a long-range building plan for legislative consideration each session. This division operates under the authority found in Titles 17 and 18, MCA, as well as other state mandates.

Program Highlights

<p>Architecture & Engineering Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • Executive proposes to increase the 2017 biennium budget by 11.4% when compared to the 2015 biennium budget • Majority of the increase is due to changes for personal services
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Estimated funding for construction fund does not support proposed expenditures

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Architecture and Engineering Program did not change the FY 2015 legislative appropriations. The number shown in the program budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$140,960 lower than the FY 2015 legislative appropriation. The primary reason for the difference is due to vacancy savings of 14.2% within the program resulting in lower personal services costs in FY 2014.

Executive Request

In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Training assignment progression and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Employee attainment of longevity milestones in the 2016 biennium
- Changes in employer retirement
- Reductions in costs related to the implementation of the boilerplate language in HB 2 enacted by the 2013 Legislature
- Operating expenses increase due to increases in fixed costs mainly attributable to the statewide cost allocation plan.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 04-Architecture & Engineering Pgm Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02030 Arch & Engin Construction	4,229,024	0	0	4,229,024	100.00 %	
State Special Total	\$4,229,024	\$0	\$0	\$4,229,024	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$4,229,024	\$0	\$0	\$4,229,024		

The Architecture and 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 in support of the state Long-range Building Program.

LFD ISSUE	<p><u>Estimated Funding in the Architecture and Engineering Construction Fund Does Not Support Proposed Expenditures</u></p> <p>As part of the budgeting process programs provide projected fund balances for accounts that support their activities. The Architecture and Engineering Division projects a negative fund balance of (\$150,297) by the end of fiscal year 2017 in their state special revenue account that supports their program. Revenues for the account are derived from transfers from the long-range building capital project fund.</p> <p>Legislative Options</p> <p>The legislature has two options in relation to the negative fund balance:</p> <ol style="list-style-type: none"> 1. Reduce program costs by \$150,297 over the biennium to ensure that the program does not overexpend 2. Request that the program increase the projections for revenues to be transferred from the long-range building capital projects fund
----------------------	---

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	1,968,711	1,968,711	3,937,422	0.00 %	
PL Adjustments	0	0	0	0.00 %	148,346	143,256	291,602	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$2,117,057	\$2,111,967	\$4,229,024		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	79,941	0	79,941	0.00	0	78,434	0	78,434
DP 99 - LEG. Present Law	0.00	0	68,405	0	68,405	0.00	0	64,822	0	64,822
Grand Total All Present Law Adjustments	0.00	\$0	\$148,346	\$0	\$148,346	0.00	\$0	\$143,256	\$0	\$143,256

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table on the next page includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law				FY 2016				
Adjustments				FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item								
State Share Health Insurance				16.50	\$0	\$8,019	\$0	\$8,019
Executive Implementation of 2015 Pay Increase					-	26,969	-	26,969
Fully Fund 2015 Legislatively Authorized FTE					-	-	-	-
Other					-	44,953	-	44,953
Personal Services Present Law				16.50	\$0	\$79,941	\$0	\$79,941
Adjustments								
				FY 2017				
				FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item								
State Share Health Insurance				16.50	\$0	\$8,019	\$0	\$8,019
Executive Implementation of 2015 Pay Increase					-	26,969	-	26,969
Fully Fund 2015 Legislatively Authorized FTE					-	-	-	-
Other					-	43,446	-	43,446
Personal Services Present Law				16.50	\$0	\$78,434	\$0	\$78,434
Adjustments								

In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Training assignment progression and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Employee attainment of longevity milestones in the 2016 biennium
- Changes in employer retirement

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing an increase in general fund of \$2.1 million. This adjustment is for rent of the common areas that is discussed in the LFD Issue in the Program Discussion.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	11.25	11.25	12.25	12.25	11.25	12.25	1.00	8.89 %
Personal Services	697,985	725,163	888,174	888,181	1,423,148	1,776,355	353,207	24.82 %
Operating Expenses	157,316	1,364,116	2,344,853	2,348,636	1,521,432	4,693,489	3,172,057	208.49 %
Capital Outlay	0	0	0	0	0	0	0	0.00 %
Total Costs	\$855,301	\$2,089,279	\$3,233,027	\$3,236,817	\$2,944,580	\$6,469,844	\$3,525,264	119.72 %
General Fund	795,969	2,023,411	3,060,997	3,065,495	2,819,380	6,126,492	3,307,112	117.30 %
State/Other Special Rev. Funds	59,332	65,868	172,030	171,322	125,200	343,352	218,152	174.24 %
Total Funds	\$855,301	\$2,089,279	\$3,233,027	\$3,236,817	\$2,944,580	\$6,469,844	\$3,525,264	119.72 %

Program Description

The General Services Division is composed of three 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 energy procurement, vehicle fueling and procurement card programs, and the central stores program.

The Print and Mail Services Bureau provides print and mail services to state agencies. Services include internal and external (contracted) printing, photocopy pool services, mail preparation, central mail operations, and inter-agency (deadhead) mail. The bureau also operates the United States Post Office in the Capitol and provides one quick copy location on the Capitol Complex.

In addition to the three bureaus, the division manages the state and federal property surplus program.

Program Highlights

General Services Division Major Budget Highlights
<ul style="list-style-type: none"> • Non-budgeted proprietary funds provide over 86.9% of the support for the program • The executive proposes to move the Central Stores Program from a proprietary rate to a state special revenue account due to changes in the program's operations • The executive proposes to provide \$2.1 million of general fund each year of the biennium for rent of the common spaces within the capitol complex
Major LFD Issues
<ul style="list-style-type: none"> • Uses of general fund not identified • Change in budgeting for personal services increases proprietary rates to state agencies • Fund balance in the Central Stores Program is available for transfer to the general fund • Rates for print and mail services will generate more funding than required by the program

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the FY 2015 appropriations implemented by the executive compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Administration General Services Division FY 2015 Appropriation Transactions					
Category	Legislative Appropriation	Legislative OTO Approp	Direct Transfers	Reorganization	Total Executive Implementation
Personal Services	\$725,163	\$0	\$0	\$0	\$725,163
Operating Expenses	<u>163,920</u>	<u>1,173,196</u>	<u>27,000</u>	<u>0</u>	<u>1,364,116</u>
Total Costs	<u>\$889,083</u>	<u>\$1,173,196</u>	<u>\$27,000</u>	<u>\$0</u>	<u>\$2,089,279</u>

Due to concerns regarding the uses of general fund provided as rent for the common areas the 2013 Legislature provided the funds on a one-time-only basis. GSD proposes reinstating rent for the common areas at \$2.1 million a year or an 81.9% increase over the FY 2015 legislative appropriation. The division also received an appropriation transfer of \$27,000 general fund from the Montana Historical Society for repairs on the Old Governor's Mansion.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$33,782 lower than the FY 2015 ongoing legislative appropriation. The primary reason for the difference is due to vacancy savings of 6.0% within the program resulting in lower personal services costs in FY 2014.

Executive Request

The executive's proposal for HB 2 expenditures in the General Services Division by function are shown in the following table.

Department of Administration General Services Division Proposed HB 2					
Program	FY 2014	FY 2016	% Change	FY 2017	% Change
Procurement Bureau					
FTE	10.48	10.48	0.00%	10.48	0.00%
Personal Services	\$654,705	\$756,512	15.55%	\$755,864	15.45%
Operating Expenses	<u>141,264</u>	<u>170,650</u>	<u>20.80%</u>	<u>170,117</u>	<u>20.42%</u>
Total Expenditures	795,969	927,162	16.48%	925,981	16.33%
Fueling & Procard Division					
FTE	0.77	0.77	0.00%	0.77	0.00%
Personal Services	43,280	61,462	42.01%	61,361	41.78%
Operating Expenses	<u>16,052</u>	<u>18,119</u>	<u>12.88%</u>	<u>18,003</u>	<u>12.15%</u>
Total Expenditures	59,332	79,581	34.13%	79,364	33.76%
Central Stores Program					
FTE	1.00	1.00	0.00%	1.00	0.00%
Personal Services	0	70,153	100.00%	69,977	100.00%
Operating Expenses	<u>0</u>	<u>22,293</u>	<u>100.00%</u>	<u>21,978</u>	<u>100.00%</u>
Total Expenditures	0	92,446	100.00%	91,955	100.00%
Facilities Management					
FTE	0	0	0.00%	0	0.00%
Personal Services	0	0	0.00%	0	0.00%
Operating Expenses	0	2,133,791	100.00%	2,138,537	100.00%
Total Expenditures	0	2,133,791	100.00%	2,138,537	100.00%
Total HB2 Proposed Expenditures	<u>\$855,301</u>	<u>\$3,232,980</u>	<u>277.99%</u>	<u>\$3,235,837</u>	<u>278.33%</u>

In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Market and strategic pay adjustments throughout FY 2014 that are annualized for the 2017 biennium
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement
- Reductions in costs related to the implementation of the boilerplate language in HB 2 enacted by the 2013 Legislature
- Inclusion of FTE to administer the central stores function

As shown in the figure above, the executive proposes to move the Central Stores Program from proprietary rates to a state special revenue fund appropriated in HB 2. The 2013 Legislature eliminated the warehouse function of the Central Stores Program that was supported by a proprietary rate through agencies paying for goods and services. Instead General Services Division operates the Montana eMarketCenter. This is an online purchasing portal allowing state agencies to purchase goods directly from Montana vendors. The vendors pay a 2% fee each quarter.

Operating expense increases for the various divisions include the following:

- Procurement Bureau increases are mainly due to additional costs for State Information Technology Services Division computer services, indirect cost charges to support the Director's Office, and higher building rent
- Fueling and Procard Division changes relate to increased costs for rent and grounds maintenance charged by the proprietarily funded Facilities Maintenance Bureau
- Facilities Management includes reinstatement of a one-time-only general fund appropriation for the rent of the common areas within the State Capitol Building, the Montana Historical Society, and the Governor's Mansion

**LFD
ISSUE**

Uses of General Fund Not Identified

Beginning in the 2009 biennium, the Facilities Management Bureau began charging common areas of three state buildings rent and maintenance fees. The common areas include:

- Hallways and bathrooms in the Capitol Building
- Office space for the Senate and House of Representatives in the Capitol Building
- Governor's Mansion
- Public display areas in the Montana Historical Society
- Office space in the Montana Historical Society

The amount of general fund has varied since the practice of charging the common areas began in FY 2008. In FY 2011 General Services Division created a separate state special revenue account and deposits the general fund into the account for maintenance projects. The figure on the following page shows, by fiscal year, revenues, expenditures, and related fund balance for the state special revenue account.

Department of Administration Capitol Complex Major Maintenance						
	Actual FY 2012	Actual FY 2013	Actual FY 2014	Proposed FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	\$1,446,327	\$2,274,161	\$3,322,626	\$365,903	\$1,539,099	\$3,672,890
Revenues						
General Fund Transfer	1,196,250	1,196,250	1,220,023	1,173,196	2,133,791	2,133,791
Expenditures						
Consulting and Professional Services	0	16,384	2,134	0	0	0
Buildings and Grounds Maintenance	0	0	231,482	0	0	0
Capital Outlay	38,685	845	347,755	0	0	0
Transfers to A & E	329,731	130,556	0	0	0	0
Upgrade Scott Hart HVAC	0	0	2,815,676	0	0	0
FWP Headquarters	0	0	325	0	0	0
Retrofit Elevators	0	0	34,061	0	0	0
Upgrade Capitol HVAC	<u>0</u>	<u>0</u>	<u>745,313</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	368,416	147,785	4,176,746	0	0	0
Ending Fund Balance	<u>\$2,274,161</u>	<u>\$3,322,626</u>	<u>\$365,903</u>	<u>\$1,539,099</u>	<u>\$3,672,890</u>	<u>\$5,806,681</u>

As shown, until FY 2014 the funding transferred into the account was only partially utilized and thus fund balance accumulated. Correlating with the legislature’s designation of the funding as one-time-only, in FY 2014 \$3.5 million was transferred into the capital projects fund. In FY 2014 funds were used by the Architecture and Engineering Division, mainly for heating, ventilation, and air conditioning (HVAC) systems in the Scott Hart and Capitol Buildings. As included in the budgeting system, the agency does not propose any uses for the general fund transfers into the state special revenue fund in the 2017 biennium.

According to division staff, the planned projects for the general fund transfers include:

- Infrastructure repairs to the capitol complex - \$2.0 million
- Elevator modifications capitol complex - \$0.7 million
- Flooring replacement capitol complex - \$0.5 million
- Fire protection measures capitol complex - \$0.3 million
- Remodel 1100 North Last Chance Gulch (old State Fund Building) - \$0.5 million

With the exception of the remodel it is unclear from the project descriptions which buildings have work planned or what types of infrastructure repairs are contemplated.

The public policy consideration for the legislature should the general fund rental of common areas be increased by 81.9% to expand repairs for the capitol complex.

Legislative Option

The legislature may wish to discuss the specifics of the planned uses of the \$5.8 million from the state special revenue fund. The legislature may also wish to consider continuing to designate the funding as one-time-only so that the proposed uses of the funds are discussed in the 2019 biennium.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 06-General Services Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	6,126,492	0	127,200	6,253,692	12.39 %	
02211 Procurement Special Revenue	343,352	0	0	343,352	100.00 %	
02299 Capitol Complex Major Maint	0	0	0	0	0.00 %	
State Special Total	\$343,352	\$0	\$0	\$343,352	0.68 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06066 Surplus Property	0	1,123,463	0	1,123,463	2.56 %	
06528 Rent And Maintenance	0	20,613,593	0	20,613,593	46.97 %	
06530 Print & Mail Services	0	22,148,536	0	22,148,536	50.47 %	
06531 Central Stores	0	1	0	1	0.00 %	
Proprietary Total	\$0	\$43,885,593	\$0	\$43,885,593	86.93 %	
Total All Funds	\$6,469,844	\$43,885,593	\$127,200	\$50,482,637		

HB 2 Funding

General fund provides support for the State Procurement Bureau and for transfers to the capitol complex major maintenance account in the state special revenue fund. See LFD Issue under Program Discussion for further discussion of these payments.

State special revenues from procurement rebates fund a portion of the procurement functions that provide for the fueling and procurement card operations. The executive also proposes moving central stores from the proprietary fund to a state special revenue account.

LFD ISSUE	<p><u>Fund Balance in the Central Stores Proprietary Fund Available for the General Fund</u></p> <p>The 2013 Legislature transferred \$0.5 million of the fund balance in the central stores proprietary fund to the general fund as the central stores warehouse functions was eliminated and the funding was no longer needed. If the legislature adopts the executive’s recommendation to switch funding support for the remaining central stores program to the state special revenue fund the remaining fund balance of up to \$370,000 would be available for transfer into the general fund. The state special revenue would be generated from a 2% fee paid by businesses participating in the eMarketCenter.</p> <p>Legislative Option</p> <p>Transfer up to \$370,000 from the central store proprietary fund to the general fund if the Central Stores Program is supported through the state special revenue fund.</p>
----------------------	--

Proprietary Funds

The majority of the office is supported through proprietary funds. These funds are considered and approved as rates charged to other divisions in the agency and are discussed in the “Proprietary Rates” section of the narrative.

Statutory Appropriations

General Services Division issues federal fund rebates for procard and fuel card rebates under 17-3-106, MCA. Rebates that are for costs provided by federal funds are returned to the federal government.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	823,215	823,215	1,646,430	26.87 %	889,083	889,083	1,778,166	27.48 %
PL Adjustments	2,237,782	2,242,280	4,480,062	73.13 %	2,258,257	2,262,222	4,520,479	69.87 %
New Proposals	0	0	0	0.00 %	85,687	85,512	171,199	2.65 %
Total Budget	\$3,060,997	\$3,065,495	\$6,126,492		\$3,233,027	\$3,236,817	\$6,469,844	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	81,606	11,262	0	92,868	0.00	81,909	11,141	0	93,050
DP 99 - LEG. Present Law	0.00	2,156,176	9,213	0	2,165,389	0.00	2,160,371	8,801	0	2,169,172
Grand Total All Present Law Adjustments	0.00	\$2,237,782	\$20,475	\$0	\$2,258,257	0.00	\$2,242,280	\$19,942	\$0	\$2,262,222

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table on the following page includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	11.25	\$5,093	\$374	\$0	\$5,468
Executive Implementation of 2015 Pay Increase	0.00	12,740	1,066	-	13,806
Fully Fund 2015 Legislatively Authorized FTE	0.00	12,945	-	-	12,945
Other	0.00	50,827	9,822	-	60,649
Personal Services Present Law Adjustments	11.25	\$81,606	\$11,262	\$0	\$92,868
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	11.25	\$5,093	\$374	\$0	\$5,468
Executive Implementation of 2015 Pay Increase	0.00	12,740	1,066	-	13,806
Fully Fund 2015 Legislatively Authorized FTE	0.00	12,945	-	-	12,945
Other	0.00	51,130	9,701	-	60,831
Personal Services Present Law Adjustments	11.25	\$81,909	\$11,141	\$0	\$93,050

Other increases include market and strategic pay adjustments and adjustments for employee attainment of longevity milestones.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing an increase in general fund of \$2.1 million. This adjustment is for rent of the common areas that is discussed in the LFD Issue in the Program Discussion.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 600601 - Funding Switch for Central Stores Program	1.00	0	85,687	0	85,687	1.00	0	85,512	0	85,512
Total	1.00	\$0	\$85,687	\$0	\$85,687	1.00	\$0	\$85,512	\$0	\$85,512

DP 600601 - Funding Switch for Central Stores Program -

General Services Division proposes to switch funding for the Central Stores Program from proprietary funds to an account within the state special revenue fund. The state special revenues would be generated through a 2% fee assessed businesses participating in the eMarketCenter.

Other Issues -

Proprietary Rates

The General Services Division provides the following functions supported by proprietary rates charged to state agencies:

- Facilities management (Rent and Grounds Maintenance)
- Print services
- Mail services
- Surplus property
- Central stores

The figure below shows the proposed FTE and expenditures for each of the programs in the 2017 biennium and provides comparison to FY 2014.

Department of Administration General Services Division Proposed Proprietary Funds					
Program	FY 2014	FY 2016	% Change	FY 2017	% Change
Print and Mail Services Section					
FTE	33.68	30.68	-8.91%	30.68	-8.91%
Personal Services	\$1,528,253	\$1,585,738	3.76%	\$1,585,394	3.74%
Operating Expenses	8,776,844	9,151,984	4.27%	9,144,340	4.19%
Equipment & Intangible Assets	260,621	260,621	0.00%	260,621	0.00%
Debt Service	<u>79,854</u>	<u>79,854</u>	0.00%	<u>79,854</u>	0.00%
Total Expenditures	10,645,572	11,078,197	4.06%	11,070,209	3.99%
Surplus Property Bureau					
FTE	6.33	6.33	0.00%	6.33	0.00%
Personal Services	239,201	385,204	61.04%	384,321	60.67%
Operating Expenses	163,805	166,244	1.49%	165,303	0.91%
Equipment & Intangible Assets	<u>11,150</u>	<u>11,150</u>	<u>0.00%</u>	<u>11,150</u>	<u>0.00%</u>
Total Expenditures	414,156	562,598	35.84%	560,774	35.40%
Facilities Management Bureau					
FTE	35.83	34.33	-4.19%	34.33	-4.19%
Personal Services	1,889,577	2,222,112	17.60%	2,222,285	17.61%
Operating Expenses	6,800,852	7,796,339	14.64%	7,925,821	16.54%
Equipment & Intangible Assets	141,394	141,394	0.00%	141,394	0.00%
Transfers	243,800	240,000	-1.56%	160,000	-34.37%
Debt Service	<u>105,087</u>	<u>154,641</u>	47.16%	<u>154,641</u>	47.16%
Total Expenditures	9,180,710	10,554,486	14.96%	10,604,141	15.50%
Total Proprietary Proposed Expenditures	<u>\$20,240,438</u>	<u>\$22,195,281</u>	<u>9.66%</u>	<u>\$22,235,124</u>	<u>9.85%</u>

These programs are described in the following pages along with a discussion of each program's revenues, expenditures, and rates being requested to finance each program.

**LFD
ISSUE****Positions Vacant for a Number of Years Included within 2017 Biennium Costs**

Two of the positions included in the proprietary program, a mail clerk in Facilities Management Bureau and an accounting technician in the Surplus Property Program, were unfilled in the previous and current biennia according to the budget information. The accounting technician position was not filled at all during FY 2014 and the mail clerk position shows it was vacant 65% of FY 2014, indicating uneven need for the services. The personal services present law adjustments include changes to reinstate the funding for the vacant positions. Including the positions in the costs of the program that are allocated to rates overstates the costs of the services and increases the rate above what is needed to operate the program.

It should be noted that the legislature does not appropriate the enterprise fund nor approve related rates for services provided by the Surplus Property Bureau. It can however indicate to the program its intent for the program is to reduce current resources for the 2017 biennium rather than continue to provide statutory authority for a vacant position.

Legislative Option

The legislature may wish to consider reducing the operational costs for the 1.00 FTE mail clerk that was used sporadically and correspondingly reducing the rates for the function to reflect the reduction in operational costs. In addition, the legislature may wish to indicate its intent that the Surplus Property Bureau eliminate the 1.00 FTE and related statutory appropriation for the accounting technician that was not filled in FY 2014.

Facilities Management Bureau - 06528*Program Description*

Rent and maintenance are managed by the Facilities Management Bureau (FMB), which is the custodian of all state property and grounds in the state capitol area. The state capitol area is the geographic area within a 10-mile radius of the State Capitol. Services include providing facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area; and providing statewide leasing assistance to agencies to negotiate colocation of agencies when procuring 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.

Revenue and Expenses:

Revenues, expenditures and changes in net position for the fund associated with this function are shown on the following page.

Expenses

As shown in the figure on the page above, costs for the FMB increase by about 15% each year of the biennium when compared to those provided in the FY 2014 base. Personal services increases include reclassification of six positions or 17% of the total positions within FMB. In addition, the majority of the positions with FMB are in the blue collar pay plan. In part due to the pay freeze over the previous two biennia, employees in this pay plan received about a 5% pay increase in each year of the 2015 biennium. The increases are partially offset by the transfer of 1.50 FTE, a budget analyst and a part-time accounting technician, to the Director's Office. It should be noted that prior to the transfer the accounting technician was reclassified from a deliver services driver. These factors as well as those discussed for the HB 2 positions drive the changes to personal services.

**LFD
ISSUE****Change in Budgeting Methodology Increases Proprietary Rates to Support Personal Service Costs**

As discussed in the agency summary, about 78.3% of the vacancy savings for the agency were assessed against positions supported through proprietary rates. In the 2017 biennium the assessment of an equivalent reduction

in FTE of 4% is not included as part of the calculation of the positions funded through proprietary rates, increasing the cost of personal services between biennia and increasing costs supported by proprietary rates charged by General Services Division. This increase is then passed on in higher fixed costs assessments on state agencies including those funded with general fund.

A 4% vacancy savings assessment in personal services is about \$89,000 a year for the Facility Management Bureau. A review of the positions within FMB shows that a operations manager positions was vacant all year and a project facilitation specialist was filled less than 21% of FY 2014. The 2016 budget for these positions is \$137,700 a year.

Legislative Option

If the legislature wishes to reduce the personal service costs supported by proprietary rates by approximately 4% it can consider reducing the rates for the positions that were vacant a significant portion of FY 2014.

Operating expense increases include:

- Janitorial contracts - 10%
- Other service contracts - 3.5%
- Electricity - 2.3% in FY 2016 and 3.7% in FY 2017
- Water - 3.5%
- Administrative costs for accounting services previous done within the bureau – 62.4%

Revenues

All agencies occupying office space in a state owned building on the capitol complex pay rent to the program. Separate rental rates are established for office space and storage space and for the grounds. In addition to rent payments, agencies pay a percentage of the costs for non-routine maintenance projects. These fees are charged at different rates depending on whether bureau or contracted employees are used to complete the project. The revenues from fees are budgeted in the following percentages:

- 93% - square footage rental rate for office and warehouse space billed to agencies occupying space in state owned buildings controlled by the Department of Administration
- 6% - grounds maintenance
- 1% - Construction and handyman services. These serves are outside the scope of rent and include remodeling, relocating offices, repair and maintenance, and construction services

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: General Services Program			
	Fund	Fund Name					
	06528	Rent And Maintenance					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		6,757,577	8,111,230	7,900,987	7,862,673	9,095,135	9,115,372
Fee Revenue B		335,820	406,661	388,608	385,775	538,691	540,085
Fee Revenue C		16,793	12,923	9,674	21,200	-	-
Fee Revenue D		67,659	94,349	116,149	80,000	40,000	40,000
Fee Revenue E		114,298	129,834	55,701	210,000	50,000	50,000
Fee Revenue F		397,546	475,066	459,758	500,000	570,655	570,655
Other Operating Revenue		20,159	1,532	6,633	1,000	1,500	1,500
Total Operating Revenues		7,709,852	9,231,595	8,937,510	9,060,648	10,295,981	10,317,612
Expenses:							
Personal Services		1,894,403	1,899,836	1,830,052	2,081,179	2,222,336	2,222,489
Other Operating Expenses		9,088,826	7,481,511	7,046,658	6,780,748	7,833,624	7,935,102
Total Operating Expenses		10,983,229	9,381,347	8,876,710	8,861,927	10,055,960	10,157,591
Operating Income (Loss)		(3,273,377)	(149,752)	60,800	198,721	240,021	160,021
Nonoperating Revenues:							
Other Revenue A		269	8,823	7,799	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		269	8,823	7,799	-	-	-
Income (Loss) Before Contributions and Transfers		(3,273,108)	(140,929)	68,599	198,721	240,021	160,021
Transfers In		(115,266)	(251,712)	-	-	-	-
Transfers Out		(289,000)	(246,000)	(328,068)	(240,000)	(240,000)	(160,000)
Change in Net Position		(3,677,374)	(638,641)	(259,469)	(41,279)	21	21
Beginning Net Position - July 1		4,365,019	687,645	45,708	(213,761)	733,609	733,630
Prior Period Adjustments		-	(3,296)	-	988,649	-	-
Change in Net Position		(3,677,374)	(638,641)	(259,469)	(41,279)	21	21
Ending Net Position - June 30		687,645	45,708	(213,761)	733,609	733,630	733,651
Net Position (Fund Balance) Analysis							

Rate and Rate Explanation

Rent is based on square feet occupied and is assessed each agency in the buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services and operating expenses including maintenance and equipment. Grounds maintenance charges are also based on square feet of office space occupied in buildings controlled by the Department of Administration. Again, the rates are established to cover the cost of personal services and operating expenses including maintenance and equipment replacement.

The executive proposed the following rates:

Requested Rates for Internal Service Funds Fee/Rate Information						
	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
Office Rent (per sq. ft.)	8.412	8.460	8.434	8.217	9.888	9.910
Warehouse Rent (per sq. ft.)	4.844	4.876	4.625	4.637	4.625	4.637
Grounds Maintenance (per sq. ft.)	0.494	0.494	0.491	0.493	0.615	0.615
Project Mgmt. (In-house)	15%	15%	15%	15%	15%	15%
Project Mgmt. (Contracted)	5%	5%	5%	5%	5%	5%

Print and Mail Services Bureau - 06530

Program Description

The Print and Mail Services Bureau (PMSB) provides printing and mail services to all agencies within State Government. The bureau has seven 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 station in the Capitol. All printing or purchasing of printing is requested through Print and Mail Services, which determines the most cost effective method of project completion. Approximately 64.4% of printing expenditures were procured through commercial vendors in FY 2014.

Revenue and Expenses

Revenues, expenses, and changes in net position are presented in the figure on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06530	Print & Mail Services	6101	General Services

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues				
Fees and Charges				
Internal Printing	\$1,637,751	\$1,989,043	\$1,859,257	\$1,859,257
External Printing	2,965,562	2,739,014	2,981,350	2,981,350
Photocopy Pool	540,474	541,003	540,474	540,474
Mail Preparation	798,888	732,958	798,888	798,888
Mail Operations	4,377,743	4,727,801	4,518,743	4,518,743
Inter-Agency (Deadhead)	314,750	314,750	355,570	355,570
Postal Contract Station	38,976	38,976	38,976	38,976
Other Operating Revenues	0	0	0	0
Jury Duty	25	0	0	0
Total Operating Revenues	10,674,169	11,083,545	11,093,258	11,093,258
Expenses				
Personal Services	1,540,498	1,579,157	1,400,972	1,401,015
Other Operating Expense	9,132,154	9,538,458	9,492,459	9,484,815
Total Operating Expense	10,672,652	11,117,615	10,893,431	10,885,830
Operating Income (Loss)	\$1,517	(\$34,070)	\$199,827	\$207,428
Nonoperating Revenues				
Gain (loss) Sale of Fixed Assets				
Total Nonoperating Revenues (Expenses)	0	0	0	0
Income (Loss) Before Contributions and Transfers	\$1,517	(\$34,070)	\$199,827	\$207,428
Capital Contributions				
Change in Net Position	\$1,517	(\$34,070)	\$199,827	\$207,428
Beginning Net Position - July 1	1,874,610	1,966,390	1,932,320	2,132,147
Prior Period Adjustments	90,263			
Change in Net Position	1,517	(34,070)	199,827	207,428
Ending Net Position - June 30	\$1,966,390	\$1,932,320	\$2,132,147	\$2,339,575

Expenses

The executive proposes moving 3.00 FTE, two accounting technicians and a budget analyst, from the General Services Division to the Director's Office to consolidate budget and accounting functions. PMSB also reclassified two positions.

Changes in operating expenses include:

- Administrative costs for the Director's Office accounting services - \$100,000
- Postage and mailing - \$143,000
- Building rental - \$33,000

Revenues

All state agencies in Helena use the services of this program depending upon their printing and mail needs. Printing revenue is based on the actual type and volume of printing provided and mail services is based on agency specified service frequency.

Revenue was received in the following percentages in FY 2014:

- Internal printing - 15.3%
- External printing – 27.8%
- Photocopy pool – 5.1%
- Mail Preparation – 7.5%
- Central Mail Operations – 41.0%
- Inter-agency (Deadhead Mail) – 2.9%
- Postal Contract Station – 0.4%

Historically the legislature examines the costs of operating a program for 60 days as a reasonable amount to maintain in fund balance. The figure below shows the working capital for the print and mail services program using current assets and current liabilities to determine the operating balance available to the program.

2017 Internal Service Fund						
Fund	Fund Name	Agency #	Program Name			
06530	Mail Services	6101	General Services			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Cash Available for Fund Operations (Working Capital)						
	Current Assets		2,296,010			
	Less Current Liabilities		(778,651)			
	Working Capital (WC)		1,517,359	1,483,289	1,683,116	1,890,544
Cash Required for Fund Operations						
	60 Days Operations Expense		1,778,775	1,852,936	1,815,572	1,814,305
	Difference		261,416	369,647	132,456	(76,239)
Budgeted WC = Actual WC FY2014 + or - Budgeted FY2015, FY2016, and FY2017 Net Income or Net Loss						

**LFD
ISSUE**Rates for the 2017 Biennium Will Generate More Funding Than Required By the Program

As shown in the figure above, the program will have \$76,200 more than required to fund expenses for the program and maintain a working capital of 60 working days for print and mail services. Historically the legislature has adopted actual spending for agency printing costs within an agency budget with the exception of the messenger services (inter-agency mail). As the messenger services costs are driving the increases in funding above projected costs, the legislature may wish to consider reducing the cost increases for messenger services to within the 60 working day capital amount. These costs are included as part of the fixed costs in the legislative present law adjustments and are projected to increase by \$156,404 over the biennium. To align program revenues with projected costs the legislature could reduce messenger services increases by 51.3%.

Legislative Option

The legislature may wish to reduce fixed costs for messenger services charged to state agencies to reduce the projected ending fund balance in the print and mail services.

Rates and Rate Explanations

For the 2017 biennium the following rates are proposed by the executive as shown on the following page. The rates charged in the previous two biennia are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information						
	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
Internal Printing						
Impression Cost						
1-20	0.0762	0.0762	0.0800	0.0800	0.0930	0.0930
21-100	0.0336	0.0336	0.0360	0.0360	0.0420	0.0420
101-1000	0.0193	0.0193	0.0200	0.0200	0.0230	0.0230
1001-5000	0.0078	0.0078	0.0080	0.0080	0.0090	0.0090
5000 +	0.0039	0.0039	0.0040	0.0040	0.0050	0.0050
Color Copy						
8 1/2 x 11	0.25	0.20	0.22	0.25	0.25	0.25
11 x 17	0.50	0.40	0.44	0.50	0.50	0.50
Ink						
Black per Sheet	0.0002	0.0002	0.0002	0.0002	0.00024	0.00024
Color	15.00	15.00	15.00	15.00	15.00	15.00
Special Mix	25.00	25.00	25.00	25.00	25.00	25.00
Collating Machine	0.0072	0.0072	0.0080	0.0080	0.0085	0.0085
Collating Hand	0.60	0.60	0.60	0.60	0.64	0.64
Stapling Hand	0.018	0.018	0.018	0.018	0.018	0.018
Stapling In-line	0.012	0.012	0.012	0.012	0.012	0.012
Saddle Stitch	0.036	0.036	0.036	0.036	0.036	0.036
Folding	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006
Folding Rt Angle	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006
Folding In-line	0.036	0.036	0.036	0.036	0.036	0.036
Punching St 3 hole	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012
Punching Non St	3.60 + .0012	3.60 + .0012	3.60 + .0012	3.60 + .0012	3.60 + .0012	3.60 + .0012
Cutting	0.66	0.66	0.66	0.66	0.66	0.66
Padding	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024

Scoring, perf, num	6.00 + Dup Rate	6.00 + Dup Rate	6.00 + Dup Rate	6.00 + Dup Rate	6.00 + Dup Rate	6.00 + Dup Rate
Perfect Binding	18.00 + 0.66	18.00 + 0.66	18.00 + 0.66	18.00 + 0.66	18.00 + 0.66	18.00 + 0.66
Spirial Binding	0.69	0.69	0.69	0.69	0.79	0.79
Laminating						
8 1/2 x 11	0.57	0.57	0.57	0.57	0.57	0.57
11 x 17	0.85	0.85	0.85	0.85	0.85	0.85
Tape Binding	0.60	0.60	0.60	0.60	0.60	0.60
Shrink Wrapping	0.30	0.30	0.30	0.30	0.30	0.30
Hand Work Production	0.60	0.60	0.60	0.60	0.64	0.64
Overtime	22.15	22.15	24.00	24.00	24.00	24.00
Desktop	46.36	46.36	50.00	50.00	65.00	65.00
Scan	9.52	9.52	9.52	9.52	9.52	9.52
Large Format Color per ft.	12.70	12.70	12.70	12.70	12.70	12.70
Proof	0.25	0.25	0.25	0.25	0.25	0.25
Programming	45.46	45.46	50.00	50.00	65.00	65.00
File Transfer	22.00	22.73	25.00	25.00	25.00	25.00
Variable Data	0.009	0.009	0.015	0.02	0.02	0.02
CD Duplicating	1.75	1.75	1.75	1.75	1.75	1.75
DVD Duplicating	3.50	3.50	3.50	3.50	3.50	3.50
Mainframe Print	0.069	0.069	0.069	0.069	0.069	0.069
Silver Plates						
8.5x11	9.20	9.20	9.20	9.20	9.20	9.20
11x17	10.35	10.35	10.35	10.35	10.35	10.35
CTP Plates						
8.5x11	9.20	9.20	9.20	9.20	9.20	9.20
11x17	10.35	10.35	10.35	10.35	10.35	10.35
Inventory Mark Up	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Fee Group						
External Printing						
Percent of Invoice	6.73%	6.73%	6.73%	6.73%	7.30%	7.30%
Mark-up						
Fee Group						
Photocopy Pool						
Percent of Invoice	15.0%	15.0%	15.9%	15.9%	15.9%	15.9%
Mark-up						
Fee Group						
Mail Preparation						
Tabbing	0.021	0.021	0.021	0.021	0.021	0.021
Labeling	0.021	0.021	0.021	0.021	0.021	0.021
Ink Jet	0.034	0.034	0.034	0.034	0.034	0.034
Inserting	0.030	0.030	0.030	0.030	0.030	0.030
Waymark	0.062	0.062	0.069	0.069	0.069	0.069
Permit mailings	0.062	0.062	0.069	0.069	0.069	0.069
Fee Group						
Mail Operations						
Service Type (each)						
Machinable	0.043	0.043	0.043	0.043	0.043	0.043
Non-Machinable	0.080	0.080	0.100	0.100	0.100	0.100
Seal Only	0.020	0.020	0.020	0.020	0.020	0.020
Post cards	0.049	0.049	0.060	0.060	0.060	0.060
Certified Mail	0.614	0.614	0.614	0.614	0.614	0.614
Registered Mail	0.614	0.614	0.614	0.614	0.614	0.614
Internatl Mail	0.400	0.400	0.500	0.500	0.500	0.500
Flats	0.110	0.110	0.140	0.140	0.140	0.140
Priority	0.614	0.614	0.614	0.614	0.614	0.614
Express Mail	0.614	0.614	0.614	0.614	0.614	0.614
USPS Parcels	0.400	0.400	0.500	0.500	0.500	0.500
Insured mail	0.614	0.614	0.614	0.614	0.614	0.614
Media Mail	0.307	0.307	0.307	0.307	0.307	0.307
Standard Mail	0.200	0.200	0.200	0.200	0.200	0.200
Postage Due	0.061	0.061	0.061	0.061	0.061	0.061
Fee Due	0.061	0.061	0.061	0.061	0.061	0.061
Tapes	0.245	0.245	0.245	0.245	0.245	0.245
Express Services	0.500	0.500	0.500	0.500	0.500	0.500
Mail tracking					0.250	0.250
Cass letters/postcards					0.043	0.043
Cass flats					0.100	0.100
Flat sorter					0.250	0.250
Fee Group						
Inter-agency Mail						
Dollars-yearly	297,657	297,657	314,750	314,750	355,570	355,570

Fee Group						
Postal Contract (Capitol)						
Dollars-yearly	38,976	38,976	38,976	38,976	38,976	38,976

06066 Surplus Property Program

Program Description

The Property and Supply Bureau operates the surplus property program to administer the sale of surplus property no longer needed by agencies. This property is distributed to state agencies or other eligible organizations. The program sells property through on-line auction, fixed price warehouse sales, public auction, and garage sales. The surplus property program services include extending the life of state property by providing a mechanism to transfer surplus property between agencies, providing accountability in the disposal of surplus state property, providing agencies with a surplus equipment pick up service, and providing a screening service to locate federal surplus property for state and local agencies.

The figure on the following page provides the anticipated revenues, expenditures, and net positions for the 2015 and 2017 biennia.

2017 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06066	Surplus Property	6101	General Services Division

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues				
Fees and Charges				
State Surplus Property Handling Fee	\$346,842	\$376,083	\$350,000	\$350,000
Federal Surplus Property Handling Fee	11,663	13,893	14,101	14,313
Total Operating Revenues	358,504	389,976	364,101	364,313
Expenses				
Personal	240,684	324,606	385,249	384,367
Services	756,615	142,250	177,394	176,453
Other Operating Expense				
Total Operating Expense	997,299	466,856	562,643	560,820
Operating Income (Loss)	(\$638,795)	(\$76,880)	(\$198,542)	(\$196,507)
Nonoperating Revenues	0	0	0	0
Gain (Loss) Sale of Fixed Assets	7,030	0	0	0
Nonoperating Expenses	0	0	0	0
Total Nonoperating Revenues (Expenses)	7,030	0	0	0
Income (Loss) Before Contributions and Transfers	(\$631,765)	(\$76,880)	(\$198,542)	(\$196,507)
Capital Contributions	607,182	500,000	600,000	600,000
Change in Net Position	(\$24,583)	\$423,120	\$401,458	\$403,493
Beginning Net Position - July 1	503,368	477,031	900,151	1,301,609
Prior Period Adjustments	(1,755)	0	0	0
Change in Net Position	(24,583)	423,120	401,458	403,493
Ending Net Position - June 30	\$477,031	\$900,151	\$1,301,609	\$1,705,102

Rate and Rate Explanation:

This program is funded with an enterprise fund type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund. See LFD Issue in the narrative for a discussion of vacant positions within this program and related legislative options.

Proprietary Rates

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial positions of the fund.

Requested Rates for Internal Service Funds Fee/Rate Information					
Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
<p>Fee Description: The State Surplus handling fees are: If property is sold for less than \$500, the program retains the proceeds. The program retains \$500 plus 5% and unusual expenses for property sold for more than \$500. 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 the Federal General Services Administration.</p>					

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	7.00	7.00	6.09	6.09	7.00	6.09	(0.91)	(13.00)%
Personal Services	523,947	658,797	507,257	507,573	1,182,744	1,014,830	(167,914)	(14.20)%
Operating Expenses	243,893	1,150,845	259,696	258,644	1,394,738	518,340	(876,398)	(62.84)%
Equipment & Intangible Assets	0	0	0	0	0	0	0	0.00%
Transfers	61,642	0	25,900	27,250	61,642	53,150	(8,492)	(13.78)%
Total Costs	\$829,482	\$1,809,642	\$792,853	\$793,467	\$2,639,124	\$1,586,320	(\$1,052,804)	(39.89)%
General Fund	458,359	475,175	423,427	424,041	933,534	847,468	(86,066)	(9.22)%
State/Other Special Rev. Funds	357,697	404,467	356,000	356,000	762,164	712,000	(50,164)	(6.58)%
Federal Spec. Rev. Funds	13,426	930,000	13,426	13,426	943,426	26,852	(916,574)	(97.15)%
Total Funds	\$829,482	\$1,809,642	\$792,853	\$793,467	\$2,639,124	\$1,586,320	(\$1,052,804)	(39.89)%

Program Description

The State Information Technology Services Division (SITSD) is a proprietary program that provides central computing, data network, and telecommunications services for state government. SITSD provides central mainframe and mid-tier computer services and manages the statewide data network (SummitNet) used by all agencies located throughout the state. SITSD provides local and long distance telephone network services for state agencies, including the university system, and manages the state's video network. SITSD coordinates electronic government services and manages the state's Internet presence mt.gov.

The division houses the Public Safety Services Office that includes the state's 911, public safety radio, and Montana broadband programs.

The Office of the Chief Information Officer (office) directs and coordinates the development of the Statewide Strategic IT Plan, information technology (IT), statewide IT training, and establishment of hardware, software, and consulting service contracts used by agencies. The office also reviews and approves IT acquisitions.

Program Highlights

State Information Technology Services Division Major Budget Highlights
<ul style="list-style-type: none"> • Majority of the funding in this program is proprietary funds • The executive proposes to increase state agency costs for information technology services by \$11.3 million over the 2017 biennium

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The State Information Technology Services Program did not change the FY 2015 legislative appropriations. The number shown in the program budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$1.0 million lower than the FY 2015 legislative appropriation. The primary reason for the difference is due lower spending for the federal FirstNet planning grant. The federal grant supports the planning process for a specific frequency for emergency first responders. The legislature provided the funds as a biennial appropriation under the assumption creating a new program often results in lower expenditures in the first year.

Executive Request

The Governor revised his budget proposal on December 15 to include \$1.6 million for continuation of the FirstNet grant. Funding for the grant included \$90,000 in personal services authority for modified positions in FY 2015. The inclusion of the authority in FY 2015 drives the personal services changes between biennia. This is also the reason for the reduction in operating expenses between biennia as shown on the program budget comparison table. The Governor's revisions would result in an increase of \$637,000 in funding for operating costs in FY 2016 and a decrease of \$820,000 in FY 2017 when compared to the 2015 legislative base budget.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 07-State Information Technology Services Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	847,468	0	0	847,468	0.75 %
02105 Basic 9-1-1 Emergcy Phone Prog	0	0	6,321,576	6,321,576	25.68 %
02397 Enhanced 9-1-1 Emerg Tel Pgm	0	0	6,321,576	6,321,576	25.68 %
02594 Basic 911 Emerg Phone Program	712,000	0	0	712,000	2.89 %
02993 WIRELESS 911	0	0	6,322,224	6,322,224	25.68 %
02994 WIRELESS 911 PROVIDERS	0	0	4,937,894	4,937,894	20.06 %
State Special Total	\$712,000	\$0	\$23,903,270	\$24,615,270	21.93 %
03397 STATE BROADBAND DATA & DEV	0	0	0	0	0.00 %
03454 Homeland Security Grant	0	0	0	0	0.00 %
03462 GIS-Homeland Security Grant	0	0	0	0	0.00 %
03485 FirstNet Planning Grant	26,852	0	0	26,852	100.00 %
03562 CISO HSGP Grant	0	0	0	0	0.00 %
Federal Special Total	\$26,852	\$0	\$0	\$26,852	0.02 %
06522 ISD Proprietary	0	86,772,432	0	86,772,432	100.00 %
Proprietary Total	\$0	\$86,772,432	\$0	\$86,772,432	77.29 %
Total All Funds	\$1,586,320	\$86,772,432	\$23,903,270	\$112,262,022	

General fund provides funding for the administration of the Public Safety Services Office. State special revenues in the program provide support for the administrative costs related to 911 services. Fees are imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services.

Proprietary Funding

The majority of the office functions are funded with proprietary funds. These funds are considered and approved as rates charged to other agencies and divisions within this agency and are discussed in the "Proprietary Rate" section of the narrative.

Statutory Appropriations

The majority of the state special revenue funding in the division is statutorily appropriated for 911 services. 911 surcharges are collected by the state and statutorily appropriated for distribution to counties and telecommunication providers.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	475,175	475,175	950,350	112.14 %	1,809,642	1,809,642	3,619,284	228.16 %
PL Adjustments	(51,748)	(51,134)	(102,882)	(12.14)%	(912,947)	(913,851)	(1,826,798)	(115.16)%
New Proposals	0	0	0	0.00 %	(103,842)	(102,324)	(206,166)	(13.00)%
Total Budget	\$423,427	\$424,041	\$847,468		\$792,853	\$793,467	\$1,586,320	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----				-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(6,148)	31,602	(108,894)	(83,440)	0.00	(6,031)	30,843	(108,104)	(83,292)
DP 99 - LEG. Present Law	0.00	(45,600)	23,773	(807,680)	(829,507)	0.00	(45,103)	23,014	(808,470)	(830,559)
Grand Total All Present Law Adjustments	0.00	(\$51,748)	\$55,375	(\$916,574)	(\$912,947)	0.00	(\$51,134)	\$53,857	(\$916,574)	(\$913,851)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table on the following page includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	6.59	\$1,502	\$1,701	\$0	\$3,203
Executive Implementation of 2015 Pay Increase		4,769	5,248	-	10,017
Fully Fund 2015 Legislatively Authorized FTE		7,304	-	-	7,304
Other		(19,722)	24,653	(108,894)	(103,964)
Personal Services Present Law Adjustments	6.59	(\$6,148)	\$31,602	(\$108,894)	(\$83,440)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	6.59	\$1,502	\$1,701	\$0	\$3,203
Executive Implementation of 2015 Pay Increase		4,769	5,248	-	10,017
Fully Fund 2015 Legislatively Authorized FTE		7,304	-	-	7,304
Other		(19,605)	23,894	(108,104)	(103,816)
Personal Services Present Law Adjustments	6.59	(\$6,031)	\$30,843	(\$108,104)	(\$83,292)

DP 99 - LEG. Present Law -

The reduction in expenses and funding is due to the FirstNet planning grant which were not included in the November 15 Governor’s budget submission. As previously discussed the Governor included \$1.5 million in federal funds for the First Net planning grant in his December 15th revisions.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 700704 - FTE and Expenditure Reduction	(0.50)	0	(103,842)	0	(103,842)	(0.50)	0	(102,324)	0	(102,324)
Total	(0.50)	\$0	(\$103,842)	\$0	(\$103,842)	(0.50)	\$0	(\$102,324)	\$0	(\$102,324)

DP 700704 - FTE and Expenditure Reduction -

This request adjusts personal services and operating expenditures for FY 2016 and FY 2017 in order to balance to estimated revenues for this program.

Other Issues -

Proprietary Rates

State Information Technology Services Division - 06522

Program Description

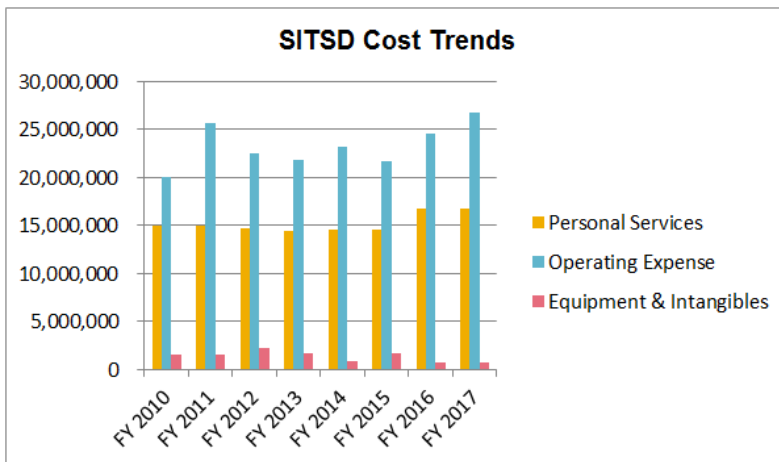
The State Information Technology Services Division manages information technology services for state government. Responsibilities include:

- Information Systems Security: ensure continuity of enterprise operations and security of data through risk assessment and mitigation, planning and monitoring, detailed recovery planning, incident response, and periodic testing. Coordinate security policies and procedures
- Network Technology Services: manage the statewide network (SummitNet); provide prioritized voice, video, data and wireless services; develop and implement solutions to address network growth and expansion; and support customers' needs regarding increased bandwidth and connectivity
- Enterprise Technology Services: develop and manage hardware and software services across the enterprise in a cost-effective manner
- Enterprise Support Services – manage service desk to assist customers regarding hardware and software applications, manage desktop lifecycle for customers
- Montana Data Centers: manage state data centers in Helena and Miles City and reliably, efficiently, and securely provide file storage
- Application Technology Services: support the state's mt.gov websites and assist customers to design and deploy customized applications and online services, including eGovernment applications
- Strategic Planning Services: ensure IT operations are conducted through planning and periodic performance reports, and provide oversight of agency IT procurements and plans
- Business and Financial Services – manage budget development, billing, and acquisition and procurement services for IT customers, implement strategies to meet customer needs and deliver and maintain services
- State IT Project Management Services – provide expertise, assistance, tools, methodologies, and training to customers to ensure IT projects are conducted in an organized, deliberative, and cost-effective manner

Revenues and Expenses

Expenses

SITSD is projecting large increases in various expenditures when compared to previous years. The chart below shows the costs for personal services, operating expenses, and equipment from FY 2010 through FY 2017 projections.



As shown, personal service costs have hovered around \$15.0 million since FY 2010. They are projected to be \$16.7 million in FY 2016 and \$16.8 million in FY 2017. The costs increases are due to:

- Reclassification of 33.50 FTE from one type of position to another type which increased costs for a portion of the positions
- Increases in pay and health insurance for proprietarily funded positions as provided in HB 13

Operating expenses increase from \$23.1 million in FY 2014 to \$24.6 million in FY 2016 and \$26.8 million in FY 2017. Projected increases include:

- Converged Traffic - \$75,322 in FY 2016 and \$1,994,927 in FY 2017
- Software program licenses - \$880,000 in FY 2016 and \$1,100,000 in FY 2017
- Multi-user computers repair and maintenance - \$188,500 in FY 2016 and \$292,000 in FY 2017

Overall expenses and revenues for the program are shown on in the figure below.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Information Technology Services Division			
	Fund	Fund Name					
	06522	ISD Proprietary					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		36,988,678	37,204,910	38,332,137	39,600,000	42,294,100	44,508,458
Other Operating Revenue		34,468	10,778	51,905	35,000	50,000	50,000
Total Operating Revenues		37,023,146	37,215,688	38,384,042	39,635,000	42,344,100	44,558,458
Expenses:							
Personal Services							
Other Operating Expenses		27,433,836	24,880,710	25,706,816	23,240,212	25,558,627	27,723,158
Total Operating Expenses		42,141,885	39,199,590	40,365,067	38,742,293	42,291,674	44,480,758
Operating Income (Loss)		(5,118,739)	(1,983,902)	(1,981,025)	892,707	52,426	77,700
Nonoperating Revenues:							
Other Revenue A		696,638	-	-	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		696,638	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(4,422,101)	(1,983,902)	(1,981,025)	892,707	52,426	77,700
Capital Contributions							
Transfers In		872,349	-	33,132	-	-	-
Transfers Out		-	-	19,522	-	-	-
		-	-	(467,866)	-	-	-
Change in Net Position		(3,549,752)	(1,983,902)	(2,396,237)	892,707	52,426	77,700
Beginning Net Position - July 1		10,258,556	6,708,774	4,720,622	2,324,385	3,217,092	3,269,518
Prior Period Adjustments		(30)	(4,250)	-	-	-	-
Change in Net Position		(3,549,752)	(1,983,902)	(2,396,237)	892,707	52,426	77,700
Ending Net Position - June 30		6,708,774	4,720,622	2,324,385	3,217,092	3,269,518	3,347,218
Net Position (Fund Balance) Analysis							

Revenues

Funding for SITSD services is from charges to state agencies through the fixed cost process for server and application hosting and data network services.

Budget authority to pay the SITSD allocation is a fixed cost item in each agency’s budget. The statewide fixed cost in the executive budget is \$11.3 million higher in the 2017 biennium when compared to doubled actual FY 2014 expenditures.

Using the source of the funding for the agency costs, this is a \$4.3 million general fund impact. Projected increases are due to:

- The amount of services projected by the agency
- Rate increases due to increased costs of services
- An increase in the requested working capital balance contribution included in the proprietary rates

SITSD uses a methodology to identify and allocate the full costs of each separate service it offers to the users of that service. This is known as the full-cost transparency model (FTM) and has been in place since the 2011 biennium. SITSD defines over 200 services, allocates costs and staff time to each service, and estimates the number of services that will be provided to each agency. Rates are based on a detailed allocation of expenditures and staff time to each service.

Changes to state agency SITSD costs from FY 2014 actual spending are shown in the following table.

Department of Administration State Information Technology Services Division Increases in Costs to State Agencies All Funding Sources				
Agency	FY 2016		FY 2017	
	Cost Changes	% of Total	Cost Changes	% of Total
Legislative Branch	\$145,068	3.16%	\$201,533	3.01%
Consuer Council	810	0.02%	810	0.01%
Judicial Branch	754,438	16.45%	789,462	11.78%
Governor's Office	(103,841)	-2.26%	(103,841)	-1.55%
Secretary of State	57,298	1.25%	57,298	0.86%
Commissioner of Political Practices	0	0.00%	0	0.00%
State Auditor's Office	15,789	0.34%	16,257	0.24%
Office of Public Instruction	(7,630)	-0.17%	(7,630)	-0.11%
Board of Crime Control	6,792	0.15%	6,792	0.10%
Department of Justice	619,384	13.50%	1,289,423	19.24%
Public Service Commission	6,013	0.13%	6,013	0.09%
Board of Public Education	2,881	0.06%	2,881	0.04%
Commissioner of Higher Education	(5,193)	-0.11%	(5,193)	-0.08%
School for the Deaf and Blind	15,940	0.35%	15,940	0.24%
Montana Arts Council	6,260	0.14%	6,260	0.09%
Montana State Library	5,641	0.12%	5,856	0.09%
Montana Historical Society	17,843	0.39%	17,843	0.27%
Department of Fish, Wildlife, and Parks	91,740	2.00%	122,983	1.84%
Department of Environmental Quality	32,679	0.71%	34,351	0.51%
Department of Transportation	713,334	15.55%	926,095	13.82%
Department of Livestock	9,466	0.21%	5,221	0.08%
Department of Natural Resources	221,522	4.83%	520,804	7.77%
Department of Revenue	623	0.01%	775	0.01%
Department of Administration	(311,678)	-6.79%	(299,869)	-4.47%
Office of the Public Defender	81,114	1.77%	96,061	1.43%
Department of Agriculture	128,711	2.81%	129,665	1.93%
Department of Corrections	428,083	9.33%	473,486	7.07%
Department of Commerce	85,797	1.87%	85,797	1.28%
Department of Labor and Industry	(36,453)	-0.79%	(41,498)	-0.62%
Department of Military Affairs	0	0.00%	0	0.00%
Department of Public Health and Human Services	<u>1,604,587</u>	<u>34.98%</u>	<u>2,347,880</u>	<u>35.04%</u>
Total Increased costs for State Agencies	<u>\$4,587,018</u>	<u>100.00%</u>	<u>\$6,701,455</u>	<u>100.00%</u>

As shown, proposed fixed costs for state agencies are significantly higher for the 2017 biennium.

In addition to the option discussed earlier of reducing support for personal service increases, the legislature may wish to discuss with SITSD other methods for reducing costs including:

- Reduction or elimination of services
- Postponing computer replacements
- Changes to software licensing agreements or switching to less expensive technology
- Reducing the working capital balance contribution included in the rates

Proprietary Rates

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	30-Day Working Capital Reserve	30-Day Working Capital Reserve	60-Day Working Capital Reserve	60-Day Working Capital Reserve
The State Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain a 60-day working capital.				

LFD COMMENT	By approving the working capital rate the legislature would allow SITSD to establish the rates for its customers, and set and change the level of the rates throughout the interim.
--------------------	---

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	37.00	37.00	34.80	34.80	37.00	34.80	(2.20)	(5.95)%
Personal Services	2,736,740	2,870,477	3,324,391	3,326,938	5,607,217	6,651,329	1,044,112	18.62 %
Operating Expenses	861,750	1,016,511	983,928	916,317	1,878,261	1,900,245	21,984	1.17 %
Total Costs	\$3,598,490	\$3,886,988	\$4,308,319	\$4,243,255	\$7,485,478	\$8,551,574	\$1,066,096	14.24 %
State/Other Special Rev. Funds	3,598,490	3,886,988	4,308,319	4,243,255	7,485,478	8,551,574	1,066,096	14.24 %
Total Funds	\$3,598,490	\$3,886,988	\$4,308,319	\$4,243,255	\$7,485,478	\$8,551,574	\$1,066,096	14.24 %

Program Description

The Banking and Financial Division (division) licenses, supervises, regulates, and examines financial institutions doing business in Montana. Those institutions include:

- Banks and trust companies and related branch banks
- Credit unions
- Consumer finance companies
- Sales finance companies
- Escrow companies

The division also licenses and examines residential mortgage loan service providers.

Supervision of regulated depository financial institutions is accomplished primarily through examinations. The safety and soundness of Montana state chartered banks and credit unions, which hold over \$28 billion in assets as of July 2014, are supervised by the division. Banks are statutorily required to be examined at least once every 24 months. Credit unions are examined at least every 18-months. Consumer lenders, mortgage companies, and deferred deposit lenders may be examined at any time. Escrow companies and sales finance companies are examined as necessary.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations on applications for new bank charters and trust companies; hearing appeals of division decisions on branch bank, merger, or relocation applications; and may also act in an advisory capacity with respect to the duties and powers given by statute to the department when requested by the division.

Program Highlights

Banking and Financial Division Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes increasing 2017 biennium budget 14.2% compared to the 2015 biennium budget • Majority of the increases are due to changes in personal services costs
Major LFD Issues
<ul style="list-style-type: none"> • Fees charged to banking and financial institutions are not commensurate with the costs of providing program services

Program Discussion -*Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base*

The Banking and Financial Institutions Division did not change the FY 2015 legislative appropriations. The number shown in the program budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$288,498 lower than the FY 2015 legislative appropriation. The primary reasons for the difference include:

- Vacant positions within the division
- Usage of information technology and professional consulting services lower than anticipated in the budget

Executive Request

Personal services increase between biennia for two main reasons:

- High turnover in the division during FY 2014
- Pay and benefit changes provided in FY 2015 through HB 13 that are annualized in FY 2016

In FY 2014, 18.9% of the division's 37 positions were vacant at least 50% of the year with one, a financial operations supervisor/manager, vacant all year. It should be noted that this is an improvement from FY 2012 when 32.4% of the positions were vacant at least 21.7% of the year. According to the division significant recruitment and retention problems exist within the division in part due to:

- Significant travel associated with examinations
- Workplace conditions, as bank examiners may generate concern and anxiety among bank employees being examined
- High workloads due to recurring vacancies
- Competition with private and federal entities for the same workforce

The division has put several measures in place to address the issue, including:

- Career tracks for bank examiners
- Alternate work schedules
- Compensation based on the number of nights an individual is on the road

In addition, the pay increases contained in HB 13 have allowed pay for bank examiners to move into the market ranges for their positions. As of June 5, 2012, 40% of the workforce's salaries were below 80% of the market midpoint for the position,

including a number of financial examiners. With the pay increase slated to begin on November 15, 2014, all of the financial examiners will be above the minimum of the occupational wage range.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 14-Banking and Financial Institutions Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0.00 %
02077 Financial Institutions Div	8,551,574	0	0	8,551,574	100.00 %
State Special Total	\$8,551,574	\$0	\$0	\$8,551,574	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$8,551,574	\$0	\$0	\$8,551,574	

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

LFD ISSUE

Fees Not Commensurate with Cost of Providing Services

The state budgeting system shows that the division's state special revenue account fund balance is projected to increase, from \$2.1 million at the beginning of FY 2014 to \$2.9 million at the end of FY 2017. The projections are shown in the figure below.

Department of Administration Banking and Financial Division				
	Actuals FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	\$2,114,347	\$2,493,601	\$2,898,974	\$2,883,888
Revenues				
Licenses and Permits	1,371,661	1,250,000	1,250,000	1,250,000
Charges for Services	2,594,605	3,000,000	3,000,000	3,000,000
	0	30,000	30,000	30,000
Grants/Transfers/Misc	<u>7,577</u>	<u>13,000</u>	<u>13,000</u>	<u>13,000</u>
Total Revenues	3,973,843	4,293,000	4,293,000	4,293,000
Expenditures				
Personal Services*	2,732,925	2,870,477	3,324,158	3,326,711
Operating Expenses	<u>861,664</u>	<u>1,017,150</u>	<u>983,928</u>	<u>916,317</u>
Total Expenditures	3,594,589	3,887,627	4,308,086	4,243,028
Ending Fund Balance	<u>\$2,493,601</u>	<u>\$2,898,974</u>	<u>\$2,883,888</u>	<u>\$2,933,860</u>

Reasonable reserves

At the end of FY 2014 the fund balance was more than four times a level sufficient to finance 60 days of costs, or \$591,000. A 60-day working capital reserve is generally recognized as a reasonable level of fund balance for state government operations and is used to evaluate internal services funds within the agency. The figure on the previous page shows continued increasing fund balance in spite of increased costs for personal services and operating expenses, with the ending fund balance still four times above the level of 60 days of costs, or \$708,000.

The majority of the revenues collected by the division are fees set in rule. During the 2013 Legislative Session the division indicated it was expecting a significant change in the number of state-chartered banks and would review the assessment rates after the impact of the change was known. The change occurred in FY 2012.

Based on the increasing fund balance, fees are not commensurate with costs of providing the program. In the past the division provided for a one-time 50% reduction in the fees. This, however, did not result in a corresponding reduction in fund balance as the costs of operating the program were also lower due to the number of vacant positions. The legislature may wish to discuss with the division which assessment fees should be permanently changed to reduce the fund balance in the state special revenue account to a more reasonable level.

Another option would be to transfer the excess fund balance into the general fund. An issue to explore when considering this option is whether fees paid by a select industry should go into the general fund, which can be then used for other purposes that may or may not benefit that industry.

Legislative Option

If the legislature wishes to ensure assessment fees on financial institutions are commensurate with the costs of the banking and financial division it may wish to consider:

1. Discussing permanent changes in bank assessments and other fees assessed financial institutions with the division; or
2. Reducing the fund balance to \$708,000 at the end of FY 2017 by transferring up to \$2.2 million into the general fund

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	3,886,988	3,886,988	7,773,976	0.00 %
PL Adjustments	0	0	0	0.00 %	421,331	356,267	777,598	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$4,308,319	\$4,243,255	\$8,551,574	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law										
0.00	0	453,914	0	453,914	0.00	0	456,461	0	456,461	
DP 99 - LEG. Present Law										
0.00	0	(32,583)	0	(32,583)	0.00	0	(100,194)	0	(100,194)	
Grand Total All Present Law Adjustments										
0.00	\$0	\$421,331	\$0	\$421,331	0.00	\$0	\$356,267	\$0	\$356,267	

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	34.80	\$0	\$16,913	\$0	\$16,913
Executive Implementation of 2015 Pay Increase		-	57,350	-	57,350
Fully Fund 2015 Legislatively Authorized FTE		-	95,306	-	95,306
Other		-	284,345	-	284,345
Personal Services Present Law Adjustments	34.80	\$0	\$453,914	\$0	\$453,914
FY 2017					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	34.80	\$0	\$16,913	\$0	\$16,913
Executive Implementation of 2015 Pay Increase		-	57,350	-	57,350
Fully Fund 2015 Legislatively Authorized FTE		-	95,306	-	95,306
Other		-	286,892	-	286,892
Personal Services Present Law Adjustments	34.80	\$0	\$456,461	\$0	\$456,461

Funding included in the remainder of other includes support for market, strategic pay, training assignment progression adjustments, and longevity.

LFD COMMENT Although the division has used the situational pay scale every year since FY 2008, additional funding to support situational pay was not requested and thus not included as part of the division’s personal services budget. It should be noted that differential pay adjustments such as these are removed from the base budget and are not provided in adjustments for personal services for the next biennium. Funding, if needed, must be requested each biennium. The division has been able to fund the cost for situational pay using savings generated due to the high level of vacant positions occurring each year. While the vacancies have decreased since their peak, vacancies in FY 2014 still generated sufficient savings to fund the situational pay costs.

DP 99 - LEG. Present Law -

As shown in the present law table the executive is proposing reductions in other expenditures when compared to the 2015 legislative base budget. As shown in the program budget comparison, FY 2014 actual spending was lower than the FY 2015 base for a number of operating expenses including SITSD costs and professional and consulting services. The LGPL captures these reductions as, for the most part, the executive included them in the 2017 biennium.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	31.50	31.50	30.36	30.36	31.50	30.36	(1.14)	(3.62)%
Personal Services	1,934,732	2,039,103	2,124,779	2,125,888	3,973,835	4,250,667	276,832	6.97 %
Operating Expenses	2,940,083	2,963,996	4,201,445	3,720,034	5,904,079	7,921,479	2,017,400	34.17 %
Equipment & Intangible Assets	14,333	19,500	334,333	134,333	33,833	468,666	434,833	1,285.23 %
Debt Service	81,678	89,977	81,678	81,678	171,655	163,356	(8,299)	(4.83)%
Total Costs	\$4,970,826	\$5,112,576	\$6,742,235	\$6,061,933	\$10,083,402	\$12,804,168	\$2,720,766	26.98 %
State/Other Special Rev. Funds	0	0	0	0	0	0	0	0.00 %
Proprietary Funds	4,970,826	5,112,576	6,742,235	6,061,933	10,083,402	12,804,168	2,720,766	26.98 %
Total Funds	\$4,970,826	\$5,112,576	\$6,742,235	\$6,061,933	\$10,083,402	\$12,804,168	\$2,720,766	26.98 %

Program Description

The Montana State Lottery (lottery) was created in November 1986 by a referendum vote of the people of Montana. The general purpose is to allow lottery games in which players purchase from the state, through the administration of the lottery, a chance to win a prize. A five-member Lottery Commission, appointed by the Governor, sets policy and oversees program activities and procedures.

Lottery operations are accounted for in an enterprise fund type. The lottery receives no funding from the State of Montana but rather generates money for the state general fund. Lottery is required to transfer its net revenue to the general fund on a quarterly basis.

The lottery is attached to the Department of Administration for administrative purposes only.

Program Highlights

Montana State Lottery Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposed budget increases 26.98% when compared to the 2015 biennium budget • Operating expenses for a new lottery contractor and changes to a printing contract are part of the changes
Major LFD Issues
<ul style="list-style-type: none"> • Contract for validation and verification will expire with the acceptance of the new gaming system in March 2016 • Operating budget increases are related to new contracts and are not ongoing costs

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Montana State Lottery did not change the FY 2015 legislative appropriations. The number shown in the program budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$141,750 lower than the FY 2015 legislative appropriation. The primary reasons for the difference include:

- Vacancy savings of 6.7% within the program resulted in a lower personal services cost in FY 2014
- Less spending on advertising than estimated in the budget

Executive Request

Unlike most proprietary funds the lottery is budgeted in HB 2. This is because once the direct and administrative costs of the lottery are paid the remaining funds (net revenues) are transferred to the general fund. The lottery deposited \$12.1 million in net revenues into the general fund in FY 2014, which was a decrease of 7.6% when compared to the funding transferred in FY 2013. The figure on the next page shows actual and proposed revenues, expenditures, and transfers from FY 2012 to FY 2017. As shown, as the economy in Montana began to recover from the Great Recession lottery profits transferred to the general fund rebounded, peaking in FY 2012. Part of the reason for the significant increases in FY 2012, which were sustained in FY 2013, was the national publicity surrounding the large jackpots for the MegaMillions and Powerball games. In FY 2014 the trend somewhat reversed as:

- Jackpot prize amounts moderated
- National publicity did not follow these stories at the same level
- Public expectations moderated and adjusted as a result

Department of Administration Montana State Lottery Statement of Revenues, Expenditures, and Changes in Fund Balance Between FY 2012 and FY 2017						
	Actual FY 2012	Actual FY 2013	Actual FY 2014	Appropriated* FY 2015	Proposed* FY 2016	Proposed* FY 2017
Beginning Fund Balance	\$1,481,673	\$1,159,281	\$851,288	\$581,336	\$1,593,778	\$1,245,199
Revenues	52,628,491	56,831,378	53,128,562	53,650,000	55,647,000	58,087,000
Expenditures						
Personal Services	1,809,739	1,846,661	1,988,364	2,039,103	2,124,641	2,125,757
Operating Expenses	37,973,596	42,093,420	39,201,128	37,784,049	39,936,998	39,485,587
Equipment	0	0	14,333	19,500	334,333	134,333
Capital Outlay	0	0	(14,333)	0	0	0
Debt Service	17,809	13,659	9,510	89,977	81,678	81,678
OPEB	<u>89,199</u>	<u>101,836</u>	<u>108,929</u>	<u>108,929</u>	<u>108,929</u>	<u>108,929</u>
Total Expenditures	39,890,343	44,055,576	41,307,931	40,041,558	42,586,579	41,936,284
Adjustment	132	0	0	0	0	0
Net Before Transfers	14,219,953	13,935,084	12,671,919	14,189,778	14,654,199	17,395,915
Transfers to General Fund	<u>13,060,671</u>	<u>13,083,796</u>	<u>12,090,583</u>	<u>12,596,000</u>	<u>13,409,000</u>	<u>14,440,000</u>
% Change	23.08%	0.18%	-7.59%	4.18%	6.45%	7.69%
Ending Fund Balance	<u>\$1,159,281</u>	<u>\$851,288</u>	<u>\$581,336</u>	<u>\$1,593,778</u>	<u>\$1,245,199</u>	<u>\$2,955,915</u>
* Revenues and transfers to general fund as adopted by Revenue and Transportation Interim Committee November 20,2014						

The expenditure amounts shown above are a combination of statutory appropriations for lottery prizes, commissions paid to lottery ticket or chance sales agents, vendor fees, and HB 2 appropriations for administrative costs associated with the program. The statutory appropriations are directly related to either the:

- Sale of lottery tickets and the related private retailers commissions and vendor fees
- Payment of prizes

As such, the legislature cannot impact changes to these game costs, as they are driven by the purchase of lottery tickets. In contrast, the legislature can affect the HB 2 appropriation amounts, which directly impact the level of lottery profits transferred to the general fund. The lower the administrative costs, the higher the amount available to transfer to the general fund. The HB 2 administrative costs are shown in the program budget comparison table on the first page of the program narrative and are also included as part of the costs shown in the figure above.

As shown on the program budget comparison table, the largest contributor to the increase in operating expenses is the scheduled update in the gaming system. The lottery contracts with a private entity for its gaming system, which provides for terminals at each of the approximately 850 separate retail vendors across Montana, software for both the terminals and the Montana State Lottery system, system security, and other related components. State procurement requirements provide that the contract for the gaming system must be put out for bid every 10 years. The current contract expires in March 2016.

It should be noted that even if the same vendor is selected through the bidding process, the request for proposal requires a new and updated gaming system with all new equipment for installation at each retail vendor and the lottery offices.

Bids for the system are due in December of 2014. Once the vendor is selected lottery staff will work with the contractor to refine the components need to make the change to the new system. Items that will need to be addressed prior to having the system converted include:

- Conversion schedule
- Installation of new equipment
- Testing and verification of the system prior to “go live” date
- Education of retail vendors

About 47% of the proposed \$2.2 million increase in operating expenses is due to the impact of converting to the new gaming system at the end of the 2017 biennium. The remaining increases are requests for additional authority for advertising, merchandise, and equipment.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 15-Montana State Lottery Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02029 Board Of Horse Racing	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06001 State Lottery Fund	12,804,168	0	75,550,755	88,354,923	100.00 %	
Proprietary Total	\$12,804,168	\$0	\$75,550,755	\$88,354,923	100.00 %	
Total All Funds	\$12,804,168	\$0	\$75,550,755	\$88,354,923		

House Bill 2

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 its funding for operations must be appropriated by the legislature.

Statutory Appropriations

Beginning in FY 2014 the legislature included support for vendor fees as statutory appropriations. Prior to this the costs were appropriated in HB 2. In the 2017 biennium about 84.6% of the total proposed costs for the lottery are statutorily appropriated for lottery prizes and commissions and vendor fees paid to lottery ticket or change sales agents. The level of costs for commissions and vendor fees fluctuates in direct correlation to the ticket sales and is thus forecast to increase as are lottery revenues.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	5,112,576	5,112,576	10,225,152	0.00 %	
PL Adjustments	0	0	0	0.00 %	1,629,659	949,357	2,579,016	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$6,742,235	\$6,061,933	\$12,804,168		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	30.36	\$0	\$0	\$0	\$0
Executive Implementation of 2015 Pay Increase		-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		-	-	-	-
Personal Services Present Law Adjustments	30.36	\$0	\$0	\$0	\$0

FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	30.36	\$0	\$0	\$0	\$0
Executive Implementation of 2015 Pay Increase		-	-	-	-
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		-	-	-	-
Personal Services Present Law Adjustments	30.36	\$0	\$0	\$0	\$0

The reduction shown in the other line of the table includes increases for market, training assignment progression, and longevity pay adjustments offset by decreases related to the division’s implementation of the boilerplate language for HB 2 enacted by the 2013 Legislature.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments. As previously discussed, the present law adjustment table does not include proprietary funds. The table below shows the changes for the proprietary funds for the lottery.

Legislative Present Law Adjustments					
CP 99 Item	General Fund	State Special	Federal Special	Proprietary Fund	Total Funds
Lottery Coronis Terminals - OTO	\$0	\$0	\$0	\$334,372	\$334,372
Lottery Conversion	-	-	-	200,000	200,000
Lottery Operating Budget Increases	-	-	-	954,000	954,000
Other	-	-	-	55,611	55,611
Legislative Present Law Adjustments	\$0	\$0	\$0	\$1,543,983	\$1,543,983

CP 99 Item	General Fund	State Special	Federal Special	Proprietary Fund	Total Funds
Lottery Operating Budget Increases	\$0	\$0	\$0	\$924,000	\$924,000
Other				(61,428)	(61,428)
Legislative Present Law Adjustments	\$0	\$0	\$0	\$862,572	\$862,572

The lottery has three major contracts:

- Gaming system – provides terminals at retail vendors, software for terminals and Montana State Lottery, system security, and other components of the system
- Instant ticket printing – prints scratch tickets
- Advertising – provides advertising campaigns to promote the various lottery games throughout Montana

The gaming system contract is rebid every 7 to 10 years. The current contract expires March 2016. The lottery is in the process of selecting a new contractor. Even if the same vendor is selected a new and updated gaming system with all new equipment will be installed at each new retail vendor (890 vendors) and the lottery offices.

As part of the conversion process, the lottery will require the selected contractor to undergo compliance and testing reviews by an independent third party. This process is referred to as an independent validation and verification contract.

**LFD
ISSUE**

Contract Will Expire With the Acceptance of the New Gaming System in March 2016

The current contract for the lottery gaming system expires March 30, 2016. The need for validation and verification of the new computerized gaming system will begin as soon as the contract is signed and will expire at the time the new system is up and running, or March 30, 2016 at the latest. The coronis terminals lease is only requested for FY 2016 as the new contractor will be responsible for this as part of the new contract. These types of contracts are considered a nonrecurring expense to the lottery, as the service is provided over a limited timeframe and is not ongoing. The legislature may wish to consider funding these requests as one-time-only appropriations.

Furthermore, the costs for the contract are an estimate. The legislature may wish to consider restricting funding for the IV & V contract so that if the actual costs are less, the funding that is not required is available to be transferred to the general fund rather than other uses within the lottery.

Legislative Option

The legislature may wish to restrict the requested funding to support for the IV & V contract and provide the appropriation as one-time-only.

**LFD
ISSUE**

Operating Budget Increases Are Related to New Contracts and Are Not Ongoing

According to lottery staff, about 47% of the requests included in the operating budget are due to the impact of converting to the new instant ticket and gaming system contracts in the 2017 biennium. Once the system and printing contracts are in place the costs related to training, travel, and other expenses should return to previous levels. The remaining increases are for additional authority for marketing and equipment.

It should be noted that the higher the operating expenses of the lottery, the less net revenue is available for transfer to the general fund.

Legislative Option

Designate \$1.0 million of the operating budget increase request as one-time-only and restricted to implementation of the new gaming system and new printing contract.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	22.87	22.87	22.87	22.87	22.87	22.87	0.00	0.00 %
Personal Services	1,626,248	1,683,271	1,886,826	1,888,453	3,309,519	3,775,279	465,760	14.07 %
Operating Expenses	13,604,348	7,446,501	21,661,612	22,163,925	21,050,849	43,825,537	22,774,688	108.19 %
Benefits & Claims	171,346,004	185,043,870	201,982,374	220,406,305	356,389,874	422,388,679	65,998,805	18.52 %
Total Costs	\$186,576,600	\$194,173,642	\$225,530,812	\$244,458,683	\$380,750,242	\$469,989,495	\$89,239,253	23.44 %
Proprietary Funds	186,576,600	194,173,642	225,530,812	244,458,683	380,750,242	469,989,495	89,239,253	23.44 %
Total Funds	\$186,576,600	\$194,173,642	\$225,530,812	\$244,458,683	\$380,750,242	\$469,989,495	\$89,239,253	23.44 %

Program Description

The Health Care and Benefits Division provides state employees, retirees, members of the legislature, judges and judicial branch employees, and their dependents with group benefits. The division administers benefits plans including health, dental, prescription drug, life, long-term care, vision coverage, long-term disability, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Program Highlights

<p>Health Care and Benefits Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • The Health Care and Benefits Division is entirely funded with proprietary funds • The executive proposes increases of 22.4% in the 2017 biennium when compared to the 2015 biennium • Higher health care costs are driving the increases
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Statute requires administrative costs of the program to be included in HB 2 • Legislature may wish to increase oversight of the plan due to increased employee costs and declining reserve levels

Program Discussion -

<p>LFD ISSUE</p>	<p><u>Statute Requires Administrative Costs of the Program to be Included in HB 2</u></p> <p>As detailed in the funding section, this function is funded through proprietary funds. The 1995 Legislature changed the way proprietary funds are budgeted. Rather than directly appropriate funds in HB 2 to support the function, the legislature removed proprietary funds (with very limited exceptions) from HB 2 and instead provided funding through one of two means, depending upon the type of proprietary fund:</p>
-------------------------	---

- Internal service funds – The legislature approves a maximum rate the function can charge to client agencies
- Enterprise funds – The legislature does not approve rates for the program; instead the legislature reviews the report submitted by the executive and identifies any concerns with the financial position of the fund

Even though the funding for the State Employee Group Benefit Plan (SEGBP) is from the enterprise fund, 2-18-812, MCA requires that administrative costs of SEGHP be funded from temporary appropriations. Appropriations made in the General Appropriations Act (usually HB 2) are considered temporary appropriations, as they expire at the end of each biennium and must be considered and approved by the following legislature.

The 2013 Legislature included appropriations for the administrative costs in HB 2 and sent the bill to the Governor for his signature. The Governor line item vetoed the appropriation for SEGBP administration stating:

The state contribution toward the employee benefit plan is statutorily established in 2-18-703, MCA, and is routinely reviewed in HB 13 by the Legislature. In accordance with 2-18-212(1), MCA, the plan must be actuarially sound and is audited by the Legislative Audit Division. The language contained on Page R-5, Lines 25-26 and Page R-6, Lines 1-3^[1] is sufficient to meet the requirements of 2-18-812(4), MCA, therefore making this appropriation unnecessary and redundant.

The language included in the bill refers to the state contribution to employee health insurance costs. The LFD requested a legal opinion from legislative legal staff on the question of whether the language cited in the Governor’s veto complied with the requirement outlined in 2-18-703, MCA regarding appropriating the administrative costs from temporary appropriations.

[1] (5. Health Care and Benefits Division

Because state employee benefit plans require a large number of individual contributions for a variety of benefit options, because the portion of the contributions paid by the state is statutorily established in 2-18-703, and because the employee and retiree-paid portion of those contributions must be adjusted from time to time to meet the requirements of 2-18-812(1) to maintain state employee group benefit plans on an actuarially sound basis, the legislature defines “rates and fees” for state employee programs to mean the state contribution toward employee group benefits provided for in 2-18-703 and the employee contribution toward group benefits necessary to meet the requirements of 2-18-812(1).

A review of HB 2 shows the executive has not included the administrative costs in the bill but rather considered the appropriations part of the proprietary funding that is budgeted through statutory authority and not routinely considered by the legislature each biennium. According to Legislative Services Division legal staff;

There is no dispute that Montana law requires the SEGBP to be maintained on an actuarially sound basis (2-18-812(1), MCA) However, Montana law also requires that the expenditures for the actual and necessary expenses for the plan’s administration be made from temporary appropriations. (2-18-812(4), MCA). Section 2-18-812, MCA, requires both that the plan be maintained on an actuarially sound basis and that expenditures to cover its costs be made from temporary appropriations.

The figure below shows the costs that should, by statute, be included in HB 2.

Department of Administration Health Care and Benefits Division Administrative Costs			
Expenditures	Actuals FY 2014	Proposed FY 2016	Proposed FY 2017
Personal Services	\$1,344,921	\$1,588,104	\$1,588,432
Operating Expenses	<u>8,097,876</u>	<u>9,601,008</u>	<u>9,595,523</u>
Total Administrative Costs	<u>\$9,442,797</u>	<u>\$11,189,112</u>	<u>\$11,183,955</u>

Legislative Option:

Include the costs of administering the SEGHP in HB 2 as intended by statute.

Plan Year 2014

The state employee group benefit plan (SEGBP) operates on a calendar year basis. For a number of years SEGBP has retained reserves that were higher than the amount needed as estimated by the plan's actuary. In calendar year 2014 the financial health of the plan as measured by the level of reserves has declined.

As summary of the information provided in the September 30, 2014 report on SEGBP is provided on the next page. Legislative Fiscal Division staff noted the following concerns with the medical plan as reported in the September 30, 2014 financial report:

- Revenues increased 2.3% when compared to the same period in plan year 2013, from \$111.5 million to \$108.3 million, an amount that does not provide for the costs of the claims during this period. The change is a combination of two factors:
 - Revenues increased by the state share contribution, which was raised 10% from \$733 per state employee per month to \$806 for the first six months and then increased again to \$887 per state employee per month beginning July 1st 2014
 - Revenues decreased for contribution reductions of \$20 per participant 18 years or older per month for participation in health screenings and tobacco cessation programs, up to a maximum of \$40 per month per family
- Expenditures for medical expenses increased 36.8% when compared to the same period in plan year 2013, from \$105.4 million to \$137.2 million. Health Care and Benefits Division (HCBD) staff have outlined a number of factors that contributed to the changes:
 - Health care costs increasing overall
 - Higher numbers of employees participating in health screening, which identified a number of chronic diseases such as diabetes or illnesses such as cancer that have high treatment costs
 - Open enrollment in October 2014 that added an additional 500 participants, a number that had high health care costs
 - Third party administrator paying claims slower than the previous contractors, resulting in an incurred but not reported (IBNR) estimate of claims of \$5.5 million in unanticipated claims in plan year 2013. These claims were incurred in plan year 2013 but were either not submitted by providers until plan year 2014 or were not processed by the third party administrator until plan year 2014. This increases the amount of IBNR by \$5.5 million
 - Planned losses in FY 2014 of \$4.8 million due to excess recommended reserve levels at the time the premium rates were established
- In addition, HCBD staff believe that the first quarter of plan year 2013 costs were lower than anticipated for three reasons:
 - Transition between third party administrators resulted in payment delays
 - Implementation of new care policies directed by HCBD staff are believed to have improved the medical review process for medical care and related costs but resulted in delayed payments
 - Claim repricing for network discounts were delayed in implementation
- Plan reserves were \$57.3 million at September 30, 2014 or \$25.1 million below the actuarially recommended level of reserves.

The figure below shows the reported quarterly data including costs by type of plan.

Department of Administration State Employee Group Health Plan				
	Plan Year 2013	Plan Year 2014		
	Jan - Sept	Jan - Sept	Difference	% Change
Revenues				
Charges for Services	\$114,119,421	\$116,758,182	\$2,638,761	2.31%
Investment Earnings	134,010	714,378	580,368	433.08%
State Share Excess	1,563,534	2,388,768	825,234	52.78%
Miscellaneous	<u>2,546</u>	<u>132,201</u>	<u>129,655</u>	<u>5092.50%</u>
Total Revenues	115,819,511	119,993,529	4,174,018	3.60%
Expenditures				
Personal Services				
Salaries	752,821	769,928	17,107	2.27%
Benefits	242,727	263,394	20,668	8.51%
Personal Services - Other	<u>118</u>	<u>5,945</u>	<u>5,827</u>	<u>4938.14%</u>
Total Personal Services	995,665	1,039,268	43,602	4.38%
Operating Expenses*				
Other Services	7,953,151	10,353,501	2,400,350	30.18%
Supplies and Materials	59,984	137,249	77,264	128.81%
Communications	102,706	85,832	(16,874)	-16.43%
Travel	18,765	14,393	(4,371)	-23.29%
Rent	217,264	266,151	48,887	22.50%
Repair and Maintenance	49,858	14	(49,844)	-99.97%
Other Expenses	<u>198,529</u>	<u>488,766</u>	<u>290,237</u>	<u>146.19%</u>
Total Operating	8,600,257	11,345,905	2,745,649	31.93%
Capital Leases	(10,528)	0	10,528	-100.00%
Benefits & Claims				
From State Sources				
Medical Claims	75,922,822	103,880,704	27,957,882	36.82%
Pharmacy Claims	20,287,064	21,448,501	1,161,437	5.73%
Medicare Part D	(1,400,000)	(1,491,593)	(91,593)	6.54%
Dental Claims	<u>5,958,475</u>	<u>5,909,807</u>	<u>(48,668)</u>	<u>-0.82%</u>
Total Benefits and Claims	100,768,361	129,747,419	28,979,058	28.76%
Incurred But Not Reported	2,318,230	7,518,674	5,200,444	224.33%
Total Expenditures	<u>112,671,985</u>	<u>149,651,266</u>	<u>36,979,281</u>	<u>28.64%</u>
Net Income (Loss)	<u>\$3,147,526</u>	<u>(\$29,657,737)</u>	<u>(\$32,805,263)</u>	<u>-900.63%</u>
* Includes State Employee Clinic Costs				

As shown in the table,

- Revenues for both the medical and dental plans increased 3.6% for the first nine months of the 2014 plan year when compared to the same period in plan year 2013, which is significantly below expenditures for the same period

- Expenditures for the plan benefits were 28.8% higher when compared to the same period in plan year 2013. Total expenditures exceeded revenues by \$29.6 million in the first nine months of the plan year

Information on the reserves and recommended levels is provided in the Appendix. To address higher costs for increased medical and dental claims the Governor has implemented increased contributions, deductibles, and copays for participants for plan year 2015. The figure below shows the planned changes to deductibles and copay amounts.

Department of Administration Health Care and Benefits Division Changes to Deductible and Out of Pocket Costs			
Item	2014	2015	% Change
Single Member In Network Deductible	500	750	50.00%
Family In Network Deductible	1,000	1,500	50.00%
Single Member Out of Network Deductible	750	1,250	66.67%
Family Out of Network Deductible	1,750	2,750	57.14%
Single Maximum In Network Out of Pocket	4,150	4,950	19.28%
Family Maximum In Network Out of Pocket	8,300	9,900	19.28%
Single Maximum Out of Network Out of Pocket	5,900	6,600	11.86%
Family Maximum Out of Network Out of Pocket	12,800	14,200	10.94%
Office Visit	15	20	33.33%

Contributions for next year were based on the following assumptions:

- Increased projections in costs of:
 - Medical and dental - 8%
 - Pharmacy - 10%
 - Vision - 3%
 - Administration- 2%
- No contributions to plan reserves or to the dependent "subsidy" are contemplated

Proposed contribution increases for various groups are shown on the following page.

Department of Administration Health Care and Benefits Division Premium Increases			
Participants	Plan Year 2014	Plan Year 2015	% Change
Single Employee	717	845	17.85%
Employee and Spouse	926	1,070	15.55%
Employee and Children	809	935	15.57%
Employee and Family	981	1,134	15.60%
Non Medicare Retiree	734	931	26.84%
Mon Medicare Retiree and Spouse	1,037	1,314	26.71%

According to HCBD staff, the increases in the contributions, deductibles, and out of pocket amounts are projected to cover the estimated costs of the plan but will not increase the reserves. HCBD had projected at the end of plan year 2014 reserves would be \$4.6 million below the actuarially recommended level. As previously stated as of October 17, 2014 the reserves were \$13.4 million below the actuarially recommended level of March 2014.

Proprietary Funding

The division is entirely funded from proprietary funds, which are not appropriated in HB 2 and, in the case of the state employee group benefit plan, not approved as a proprietary rate. The various accounts provide for two programs and a third function within the division:

- Health Care Benefits Bureau provides oversight and administrative functions for the state employee group health plan, including administration of health, dental, vision, life insurance, and flexible spending accounts. It is funded from the Group Benefits Claims A/c, an account used for the administrative costs of the bureau and benefit and claim costs
- Workers' Compensation Management Bureau is the central resource for state agencies in working to:
 - Enhance worker safety
 - Provide for loss-prevention
 - Develop and provide return-to-work programs
 - Coordinate workers' compensation coverage and policy management issues
- Flexible spending funds accounts for employee deductions for flexible spending, including medical and child care

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 21-Health Care & Benefits Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06027 Flexible Spending Funds	0	19,811,023	0	19,811,023	4.22 %	
06559 Group Benefits Claims A/C	0	449,510,554	0	449,510,554	95.64 %	
06575 Workers Comp Management Program	0	667,918	0	667,918	0.14 %	
Proprietary Total	\$0	\$469,989,495	\$0	\$469,989,495	100.00 %	
Total All Funds	\$0	\$469,989,495	\$0	\$469,989,495		

The Health Care and Benefits Division is funded entirely with proprietary funds.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	196,474,602	196,474,602	392,949,204	0.00 %
PL Adjustments	0	0	0	0.00 %	29,056,210	47,984,081	77,040,291	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$225,530,812	\$244,458,683	\$469,989,495	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2. The net impact to this program is zero.

DP 99 - LEG. Present Law -

The LGPL adjustments are equal to zero.

Other Issues -

Proprietary Rates

The Healthcare and Benefits Division manages two proprietary programs:

- Employee benefits, which includes the state’s health and other benefit insurance plans, and contract administration of the flexible spending accounts
- Management of the state agency workers’ compensation insurance

Employee Benefits Program - 06559

Program Description

The Health Care and Benefits Bureau manages the following:

- State employee group benefit plan including on-site employee health centers in Helena, Billings, Miles City, Missoula, and in November Butte
- State employee sick leave fund
- Employee assistance services
- Health promotion
- Voluntary employee benefit health care expense trust

For additional information on the various services see the Appendix.

*Program Narrative*Expenses

Both revenues and expenses for the plan are shown in the figure on the following page. Both the 2015 and 2017 biennia, by fiscal year, are shown for comparison purposes. Administrative costs for the program include:

- Personal services costs of \$3.2 million over the biennium to support 19.44 FTE. Changes included in personal services include the elimination of vacancy savings without a corresponding reduction in FTE
- Operating expenses of \$18.4 million, including health care clinic costs of \$6.7 million

In the 2015 biennium the budget did not include projections of costs for the employee health care clinics (clinics) as part of the operating expenses. As shown in the figure, in FY 2014 the plan paid a total of \$12.0 million for other services, \$6.7 million of this was for costs of the state employee health care clinics. The FY 2015 budget for other services under operating expenses was \$5.9 million.

The plan offers two types of health insurance policies:

- Traditional
- Managed care

Plan participants have moved from the traditional plan to managed care, mainly due to the difference in contribution costs, as for the most part plan elements are similar. This makes comparing plan costs difficult. In addition, the plan has begun to separately identify the costs of dental claims in the state accounting records, whereas before these were included with medical claims. To compare the costs the medical, dental, and tradition plan costs were summed. FY 2014 costs for medical and dental were \$128.9 million while FY 2015 costs are projected at \$127.1 million or \$1.7 million less in FY 2015 than FY 2014 actuals. Given the increases in medical costs in plan year 2014, it does not appear likely that the FY 2015 projections will be accurate, increasing financial pressures on the structural soundness of the plan.

Benefit and claims costs are projected to increase significantly over the 2017 biennium. Compared to FY actuals, costs are projected to increase from \$164.2 million in FY 2014 to of \$192.8 million in FY 2016, and \$210.3 million in FY 2017, or an increase of 17.4% and 28.1%, respectively. Primary cost drivers for both medical and dental claims and prescription drug payments are projected costs and service utilization. The projected budget anticipates cost increases of \$88.1 million over the biennium.

Revenues

The state employee group health plan is self-insured, and as such is responsible for medical costs incurred by its members. SEGHP is funded through a combination of state share and member (employee and retiree) contribution payments. The state share is \$887 per month and is established in 2-18-703(2), MCA. As a component of employee compensation, the state share contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees.

Plan revenues from premiums are estimated at \$210.0 million in FY 2016 and \$230.0 million in FY 2017, as shown in the figure below.

Department of Administration State Employee Group Health Plan				
	Actual FY 2014	Projected FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	\$75,411,649	\$52,959,358	\$45,184,771	\$43,372,693
Revenues				
Charges for Services	159,684,201	175,000,000	210,000,000	230,000,000
Investment Earnings	982,704	1,100,000	1,200,000	1,200,000
Fines/Forfeits	26,430	27,000	27,000	27,000
Grants/Transfers/Misc	1,573,665	1,320,000	1,320,000	1,320,000
Federal	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,400,000</u>
Total Revenues	163,667,000	178,847,000	213,947,000	233,947,000
Expenditures				
Personal Services				
Salaries	1,011,018	1,091,588	1,182,790	1,182,037
Benefits	333,903	338,179	405,314	406,395
Other Post Employment Benefits	<u>68,838</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Personal Services	1,413,759	1,429,767	1,588,104	1,588,432
Operating Expenses				
Other Services	12,030,707	5,906,965	20,023,121	20,512,417
Supplies and Materials	181,594	74,064	181,745	181,801
Communications	146,763	70,183	150,708	150,708
Travel	18,031	18,671	17,515	17,584
Rent	319,941	102,468	319,941	319,941
Repair and Maintenance	39,344	439	39,344	39,344
Other Expenses	<u>668,394</u>	<u>1,098,345</u>	<u>651,981</u>	<u>650,075</u>
Total Operating	13,404,774	7,271,135	21,384,355	21,871,870
Benefits & Claims				
From State Sources				
Managed Care - Hourly Payments	297	19,395	297	297
Medical And Dental Claims	105,721,325	68,321,373	134,286,047	151,790,495
Prescription Drug Payments	29,700,080	45,167,298	29,700,080	29,700,080
Tradnl Medical & Dental Claims	15,164,872	58,824,352	15,164,872	15,164,872
Vision Care	1,188,971	1,133,814	1,188,971	1,188,971
Long Term Care	67,958	145,991	67,958	67,958
Long Term Disability	247,698	385,152	247,698	247,698
IM Premium Incentive Assistance	1,314,585	474,490	1,314,585	1,314,585
Infusion and Home Care Services	0	718,340	0	0
Life Insurance	2,784,764	2,721,061	2,784,764	2,784,764
Dental	8,031,347	0	8,031,347	8,031,347
General	<u>0</u>	<u>9,419</u>	<u>0</u>	<u>0</u>
Total From State Sources	164,221,897	177,920,685	192,786,619	210,291,067
Insurance Payments				
lbnr-Benefit Expense	<u>7,463,200</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Insurance Payments	<u>7,463,200</u>	<u>0</u>	<u>0</u>	<u>0</u>

Total Benefits & Claims	<u>171,685,097</u>	<u>177,920,685</u>	<u>192,786,619</u>	<u>210,291,067</u>
Total Expenditures	186,503,630	186,621,587	215,759,078	233,751,369
Adjustments	<u>384,339</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$52,959,358</u>	<u>\$45,184,771</u>	<u>\$43,372,693</u>	<u>\$43,568,324</u>
% Decrease		-14.68%	-4.01%	0.45%

**LFD
ISSUE**

Legislature May Wish To Increase Oversight of the Plan Due to Increases Employee Costs and Declining Reserve Levels

As discussed in the narrative, the financial condition of the SEGBP has declined in the last year as measured by the reserve levels of the plan, costs exceeding revenues, and increasing deductibles and out of pocket costs passed onto employees. The state, as an employer, contributes to state employee health insurance costs through the state share. In FY 2014 73.0% of the revenues for the plan were derived from the state contribution.

In FY 2016 the state share of the plan contribution will decrease under current statute to 64.9% and in FY 2017 it is forecasted to provide only 59.2% of the revenues. Without significant other revenues, which are not currently anticipated, or legislatively approved increases in the state share state, employees and retirees will be required to make up the additional revenues through increased contributions or increases in deductibles and out of pocket costs. Overall revenues would need to increase 20% in FY 2016 and an additional 9.5% in FY 2017 to meet estimates.

As discussed, the plan is supported through an enterprise fund. The legislature does not appropriate the fund, nor does it approve the contribution rates charged to state employees and retirees. It does provide for the state share contribution in HB 2 from a number of funding sources, including the general fund. As discussed in the LFD issue on page x, administrative costs are statutorily required to be included in HB 2. Should the legislature wish more direct oversight of the plan given the changes in the reserve levels and forecasted increased costs to state employees it may wish to increase legislative oversight by requiring the division to report its financial status to the State Administration and Veteran’s Affairs Interim Committee on a regular basis during the 2017 interim.

Legislative Option

The legislature may wish to consider increasing legislative oversight of SEGBP through required reports to the State Administration and Veteran’s Affairs Interim Committee.

Proprietary Rates

Funding for the program is with enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for the benefits and claims of this fund. Statute requires that the administrative costs of the fund be included in HB 2.

	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
--	------------------------	------------------------	------------------------	--------------------------	--------------------------	--------------------------

Fee Description:	733	733	770	847	887	887
------------------	-----	-----	-----	-----	-----	-----

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 16 and FY 17 have not been determined at this time.

The amounts shown as rates above are the state share contributions for each state employee each month. The rates are contained in statute. The executive proposes to increase the state share in HB 13 to \$976 in FY 2016 and \$1,054 in FY 2017. The various contribution costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claim costs for each insurance type. Any difference between the state share contribution and actual costs are made up by employee and retiree contributions and investment income. As the plan year for the state employee health insurance is a calendar year, the revenues for the plans are a combination of contributions from two plan years.

Workers' Compensation Management Program – 06575

Program Description

The Health Care & Benefits Division manages the Workers' Compensation Management Program. The program assists employees and state agencies in ensuring a safe working environment and reducing on-the-job injuries and accidents in the workplace, and assists employees who are injured in returning to meaningful and productive work. The program is the central resource in working with the state's workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

Program Narrative

Expenses

Significant costs for the program include:

- Personal services of \$0.6 million over the biennium, which supports 3.0 FTE. The program eliminated vacancy savings without a corresponding reduction in FTE, resulting in increased costs
- Operating expenses of \$69,300 over the biennium

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period. The rate proposed in HB 2 is \$1.02 for each payroll warrant in FY 2016 and FY 2017. This is an increase of 24.4 % and is due to increases in personal service costs.

Proprietary Rates

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	0.82	0.82	1.02	1.02

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

In FY 2014 state agencies provided support to the program from the following funds:

General Fund	\$110,589
State Special Revenue	\$89,702
Federal Special Revenue	\$40,360
Enterprise Fund	\$9,403
Internal Service Fund	\$44,266
Pension Trust Fund	\$1,127

Flexible Spending Account Program - 06027

Program Description

The Flexible Spending Account Program allows state employees to defer part of their gross pay into an account for reimbursement of qualified medical and childcare expenses.

Program Narrative

HCBD contracts for the administration of the Flexible Spending Account Program. State employees can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use the funds deposited in the accounts for allowable expenses.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are \$2,500 per year for medical and \$5,000 per year for dependent care. In the fall of 2013 the Internal Revenue Service announced that participants can roll over up to \$500 from the medical flexible spending account into the next benefit year. The plan implemented this change beginning with plan year 2014. Employees forfeit any unspent funds beyond the \$500 rollover for medical and any remaining dependent care balance at the end of the year.

Expenses

Significant costs for the program are for the administration contract.

Revenues

The Flexible Spending Account Program is funded from an administrative fee of \$2.26 per month on each account for participation in the program. Employees may also elect to use a debit card to pay for medical or dependent care costs. The administrative fee for the debit card is an additional \$1.00 for month per employee.

Proprietary Rates

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
FSA Account	2.25	2.25	2.25	2.25	2.25	2.25
FSA Debit Card	1.00	1.00	1.00	1.00	1.00	1.00
This is a per member per month fee for the members that have elected to participate.						

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge. At times the flexible spending account program has accumulated additional funds due to forfeited funds. When able, the program uses the additional funds to waive the fees charged to participants.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	14.71	14.71	14.25	14.25	14.71	14.25	(0.46)	(3.13)%
Personal Services	990,178	1,138,039	1,218,294	1,215,906	2,128,217	2,434,200	305,983	14.38 %
Operating Expenses	510,936	403,672	517,066	516,253	914,608	1,033,319	118,711	12.98 %
Total Costs	\$1,501,114	\$1,541,711	\$1,735,360	\$1,732,159	\$3,042,825	\$3,467,519	\$424,694	13.96 %
General Fund	1,501,114	1,541,711	1,735,360	1,732,159	3,042,825	3,467,519	424,694	13.96 %
Total Funds	\$1,501,114	\$1,541,711	\$1,735,360	\$1,732,159	\$3,042,825	\$3,467,519	\$424,694	13.96 %

Program Description

The State Human Resources Division (SHRD) provides statewide human resource services utilizing the following functions and programs:

- The Human Resources Policy and Programs (HRPP) Bureau establishes the human resource rules, policies and standards for Montana’s executive branch.
- The Professional Development Center (PDC) offers training and other professional development services to Montana state government and other organizations.
- The Human Resources Information Systems (HRIS) Bureau processes the biweekly payroll and other HR information systems for all branches of state government.

Program Highlights

State Human Resources Division Major Budget Highlights
<ul style="list-style-type: none"> • The majority of the funding for this program is from non-budgeted proprietary funds that are included in the proprietary rate section of HB 2 • The executive proposes an increase of 13.9% from the 2015 biennium
Major LFD Issues
<ul style="list-style-type: none"> • Changes in assessment of vacancy savings result in higher proprietary rates for state agencies

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the FY 2015 appropriations implemented by the executive compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Administration State Human Resources Division FY 2015 Appropriation Transactions				
Category	Legislative Appropriation	Program Transfers	Reorganization	Total Executive Implementation
Personal Services	\$1,465,304	(\$19,852)	(\$327,265)	\$1,118,187
Operating Expenses	<u>454,172</u>	<u>(500)</u>	<u>(50,500)</u>	<u>403,172</u>
Total Costs	<u>\$1,919,476</u>	<u>(\$20,352)</u>	<u>(\$377,765)</u>	<u>\$1,521,359</u>

The number for total executive implementation on the table above does not tie to FY 2015 appropriation for FY 2015 as the executive inadvertently included the \$20,352 that was transferred to the Director's Office. The State Human Resources Division transferred a total of \$398,117 in authority to the Director's Office. SHRD transferred the Office of Labor Relations with 3.5 FTE and \$327,265 supporting those positions. In addition \$50,500 in operating costs were also transferred. SHRD also transferred 0.46 FTE and associated personal services and operating costs to the Director's Office.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$418,362 lower than the FY 2015 legislative appropriation. The primary reasons for the differences are the reorganization and the transfer of authority and FTE.

Executive Request

The State Human Resource Division budget for HB 2 provides for the Human Resources Policy and Programs Bureau. The Office of Labor Relations was moved from SHRD to the Director's Office during FY 2014. Personal services changes between biennia supported by general fund include:

- Annualization of increases provided in FY 2015
- Annualization of state share contribution for health insurance
- Reclassification of 2.25 FTE
- Reinstating funding for vacancy savings assessed in the 2015 biennium. The executive chose to eliminate positions from other areas to comply with the boilerplate language of HB 2 passed by the 2013 Legislature

Operating expense increases between biennia are due to:

- Funding increases for IT professional and consulting services for programming changes for a recruitment project. The costs occurred in FY 2014 and are carried into the 2017 biennium. They were not included in FY 2015 budgeted operating expenses.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 23-State Human Resources Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	3,467,519	0	0	3,467,519	30.95 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06525 Intergovernmental Training	0	754,295	0	754,295	9.75 %	
06563 Payroll Fund	0	6,981,946	0	6,981,946	90.25 %	
Proprietary Total	\$0	\$7,736,241	\$0	\$7,736,241	69.05 %	
Total All Funds	\$3,467,519	\$7,736,241	\$0	\$11,203,760		

HB 2

General fund supports the Human Resources Policy and Programs Bureau.

Proprietary Funding

The majority of the division’s operations are supported by proprietary funds that support two programs:

- Professional Development Center (PDC)
- Human Resource Information Services Bureau

The PDC is supported through fees in the form of tuition paid by state agencies that enroll employees in the various classes provided by PDC and fees for other services offered by the PDC.

The HRIS Bureau is funded through a fee charged state agencies for each employee payroll processed in a pay period. Both of these funds are considered and approved as rates charged to other state agencies and are discussed in the “Proprietary Rates” section of the narrative.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,919,476	1,919,476	3,838,952	110.71 %	1,919,476	1,919,476	3,838,952	110.71 %
PL Adjustments	(184,116)	(187,317)	(371,433)	(10.71)%	(184,116)	(187,317)	(371,433)	(10.71)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,735,360	\$1,732,159	\$3,467,519		\$1,735,360	\$1,732,159	\$3,467,519	

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----						-----Fiscal 2017-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law	0.00	(247,010)	0	0	(247,010)	0.00	(249,398)	0	0	(249,398)
DP 99 - LEG. Present Law	0.00	62,894	0	0	62,894	0.00	62,081	0	0	62,081
Grand Total All Present Law Adjustments	0.00	(\$184,116)	\$0	\$0	(\$184,116)	0.00	(\$187,317)	\$0	\$0	(\$187,317)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	14.25	\$6,926	\$0	\$0	\$6,926
Executive Implementation of 2015 Pay Increase		21,173	-	-	21,173
Fully Fund 2015 Legislatively Authorized FTE		28,203	-	-	28,203
Other	(1.54)	(303,311)	-	-	(303,311)
Personal Services Present Law Adjustments	12.71	(\$247,010)	\$0	\$0	(\$247,010)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	14.25	\$6,926	\$0	\$0	\$6,926
Executive Implementation of 2015 Pay Increase		21,173	-	-	21,173
Fully Fund 2015 Legislatively Authorized FTE		28,203	-	-	28,203
Other	(1.54)	(305,699)	-	-	(305,699)
Personal Services Present Law Adjustments	12.71	(\$249,398)	\$0	\$0	(\$249,398)

The majority of the change in personal services is due to the reorganization bringing the Office of Labor Relations into the Director's Office.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page the executive proposes increases for SHRD. The changes reflect higher projected costs for IT professional consulting services.

Other Issues -

Proprietary Rates

The State Human Resources Division provides the following programs funded through proprietary rates:

- Professional Development Center (PDC), which trains state employees

- Human Resource Information Services, including payroll and benefits eligibility processing

Professional Development Center/Training Program - 06525*Program Description*

The PDC program provides training and related services throughout locations in the state of Montana. The PDC offers training directed towards improving state practices, meeting state and federal regulations, and providing professional services such as facilitation, mediation, or curriculum design.

Program Narrative

The 2017 Biennium Report on Internal Service and Enterprise Funds is shown on the following page. As shown the program began FY 2014 with a negative fund balance but strong revenues in the period allowed the program to generate sufficient revenues to pay for costs of the program in the year and provide for a positive ending fund balance (net position).

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Human Resources Division			
	Fund	Fund Name					
	06525	Intergovernmental Training					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		293,959	318,012	407,877	423,032	405,000	405,000
Other Operating Revenue		-	40	244	-	-	-
Total Operating Revenues		293,959	318,052	408,121	423,032	405,000	405,000
Expenses:							
Personal Services							
Other Operating Expenses		246,036	175,330	190,456	240,319	242,252	241,630
Total Operating Expenses		369,338	299,552	323,365	384,764	377,647	376,648
Operating Income (Loss)		(75,379)	18,500	84,756	38,268	27,353	28,352
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(75,379)	18,500	84,756	38,268	27,353	28,352
Transfers In		24,002	-	-	-	-	-
Change in Net Position		(51,377)	18,500	84,756	38,268	27,353	28,352
Beginning Net Position - July 1		23,564	(27,813)	(9,313)	75,443	113,711	141,064
Change in Net Position		(51,377)	18,500	84,756	38,268	27,353	28,352
Ending Net Position - June 30		(27,813)	(9,313)	75,443	113,711	141,064	169,416
Net Position (Fund Balance) Analysis							

Expenses

Significant costs for the program include:

- Personal services of \$0.5 million over the biennium
- Operating expenses of \$0.3 million over the biennium

To manage costs in FY 2014 the PDC left about 0.50 FTE of 2.0 FTE training development specialists vacant.

Revenues

Funding for the PDC is generated through two rates:

1. Open-enrollment fees, which is per-person tuition charged for attendance. Tuition rates are based on two factors: 1) projected attendance; and 2) competitive pricing.

- 2. Contract fees, which is a flat fee charged for providing a service. The amount per service varies by length of the service and number of services arranged in a single contract.

Proprietary Rates

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:				
PDC Fee per FTE	N/A	N/A	N/A	N/A
Fee Group A				
Training Services per hour				
Open Enrollment Courses				
Two-Day Course (per participant)	\$190.00	\$190.00	\$190.00	\$190.00
One-Day Course (per participant)	\$123.00	\$123.00	\$123.00	\$123.00
Half-Day Course (per participant)	\$95.00	\$95.00	\$95.00	\$95.00
Eight-Day Management Series (per participant)	\$570.00	\$570.00	\$800.00	\$800.00
Six-Day Management Series (per participant)	\$440.00	\$440.00	\$600.00	\$600.00
Four-Day Administrative Assistant Series (per participant)	\$333.00	\$333.00	\$400.00	\$400.00
Contract Courses				
Full Day Training (flat fee)	\$830.00	\$830.00	\$915.00	\$915.00
Half Day Training (flat fee)	\$570.00	\$570.00	\$630.00	\$630.00
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 services. 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.				

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Human Resources Information System Bureau (HRIS) - 06563

Program Description:

The HRIS Bureau operates the SABHRS-HR payroll, benefits and human resources system to process, distribute, report, and account for payroll, benefits, and associated withholding and deductions for over 13,500 state employees in the Executive, Legislative and Judicial branches. The bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll, benefits, 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 employee benefits (group insurance, FSA, deferred compensation, and pension) classification, pay, labor relations, policy, and training.

Program Narrative:

Overall program costs to state agencies increase 0.01% in FY 2016 and 1.17% in FY 2017 for HRIS. As shown in the figure in below, the executive proposes to utilize fund balance to offset increased program costs for the program.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Human Resources Division			
	Fund 06563	Fund Name Payroll Fund					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		2,835,394	3,309,456	3,299,769	3,320,064	3,313,523	3,327,153
Other Operating Revenue		772	772	861	1,000	500	500
Total Operating Revenues		2,836,166	3,310,228	3,300,630	3,321,064	3,314,023	3,327,653
Expenses:							
Personal Services							
Other Operating Expenses		1,520,347	1,567,523	1,805,636	1,686,308	1,953,827	1,954,197
Total Operating Expenses		1,623,486	1,358,218	1,295,782	1,641,701	1,571,211	1,502,711
Operating Income (Loss)		(307,667)	384,487	199,212	(6,945)	(211,015)	(129,255)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(307,667)	384,487	199,212	(6,945)	(211,015)	(129,255)
Transfers Out							
Change in Net Position		(49,667)	(49,578)	-	-	-	-
		(357,334)	334,909	199,212	(6,945)	(211,015)	(129,255)
Beginning Net Position - July 1		1,161,841	804,507	1,139,416	1,338,628	1,331,683	1,120,668
Change in Net Position		(357,334)	334,909	199,212	(6,945)	(211,015)	(129,255)
Ending Net Position - June 30		804,507	1,139,416	1,338,628	1,331,683	1,120,668	991,413
Net Position (Fund Balance) Analysis							

Expenses

Significant costs for the program include:

- \$3.9 million in personal services over the 2017 biennium to support 21.75 FTE
- \$3.1 million in operating costs, including:
 - \$0.9 million in IT costs
 - \$1.0 million in multi-user computers and terminals
 - \$0.4 million in indirect administrative costs

**LFD
ISSUE**

Changes in Vacancy Savings Result in Personal Services Increases

As discussed in the agency summary, proprietarily funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result, SHRD proprietary program personal services costs increased by about \$88,000 each year of the biennium with \$78,000 attributable to HRIS.

A review of the positions within HRIS shows that 1.25 FTE were vacant throughout the year, a .25 FTE for an operations manager and 1.00 FTE associated with a computer information systems manager. The costs associated with each position by fiscal year are shown in the figure below.

Department of Administration State Human Resources Division Vacant FTE in FY 2014			
Position	FTE	FY 2016	FY 2017
Computer Information Systems Manager	1.00	122,134	121,803
Operations Manager	<u>0.25</u>	<u>36,611</u>	<u>36,511</u>
Total	1.25	<u>\$158,745</u>	<u>\$158,314</u>

Reducing costs supported by the proprietary rates would allow for a reduction in costs to state agencies.

Legislative Option

If the legislature wishes to mitigate the impact of higher personal services costs it may:

1. Eliminate all or a portion of the funding for the FTE which were vacant; or
2. Assess vacancy savings to permanent proprietarily funded positions in the SHRD program to reduce total costs of the programs.

Revenues

HRIS rates are set as a fixed cost and allocated out to each agency based on the number of paychecks processed during the two prior fiscal years.

Proprietary Rates

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information						
	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
HRIS fees (per employee process per pay period)	8.06	8.10	8.13	8.15	8.15	8.15
Health Resources Information Services (HRIS) rates have been established under the authority of 2-18-401, MCA and 2-18-403, MCA. Projected HRIS expenditures anticipated for the 2017 biennium are distributed as a fixed cost fee to the Health Care Benefits Division for services rendered by HRIS to support benefit operations associated with managing the state's payroll system; and as a fixed cost rate to state agencies based on an estimated average number of payroll warrants/advices per pay period per agency. The agencies' payroll warrant/advice counts are based upon FY 2013 and FY 2014 data.						

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	17.00	17.00	17.00	17.00	17.00	17.00	0.00	0.00 %
Personal Services	1,447,559	1,324,232	1,552,812	1,554,712	2,771,791	3,107,524	335,733	12.11 %
Operating Expenses	6,916,017	7,058,264	7,492,438	7,479,093	13,974,281	14,971,531	997,250	7.14 %
Grants	520,113	0	520,113	520,113	520,113	1,040,226	520,113	100.00 %
Benefits & Claims	6,235,087	5,956,769	6,235,087	6,235,087	12,191,856	12,470,174	278,318	2.28 %
Transfers	0	124,999	0	0	124,999	0	(124,999)	(100.00)%
Total Costs	\$15,118,776	\$14,464,264	\$15,800,450	\$15,789,005	\$29,583,040	\$31,589,455	\$2,006,415	6.78 %
Proprietary Funds	15,118,776	14,464,264	15,800,450	15,789,005	29,583,040	31,589,455	2,006,415	6.78 %
Total Funds	\$15,118,776	\$14,464,264	\$15,800,450	\$15,789,005	\$29,583,040	\$31,589,455	\$2,006,415	6.78 %

Program Description

The Risk Management & Tort Defense Division administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers & machinery, bonds (various), crime, cyber/information security, fine art, property, professional liability, and miscellaneous.

The state self-insures most commercial insurance risks under \$2,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The division investigates, evaluates, and resolves tort claims (i.e. personal injury or property damage to third parties), and coordinates the adjudication and settlement of other claims involving property damage. This division operates under the authority of 2-9-101 through 2-9-305, MCA.

Program Highlights

<p>Risk Management and Tort Defense Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • The division is solely funded through proprietary funds generated through state agencies and the Montana University System premium payment • The executive proposes increases for insurance premiums to state agencies including: <ul style="list-style-type: none"> ◦ 30.5% for automobiles ◦ 20.4% for general liability ◦ 39.2% for property insurance
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Changes in assessments of vacancy savings increase premium costs charged to state agencies

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 24-Risk Management & Tort Defense Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02098 Insurance Proceeds - State Bld	0	0	2,403,022	2,403,022	100.00 %	
State Special Total	\$0	\$0	\$2,403,022	\$2,403,022	7.07 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06532 Agency Insurance Int. Svc.	0	31,589,455	0	31,589,455	100.00 %	
Proprietary Total	\$0	\$31,589,455	\$0	\$31,589,455	92.93 %	
Total All Funds	\$0	\$31,589,455	\$2,403,022	\$33,992,477		

Proprietary Funding

The majority of the division's budget is supported by proprietary funds that are derived from premium assessments on insurance risks paid by state agencies and the Montana University System. These funds are considered and approved as rates charged to other state agencies and are discussed in the "Proprietary Rate" section of the narrative.

Statutory Appropriations

About 7% of the division's funding is derived from statutory appropriations for the receipts of insurance reimbursements on state agency buildings.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	13,363,958	13,363,958	26,727,916	0.00 %
PL Adjustments	0	0	0	0.00 %	2,436,492	2,425,047	4,861,539	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$15,800,450	\$15,789,005	\$31,589,455	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

Because the division is funded through proprietary rates, the present law adjustment table does not include any changes for personal services.

DP 99 - LEG. Present Law -

Because the division is funded through proprietary rates, the present law adjustment table does not include any changes for operating costs.

Other Issues -

Proprietary Rates

Program Description

The Risk Management & Tort Defense Division (division) administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers & machinery, bonds (various), crime, cyber/information security, fine art, property, professional liability, and miscellaneous.

The state self-insures most commercial insurance risks under \$2,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The division investigates, evaluates, and resolves tort claims (i.e. personal injury or property damage to third parties) and coordinates the adjudication and settlement of other claims involving property damage.

Program Narrative

The State of Montana self-insures for risks including automobile, aviation, general liability, and property. State agencies and the Montana University System (MUS) pay premiums to the Risk Management and Tort Defense Division. Premium amounts for state agencies are based on the predicted costs of losses the state may incur as a result of claims and the operating costs of the division. Payments for claims and the operational expenses incurred by the division are expended from the proprietary fund. In addition, reserves for each insurance risk are maintained within the fund. Reserves are used for higher than anticipated claims costs or loss adjustment expenses and for incurred but not yet reported claims.

Costs for insurance in state agencies are increased by:

- \$0.7 million for automobile
- \$3.3 million for general liability
- \$7.5 million for property

Aviation insurance costs are unchanged from FY 2015.

Losses paid for automobile claims are almost three times higher in FY 2014 than in FY 2013 and have been generally increasing since FY 2010. In addition, expenses for automobile claims and related operational costs have exceeded earned premiums since FY 2010, which has reduced reserves for the program. Premium costs increase 30.5% to ensure costs for the program are provided for by the premiums.

Aviation costs continue to hold steady with no claims since FY 2012. Premiums remain at FY 2015 rates.

Premium revenues exceed general liability claims by approximately \$2.0 million in FY 2014. This funding is provided to rebuild reserves depleted for the payment of the Libby asbestosis settlement payment in FY 2012. Premiums increase 20.4% to cover increased operational costs, losses for general liability claims, and further strengthening of reserves.

Property insurance claims have increased, in part due to flooding and hail damage in recent storms. In addition, the deductible on the catastrophic property insurance doubled for FY 2014 and beyond from \$1.0 million to \$2.0 million, increasing costs to the reinsurance program. Losses for the program in FY 2014 were 33.9% above those in FY 2010. Expenses for losses and operational costs have exceeded premium revenues in FY 2013 and FY 2014. Premium costs increase 39.2% to ensure costs of the program are funded through premiums.

Expenses

Significant costs for the program as proposed by the executive and outlined in the budgeting system are shown in the figure below:

Department of Administration Risk Management and Tort Defense				
Category	Actual 2014	Appropriated 2015	Proposed 2016	Proposed 2017
Personal Services				
Salaries	\$1,106,810	\$932,938	\$1,176,282	\$1,176,902
Employee Benefits	<u>340,749</u>	<u>290,988</u>	<u>376,413</u>	<u>377,697</u>
Total Personal Services	1,447,559	1,223,926	1,552,695	1,554,599
Operating Expenses				
Other Services	6,603,883	5,607,478	7,163,508	7,156,039
Supplies & Materials	44,985	161,646	45,040	45,060
Communications	25,484	17,845	25,842	25,842
Travel	24,685	22,693	23,595	23,740
Rent	69,631	58,380	69,631	69,631
Utilities	7,070	5,781	7,190	7,262
Repair and Maintenance	4,059	3,188	4,059	4,059
Other Expenses	<u>136,220</u>	<u>181,253</u>	<u>153,573</u>	<u>147,460</u>
Total Operating Expenses	6,916,016	6,058,264	7,492,438	7,479,093
Grants				
Grants to Governmental Entities	<u>520,113</u>	<u>0</u>	<u>520,113</u>	<u>520,113</u>
Benefits and Claims				
General Liability	1,082,589	(1,398,814)	1,082,589	1,082,589
Physical Damage/non-Owned Vehicles	620,978	410,163	620,978	620,978
Automobile Liability - Claims	1,293,932	629,776	1,293,932	1,293,932
Cyber Claims	120,360	191	120,360	120,360
Self Ins. Property Deductible	3,106,211	6,011,946	3,106,211	3,106,211
Estimated Tort Claims Liability	0	0	0	0
Fidelity Bond	3,105	301,507	3,105	3,105
Inland Marine	5,208	0	5,208	5,208
Fine Arts	2,704	0	2,704	2,704
Airport Aircraft	<u>0</u>	<u>2,000</u>	<u>0</u>	<u>0</u>
Total Benefits and Claims	6,235,087	5,956,769	6,235,087	6,235,087
Grand Total	<u>\$15,118,775</u>	<u>\$13,238,959</u>	<u>\$15,800,333</u>	<u>\$15,788,892</u>

Personal services increased in FY 2016 when compared to what was provided in FY 2015 as the proprietary funds provided:

- Employee salary increases comparable to employees funded through HB 13
- State share contributions for employee health insurance included in HB 13
- Elimination of 4% vacancy savings without corresponding reductions in FTE

**LFD
ISSUE**Changes in Vacancy Savings Result in Personal Service Increases

As discussed in the agency summary, proprietarily funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result, the division's proprietary program personal services costs increased by about \$62,000 each year of the biennium.

A review of the positions within the division shows that all of the positions were filled for a portion of the year. 2.00 FTE, a financial specialist and administrative assistant were filled 85% and 65% of the year respectively. As there are not obvious vacancies in the program the legislature may wish to consider assessing vacancy savings to offset the increases in personal services.

Legislative Option

If the legislature wishes to mitigate the impact of higher personal services costs it may assess vacancy savings to permanent proprietarily funded positions in the division to reduce total costs of the programs.

Operating expenses changes between FY 2014 and FY 2016 include two primary adjustments:

- Other services include \$0.7 million in additional commercial insurance premiums. It should be noted that FY 2014 actuals were \$0.5 million higher than anticipated in the 2015 biennium budget
- Increases in other expenses are for adjustments to indirect administrative costs for the Director's Office and statewide indirect costs

Benefits and claims are unchanged from FY 2014 actual costs.

Revenues

Montana self-insures its property via this program, and so all state agencies pay insurance premiums to the Risk Management and Tort Defense Division. Depending on the type of property owned and the agency's claims history, insurance premiums paid by agencies can vary. The 2017 Biennium Report on Internal Service and Enterprise Funds is shown on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Risk Management & Tort Defense			
	Fund	Fund Name					
	06532	Agency Insurance Int. Svc.					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		11,736,438	11,783,758	13,886,428	13,926,531	17,688,161	17,688,161
Revenue A		27,923	13,526	23,869	7,000	7,000	7,000
Revenue B		2,449	36	27	-	-	-
Revenue C		60	226	14	-	-	-
Total Operating Revenues		11,766,870	11,797,546	13,910,338	13,933,531	17,695,161	17,695,161
Expenses:							
Personal Services							
Other Operating Expenses		43,951,107	10,054,095	14,593,984	13,148,968	14,247,638	14,234,293
Total Operating Expenses		44,855,646	11,014,709	15,612,712	14,473,200	15,800,450	15,789,005
Operating Income (Loss)		(33,088,776)	782,837	(1,702,374)	(539,669)	1,894,711	1,906,156
Nonoperating Revenues:							
Other Revenue A		120,542	61,952	61,321	182,000	182,000	182,000
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		120,542	61,952	61,321	182,000	182,000	182,000
Income (Loss) Before Contributions and Transfers		(32,968,234)	844,789	(1,641,053)	(357,669)	2,076,711	2,088,156
Transfers In							
Transfers Out		3,493,765	13,563,564	1,201,511	450,000	1,400,000	1,400,000
Change in Net Position		(29,608,209)	14,360,207	(440,867)	92,331	3,476,711	3,488,156
Beginning Net Position - July 1		13,177,490	(16,430,719)	(2,070,512)	(2,511,379)	(2,419,048)	1,057,663
Change in Net Position		(29,608,209)	14,360,207	(440,867)	92,331	3,476,711	3,488,156
Ending Net Position - June 30		(16,430,719)	(2,070,512)	(2,511,379)	(2,419,048)	1,057,663	4,545,819
Net Position (Fund Balance) Analysis							

Budget authority to pay insurance premiums is a fixed cost item in the agency's budgets. The statewide fixed cost in the executive budget increases from the 2015 biennium due to increases in all but aviation risks. Increases from FY 2015 by insurance risk are shown below.

Department of Administration Risk Management and Tort Defense Division Changes to Premium Costs for State Agencies				
	Actual FY 2015	Increases FY 2016	Increases FY 2017	% Change
Insurance Risk				
Auto/Comp/Collision	\$1,139,497	\$358,703	\$358,703	31.48%
Aviation	169,961	0	0	0.00%
General Liability	8,088,660	1,631,340	1,631,340	20.17%
Property/Miscellaneous	<u>4,528,413</u>	<u>1,771,587</u>	<u>1,771,587</u>	<u>39.12%</u>
Total	\$13,926,531	\$3,761,630	\$3,761,630	27.01%

It should be noted that the executive is not projecting any increased risk in FY 2017.

As shown, the executive proposes to increase insurance costs to state agencies by \$3.8 million each year of the biennium or 27% when compared to FY 2015. Premiums for the 2017 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

- Automobile – comprised of two separate components: 1) comprehensive and collision based upon total values of reported vehicles; and 2) auto liability premium based on agency losses and number of vehicles reported
- Aviation – allocated to those agencies that have aircraft based upon charges from commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft. Airport premium is apportioned to those agencies that have airports based upon the number of airports
- General liability – comprised of commercial coverage, which is based on commercial coverage negotiated with commercial insurance carriers and self-insurance for those risks that are not insurable through commercial coverage
- Property – allocated to each agency based on its percentage of reported exposures (e.g. building replacement cost values, boilers and machinery, etc.)

LFD COMMENT In addition to the rate increases RMTD has included a request for \$13.4 million in general fund in the supplemental appropriation bill. According to RMTD the fund may incur unfunded liabilities without this additional appropriation. The 2017 Report on Internal Service and Enterprise Funds for this account, prepared by RMTD, does not include the supplemental appropriation as a revenue. As shown in the figure on the previous page, the account is estimated to have a fund balance of \$4.5 million at the end of FY 2017 without the supplemental appropriation.

For further information on the specific risks insured by the program see the Appendix for the Department of Administration. All four risks insured by the state are funded through the agency insurance internal service account in the internal service fund. A summary of the activity in the fund is provided on the previous page.

Proprietary Rates

For the 2017 biennium the following rates are proposed by executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information						
	Actual FY12	Actual FY13	Actual FY14	Actual FY15	Budgeted FY16	Budgeted FY17
Fee Description:						
Auto/Comp/Collision	1,031,347	1,037,665	1,174,091	1,139,497	1,498,200	1,498,200
Aviation	212,451	212,451	173,466	169,961	169,961	169,961
General Liability	6,750,000	6,750,000	8,008,078	8,088,660	9,720,000	9,720,000
Property/Miscellaneous	3,733,020	3,783,090	4,521,541	4,528,413	6,300,000	6,300,000
Total	11,726,818	11,783,206	13,877,176	13,926,531	17,688,161	17,688,161

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	7.50	7.50	7.00	7.00	7.50	7.00	(0.50)	(6.67)%
Personal Services	388,508	491,795	595,860	574,706	880,303	1,170,566	290,263	32.97 %
Operating Expenses	161,843	86,802	179,608	179,186	248,645	358,794	110,149	44.30 %
Local Assistance	6,374	15,764	12,374	12,374	22,138	24,748	2,610	11.79 %
Total Costs	\$556,725	\$594,361	\$787,842	\$766,266	\$1,151,086	\$1,554,108	\$403,022	35.01 %
General Fund	556,725	594,361	787,842	766,266	1,151,086	1,554,108	403,022	35.01 %
Total Funds	\$556,725	\$594,361	\$787,842	\$766,266	\$1,151,086	\$1,554,108	\$403,022	35.01 %

Program Description

The Montana Tax Appeal Board (board), established by Article VIII, Section 7, of the Montana Constitution and 15-2-101, MCA, provides a tax appeal system for all actions of the Department of Revenue and other taxing agencies. The board consists of three members, appointed by the Governor and approved by the Senate, who hear appeals as full time state employees, with two support staff. The board 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 Montana Tax Appeal Board directs the county tax appeal board secretaries, and pays their salaries and employee benefits from its personal services appropriation. In addition, the board pays the board member stipends and clerical-related expenses for all 56 county tax appeal boards, including supplies, postage, and copies, but excluding office equipment.

Program Highlights

Montana Tax Appeal Board Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes 2017 biennium budget that is 35.0% above the 2015 biennium budget • The board is entirely supported by general fund
Major LFD Issues
<ul style="list-style-type: none"> • Perpetually high vacancy rate for aggregate positions allows growth in operating expenses • Aggregate secretary position provides for sufficient authority for anticipated higher costs associated with reappraisal

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Montana Tax Appeal Board did not change the FY 2015 legislative appropriations. The number shown in the program budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$37,600 lower than the FY 2015 legislative appropriation. The primary reasons for the difference include:

- A vacancy rate of 40.3% within the division
- Lower spending for equipment than anticipated

Executive Request

The program has 7.00 FTE authorized, including:

- 3.00 FTE for administrative law judge positions
- 2.00 FTE for paralegal legal assistants
- 0.25 FTE for short-term worker
- 1.75 FTE for secretary positions

**LFD
ISSUE**Perpetually High Vacancy Rate for Aggregate Positions Allows Growth in Operating Expenses

The 1.75 FTE for secretary positions exist in this program to fund the personal services costs for the county tax appeals boards. These positions have routinely expended only a small proportion of the funds appropriated. For example, in FY 2010, a reappraisal year, the program used 11.5% of total allocated hours. In FY 2014 the position expended 6.4% of the allocated hours, or \$5,157 out of \$80,181 anticipated. The \$75,000 that was freed up can be used for other purposes not anticipated by the legislature, including additional operating expenses. In FY 2014 the board spent funds on operating expenses above those contemplated in the legislative budget, including:

- \$4,500 in supplies and materials
- \$21,700 in communications
- \$11,900 in travel
- \$20,500 in rents for office space
- \$14,400 in other expenses, including \$9,000 in training costs and \$2,600 in subscriptions

While a portion of these increases were offset by reductions of \$6,300 in other services and \$600 in maintenance, the majority were funded through the unneeded personal services funding. Through the budget change process a program has the ability to transfer appropriation authority between expenditure categories or between programs. A review of the budget change document (BCD) files maintained by the Office of Budget Program and Planning did not show any changes to the authority for this program in FY 2014 even though the program used personal services funding for operating expenses. As the accounting system should not allow the expenditures for operating expenses to exceed the legislative appropriations this issue has been referred to the Legislative Audit Division.

Montana law states that members of county tax appeals boards receive compensation of \$45 a day when the county tax appeal board meets to hear taxpayers' appeals from property tax assessments or when they are attending meetings called by the state tax appeal board. Compensation must be paid from the appropriation to the State Tax Appeal Board. The 1.75 FTE positions have been established to fund the compensation of the county tax appeals boards. Because the 2017 biennium includes periods when the recent property reappraisal is effected, the potential exists that costs will be higher. As previously stated, in FY 2010, which should have been a busy year for the tax appeals, only 11.5% of the funds appropriated were expended.

The legislature may want to reevaluate the funding level or place restrictions on the use of vacancy savings of these positions. If funding for the 1.75 FTE were reduced to the 11.5% utilization experienced in FY 2010, general fund savings would be \$90,000 over the biennium. Other anticipated increases for reappraisal cycle include higher operating expenses and local assistance, which are anticipated by the board at \$41,000. The legislature may wish to reduce the aggregate

FTE by \$49,000 over the 2017 biennium and provide the \$41,000 as a one-time-only appropriation so that it is not included in the base going forward.

Legislative Options

If the legislature wishes to reduce the potential for growth in operating expenses if may:

- Make no changes in the level of funding for the county tax appeals board position, but establish a line item appropriation that is restricted only for use in compensating the county board members and higher costs associated with tax reappraisal
- Reduce funding for the position and associated authorization for the FTE by \$49,000 and line item restrict an additional \$41,000 as one-time-only

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Administration, 37-Montana Tax Appeal Board Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,554,108	0	0	1,554,108	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$1,554,108	\$0	\$0	\$1,554,108		

The board is fully funded with general fund. In addition, general fund provides support for travel expenses, compensation, and all other incidental expenses of county tax boards, except that counties fund office and equipment expenses of their respective county boards.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	594,361	594,361	1,188,722	76.49 %	594,361	594,361	1,188,722	76.49 %
PL Adjustments	193,481	171,905	365,386	23.51 %	193,481	171,905	365,386	23.51 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$787,842	\$766,266	\$1,554,108		\$787,842	\$766,266	\$1,554,108	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating

expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	104,065	0	0	104,065	0.00	82,911	0	0	82,911
DP 99 - LEG. Present Law	0.00	89,416	0	0	89,416	0.00	88,994	0	0	88,994
Grand Total All Present Law Adjustments	0.00	\$193,481	\$0	\$0	\$193,481	0.00	\$171,905	\$0	\$0	\$171,905

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
	FY 2016				
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	7.00	\$3,402	\$0	\$0	\$3,402
Executive Implementation of 2015 Pay Increase		9,440	-	-	9,440
Fully Fund 2015 Legislatively Authorized FTE		9,471	-	-	9,471
Other		81,752	-	-	81,752
Personal Services Present Law Adjustments	7.00	\$104,065	\$0	\$0	\$104,065
	FY 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	7.00	\$3,402	\$0	\$0	\$3,402
Executive Implementation of 2015 Pay Increase		9,440	-	-	9,440
Fully Fund 2015 Legislatively Authorized FTE		9,471	-	-	9,471
Other		60,598	-	-	60,598
Personal Services Present Law Adjustments	7.00	\$82,911	\$0	\$0	\$82,911

As shown in the figure, the majority of the present law adjustment for personal services is categorized as other. This portion of the personal services request provides for full funding of positions that were vacant all or a portion of FY 2014.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
	General	State	Federal	Total
CP 99 Item	Fund	Special	Special	Funds
2015 Reappraisal Cycle	\$75,000	\$0	\$0	\$75,000
Rent Increase	11,400	-	-	11,400
Other	3,016	-	-	3,016
Legislative Present Law Adjustments	\$89,416	\$0	\$0	\$89,416

Legislative Present Law Adjustments				
	General	State	Federal	Total
CP 99 Item	Fund	Special	Special	Funds
2015 Reappraisal Cycle	\$55,000	\$0	\$0	\$55,000
Rent Increase	11,400	-	-	11,400
Other	22,594	-	-	22,594
Legislative Present Law Adjustments	\$88,994	\$0	\$0	\$88,994

Funding requested as other includes consulting and professional and SITSD services at FY 2014 actual levels that were higher than anticipated in the 2015 legislative base budget.

LFD ISSUE	<p><u>Aggregate Secretary Position Provides Sufficient Authority for Increased Costs</u></p> <p>The executive proposes an additional \$130,000 over the 2017 biennium for the 2015 statewide reappraisal cycle of which \$100,000 is for additional personal services. The aggregate secretary position provides for \$160,000 in funding over the biennium. These positions exist in this program to fund the personal services costs for the county tax appeals boards. The funding can also be transferred to operating expenses should the board incur additional costs for appeals due to the reappraisal.</p> <p>Legislative Option</p> <p>Reduce funding for present law adjustments by \$130,000 over the biennium.</p>
----------------------	---

5% Base Budget Reduction Form
[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 61010 Administration

	Minimum Requirement	
	General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET	\$ 226,614	\$ 200,660
	General Fund Annual Savings	State Special Revenue Annual Savings
SERVICE(S) TO BE ELIMINATED OR REDUCED		
1 4% FTE Reduction - SFSD (LGS FTE)	77,712	
2 4% FTE Reduction - SITSD (Public Safety Supervisor)	47,111	
3 4% FTE Reduction - SHRD FTE (Accounting Technician)	18,078	
4 4% FTE Reduction - MTAB FTE (Secretary Position)	23,136	
5 4% FTE Reduction - Banking FTEs (Examiner Positions)		156,635
6 4% FTE Reduction - A&E FTE (Administrative Assistant Position)		26,506
7 Banking Operating Reduction See Form B(5) for discussion		17,519
8 GSD Operating Reduction	60,577	
9		
10		
TOTAL SAVINGS	\$ 226,614	\$ 200,660
DIFFERENCE	0	0

Form A

Worked with Ryan Evans to produce a new SSR number than what is shown on Memo 8

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 3 - State Financial Services Division**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Move one of the Local Government Systems lead worker positions to the Local Government Services Proprietary Fund (position 61162002).

#2 THE SAVINGS THAT ARE EXPECTED:

Personal services of \$77,712, FY 2016 and \$77,739, FY 2017

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

This will increase costs to the Enterprise Fund and will lead to an increase in the local government report filing fees that provide the funding.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

The increased proprietary fund costs will be passed on to the local governments as increased filing fees.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

A service would not be discontinued as a result of this funding change.

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 7 - State Information Technology Services Division**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Move a portion (41%) of a Public Safety Services Bureau Chief position costs to the SITSD Proprietary Fund (position #61109422)

#2 THE SAVINGS THAT ARE EXPECTED:

Personal services of \$47,111 FY 2016 and \$46,972 in FY 2017.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

This will increase costs to the Internal Service Fund and will lead to an increases SITSD rates that provide the funding. This was not budgeted in rate setting.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

The increased proprietary fund costs will be passed on to the other state agencies as an increased cost.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

A service would not be discontinued as a result of this funding change.

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 23 - State Human Resources Division**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Eliminate the general fund portion (.46) of the a State Human Resources Division Accounting Technician. This position is moved to the Director's Office Proprietary Fund (position 61100053). This position is part of the OFB Reorganization.

#2 THE SAVINGS THAT ARE EXPECTED:

Personal services of \$18,078 for FY 2016 and \$18,195 for FY 2017.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

This will increase costs to the Internal Service Fund and will lead to an increase in administrative costs to DOA Programs.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

This will increase costs to the Internal Service Fund and will lead to an increase in administrative costs to DOA Programs.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

A service would not be discontinued as a result of this funding change.

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 37 - Montana Tax Appeal Board**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Reduce .50 FTE from county secretaries aggregate positions (who support the work of 56 county tax appeal boards. This position number is 61193701.

#2 THE SAVINGS THAT ARE EXPECTED:

Personal services of \$23,136 for FY 2016 and \$23,100 for FY 2017.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Consequences are minimal. Many counties have moved to utilizing county staff for these positions, which are then reimbursed through the general fund budget of the Montana tax appeal board. Thus, loss is not extensive and FTE can be shifted to the counties.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Direct costs are higher to the state, due to reimbursement costs to the counties, but impact on taxpayers is minimal.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Yes, secretarial service to county tax appeal boards is required by state statute.

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 14 - Division of Banking & Financial Institutions**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Eliminate 2.20 Bank Examiner positions.

#2 THE SAVINGS THAT ARE EXPECTED:

For the 4% FTE reduction Personal Services is reduced by \$156,802 in FY 16 and \$156,635 in FY 17. This removes 2.20 FTEs and eliminate \$17,519 from the operating budget.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Loss of personal services funding would create an extreme hardship on the Division which is already struggling to maintain an acceptable number of trained examination staff. Failure to have enough trained and qualified examiners could result in loss of accreditation and an inability to examine all state-chartered banks and financial institutions on the statutorily required basis. Trained bank examiners are commonly lured away by higher paying federal regulatory agencies and private lending institutions. Bank examinations are critical to maintaining the safety and soundness of Montana's financial institutions. Without adequate supervision, constituents could experience increased risk at local lending institutions and changes in local bank services. The loss of this funding would also create a greater strain on remaining examination staff resulting in increased overtime and travel which would result in higher fees charged to licensees and leads to greater turnover due to burnout in experienced examiners.

Reduction in operating expenses will have the greatest impact on examiner travel in mortgage supervision. Reduction in this area would severely impact the Division's ability to conduct examinations of Montana's licensed institutions that are located out-of-state, preventing Montana borrowers from having the protection of state regulatory examiners reviewing Montana loans for compliance with Montana's laws.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

There are no mitigation options that can compensate for the loss of a trained bank examiner. The Division is continuously working on an electronic examination format that will reduce the number of examiners that are required to be onsite during an examination.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Yes - 32-1-211 MCA

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 4 - Architecture and Engineering Division**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Reduce Architecture and Engineering's Administration Support Specialist, position number 61102031, to A .50 FTE.

#2 THE SAVINGS THAT ARE EXPECTED:

A reduction of 26,506 in FY 2016 and \$26,459 in FY 2017

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

The division currently fills this position as .50 FTE so the reduction will not have any consequence or impact.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

There is no expected impact to constituents or staff.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 6 - General Services Division**

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The Facilities Management Bureau receives a general fund appropriation in lieu of rent for common space in the Capitol, the Executive Residence, the display portion of the Montana Historical Society and the Old Governor's Mansion. The bureau uses general fund to supplement rent charge to agencies to fund our major maintenance projects in the capitol complex.

#2 THE SAVINGS THAT ARE EXPECTED:

The targeted reduction amounts to \$60,557.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Either we reduce major maintenance projects or state agencies will see their rental rate charge increase. The Capital Complex has significant deferred maintenance. General Services Division is completing a facilities condition report.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

Any reduction in funding will result in projects being eliminated or delayed.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Yes. 2-17-811, MCA

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6101 Department of Administration

- #1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION OR* REDUCTION:**

- #2 THE SAVINGS THAT ARE EXPECTED:**

- #3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION OR* REDUCTION:**

- #4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED**

- #5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:**

Form B

5% |

AGE

#1

#2

#3

#4

#5

Form

Base Budget Reduction Form

NCY CODE & NAME:

BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR *ELIMINATION* OR *REDUCTION*:

THE SAVINGS THAT ARE EXPECTED:

THE CONSEQUENCES OR IMPACTS OF THE PROPOSED *ELIMINATION* OR *REDUCTION*:

HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

B

The Legislative Fiscal Division Presents an Agency Profile of:

The Montana Consumer Counsel

Contact: Susie Lindsay, Fiscal Analyst
Room 110H, State Capitol Building
Phone: 444-4121
e-mail: slindsay@mt.gov

Updated August 2014

Definition of Terms

Agency Description

The Montana Consumer Counsel represents Montana's utility and transportation consuming public in hearings before the Public Service Commission, as well as the state and federal courts and administrative agencies. The Montana Consumer Counsel is part of the legislative branch and is overseen by the Legislative Consumer Committee. The primary statutory references defining duties and responsibilities of the department are found in Article XIII, Section 2, Montana Constitution, Title 5, Chapter 15, and Title 69, Chapters 1 and 2, MCA.

How Services are Provided

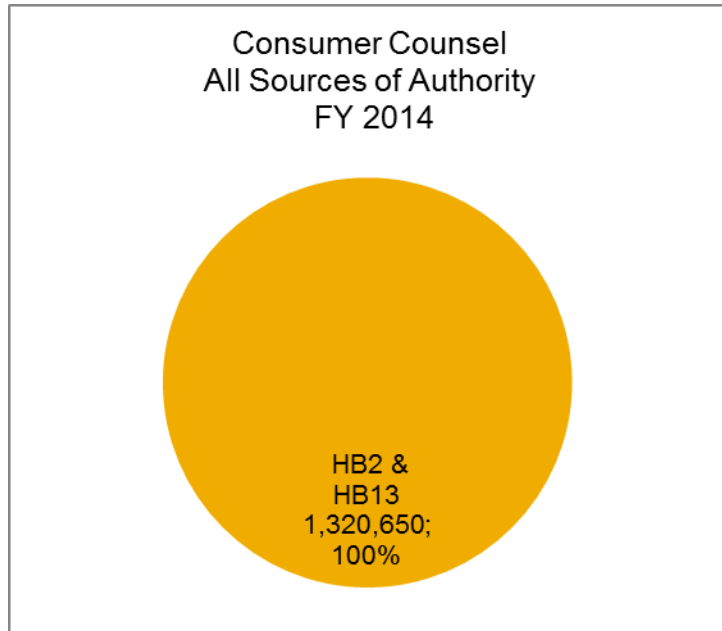
The Consumer Counsel represents Montana consumers in:

- Utility and transportation proceedings before the Public Service Commission
- Proceedings before the Federal Energy Regulatory Commission, Federal Communications Commission, and other federal administrative agencies
- Appropriate state and federal court proceedings

The Montana Consumer Counsel provides these services through one program and the use of outside consulting services to bring expertise for regulatory issues as they arise.

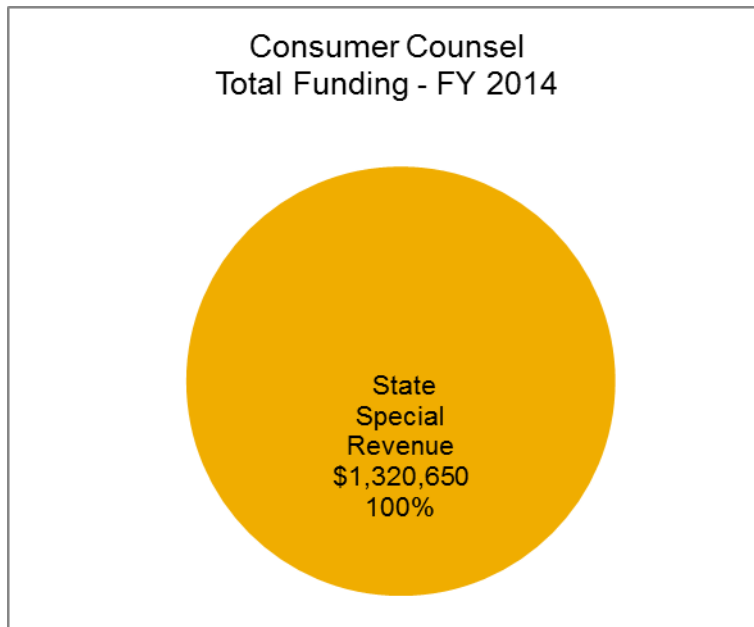
Sources of Spending Authority

The chart shows the sources of authority for the Montana Consumer Counsel.

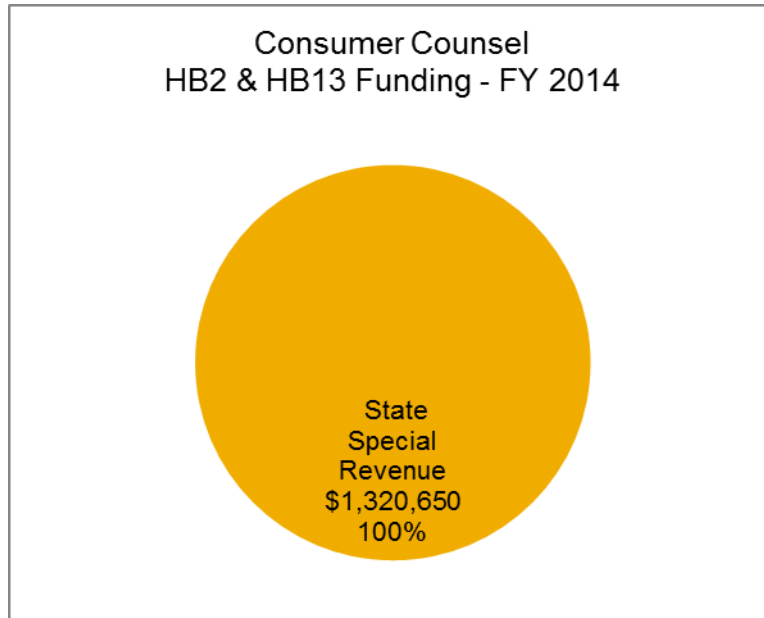


Funding

The chart below explains total funding by fund type for the Montana Consumer Counsel.

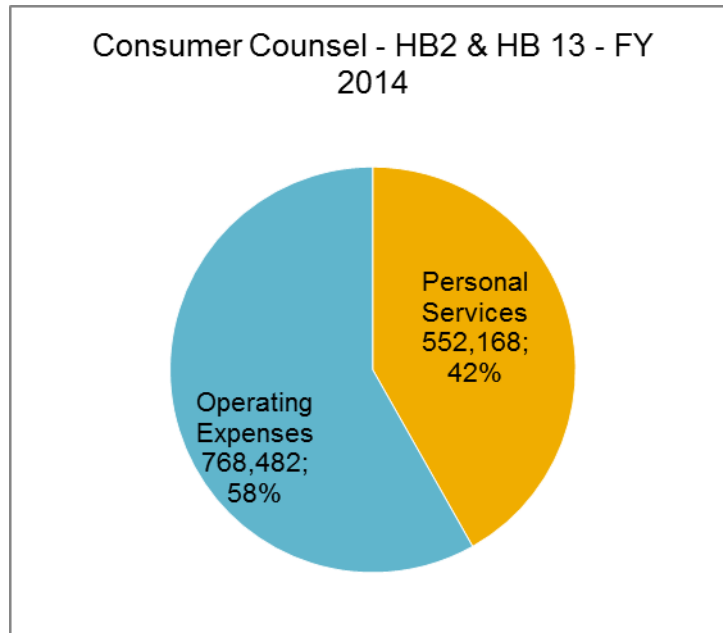


The following charts show the agency's HB 2 funding authority, which is also total authority, by fund type and all sources of funding authority. The Montana Consumer Counsel is fully funded with state special revenues collected through fees charged to the various public utility and transportation companies operating in Montana. As shown, all agency funding is included in HB 2.



HB 2 Expenditures

The chart explains expenditures for HB 2.



How the 2015 Legislature Can Effect Change

The legislature has the ability to change expenditure levels and/or Consumer Counsel activities through the following basic elements that drive costs:

- Impact the rates, reporting process, and fees or taxes charged to regulated utilities
- Govern which agency, if any, monitors regulated utilities (through changes to the Constitution)
- Govern agency participation in regional and/or national issues

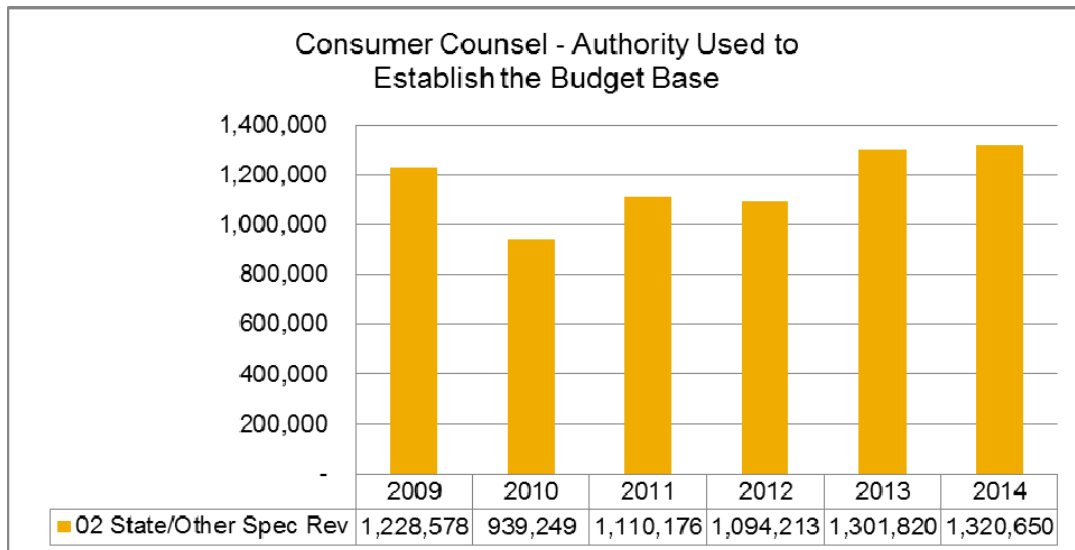
Major Cost Drivers

Driver	FY 2004	FY 2014	Significance of Data
Contractor Fees	\$154	\$144	The Consumer Counsel primarily makes use of three contractors for the analysis of utility cases/issues. The fee is calculated based on total hours worked divided by total amount paid.
Calendar Year Dockets Before Montana Public Service Commission	249	118	As the number of dockets change, it also changes the number of cases that the Consumer Counsel is likely to intervene on, data includes all dockets of the PSC regardless of intervention. This factor influences contracting costs.

Funding/Expenditure History, Authority Used to Establish the Base Budget

Major reasons for changes are:

- Increase in consulting and professional services
- Caseload contingency fund expenditures



Major Legislative Changes in the Last Ten Years

- 2007—The Sixtieth Legislature passed SB 448 requiring the Montana Consumer Counsel to perform an analysis of the fiscal impacts related to permit applications for new electrical generation facilities and upgrades under the Montana Major Facility Siting Act. The analysis included an estimation of how customer rates may have been impacted. Costs of the analysis were paid by applicants.
- 2003—The Fifty-eighth Legislature passed SB 247, which established a default electricity supply procurement process and changed the regulatory role in resource planning, requiring regulators to participate in the decision making process “up-front”. The legislation increased the role, as well as associated costs, of the Montana Consumer Counsel’s representation of ratepayer interests through the adoption of a preapproval process.

For further information, you may wish to contact the agency at:
Montana Consumer Counsel
111 North Last Chance Gulch, Suite 1B
Helena, MT 59620-1703
phone: (406) 444-2771
web: <http://leg.mt.gov/css/Committees/Administration/Consumer%20Counsel/>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	49.25	49.25	52.04	52.04	49.25	52.04	2.79	5.66 %
Personal Services	3,100,195	3,700,449	4,081,184	4,087,532	6,800,644	8,168,716	1,368,072	20.12 %
Operating Expenses	3,869,520	7,155,639	6,982,677	6,972,402	11,025,159	13,955,079	2,929,920	26.57 %
Grants	10,054,807	18,259,960	19,812,277	19,234,789	28,314,767	39,047,066	10,732,299	37.90 %
Benefits & Claims	157,063	358,921	370,731	370,731	515,984	741,462	225,478	43.70 %
Transfers	0	0	2,375,000	2,375,000	0	4,750,000	4,750,000	0.00 %
Total Costs	\$17,181,585	\$29,474,969	\$33,621,869	\$33,040,454	\$46,656,554	\$66,662,323	\$20,005,769	42.88 %
General Fund	3,455,383	4,486,833	8,871,346	8,485,596	7,942,216	17,356,942	9,414,726	118.54 %
State/Other Special Rev. Funds	3,188,483	7,106,724	6,456,379	6,452,409	10,295,207	12,908,788	2,613,581	25.39 %
Federal Spec. Rev. Funds	10,537,719	17,881,412	18,294,144	18,102,449	28,419,131	36,396,593	7,977,462	28.07 %
Total Funds	\$17,181,585	\$29,474,969	\$33,621,869	\$33,040,454	\$46,656,554	\$66,662,323	\$20,005,769	42.88 %

Mission Statement

Agency Mission: The Department of Commerce (Commerce) through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image.

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Department of Commerce Major Budget Highlights
<ul style="list-style-type: none"> • The executive proposes overall budget increases of 42.9% or \$20.0 million between biennia. Increases in general fund are primarily due to the net of three factors: <ul style="list-style-type: none"> ◦ Continued funding for economic development programs that were funded as one-time-only in previous biennia ◦ Continued funding for the Native Language Preservation Program and biomedical research funding ◦ A new proposal to provide \$5.50 million over the biennia to enhance current economic development programs within Commerce • Federal grant funding increases \$7.97 million including: <ul style="list-style-type: none"> ◦ Community Development Block Grants ◦ Home Program grants
Legislative Action Issues
<ul style="list-style-type: none"> • Changes in budgeting methodology results in proprietary rate increases and costs for programs supported by statutory appropriations • Growing fund balance in big sky economic development income fund indicates expansion of uses could be considered

Agency Personal Services

It should be noted that 2014 actual spending in the agency budget comparison table includes \$0.2 million in general fund transferred from the Governor's Office. The 2013 Legislature eliminated the Energy Promotion Division in Commerce but provided funding for personal services costs supporting 2.0 FTE and related operating expenses. It was the legislature's intent that the Office of Economic Development utilize the positions for a coordinated approach to energy development state-wide. The Governor transferred the positions and funding back to Commerce in June 2013.

Personal services costs of \$11.7 million are not shown in the agency budget comparison table for HB 2 because they are funded through other means such as statutory appropriations or through proprietary rates. This amount includes personal services expenditures for the following:

- Business Resources Division - \$1.1 million, of which \$0.7 million is in statutory appropriations for administration of the Distressed Wood Products Program, Research and Commercialization Program, and Big Sky Economic Development Trust Program
- Montana Promotion Division - \$2.0 million
- Montana Facility Financing Authority - \$ 0.2 million
- Housing Division - \$2.8 million
- Board of Investments - \$3.1 million
- Montana Heritage Commission - \$0.5 million
- Management Services Division - \$1.5 million

**LFD
ISSUE**

Changes in Budgeting Methodology for Personal Services Results in Proprietary Rate Increases and Increased Costs for Programs Supported by Statutory Appropriations

Proprietary funded programs and those supported through statutory appropriations were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs.

The figure below shows the total 4% vacancy savings amounts used to reduce personal service costs in the 2015 biennium by program for all appropriation types.

Department of Commerce Vacancy Savings										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total Funds	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
HB 2										
Business Resources Division	(\$29,726)	(\$29,748)	(\$15,102)	(\$15,118)	(\$22,880)	(\$22,867)	\$0	\$0	(\$67,708)	(\$67,734)
Community Development Division	(21,043)	(21,010)	(26,635)	(26,593)	(13,837)	(13,857)	0	0	(61,515)	(61,460)
Housing Division	0	0	0	0	(14,757)	(14,767)	0	0	(14,757)	(14,767)
Total HB 2	(50,769)	(50,758)	(41,737)	(41,711)	(51,474)	(51,491)	0	0	(143,980)	(143,961)
Proprietary										
Facilities Finance Authority	0	0	0	0	0	0	(9,004)	(9,001)	(9,004)	(9,001)
Housing Division	0	0	0	0	0	0	(110,142)	(110,230)	(110,142)	(110,230)
Board of Investments	0	0	0	0	0	0	(126,931)	(126,955)	(126,931)	(126,955)
Director's Office	0	0	0	0	0	0	(63,604)	(63,652)	(63,604)	(63,652)
Total Proprietary	0	0	0	0	0	0	(309,681)	(309,838)	(309,681)	(309,838)
Statutory Appropriations										
Business Resources Division	(13,764)	(13,790)	(8,545)	(8,560)	(4,460)	(4,453)	0	0	(26,769)	(26,803)
Montana Promotion Division	0	0	(79,696)	(79,866)	0	0	0	0	(79,696)	(79,866)
Montana Heritage Commission	0	0	(27,559)	(27,612)	0	0	0	0	(27,559)	(27,612)
Total Statutory	(13,764)	(13,790)	(115,800)	(116,038)	(4,460)	(4,453)	0	0	(134,024)	(134,281)
Total All Programs and Funding Sources	(\$64,533)	(\$64,549)	(\$157,537)	(\$157,749)	(\$55,934)	(\$55,944)	(\$309,681)	(\$309,838)	(\$587,685)	(\$588,080)

As shown, the majority of the 4% reduction assessed in the 2015 biennium was included in the personal services costs supported by proprietary rates, \$0.6 million over the biennium or 52.7% of the total. In the 2017 biennium the assessment of an equivalent reduction in FTE of 4% is not included as part of the calculation of the positions funded through proprietary rates, nor is a vacancy savings applied, increasing the cost of personal services between biennia and increasing fixed costs in the programs within Commerce. This increase is then passed on in higher fixed costs assessments to divisions and boards, including those funded with general fund.

About 22.8% of the 4% reduction was assessed to the programs that are supported by statutory appropriations including:

- Business Resources Division
- Montana Promotion Division
- Montana Heritage Commission

The assessment of an equivalent reduction of FTE was not included in the budgets as proposed for these programs either. Increases in personal service costs reduce funding available for other components of the programs such as maintenance in Virginia and Nevada cities or local assistance for tourism promotion.

Legislative Option

If the legislature wishes to reduce the personal service costs supported by proprietary rates and statutory appropriations by approximately 4% it can consider reducing the rates for the positions that were vacant a significant portion of FY 2014.

Agency Personal Services within HB 2

Overall the personal services budget for Commerce increases 9.7% when compared to the 2015 legislative appropriation. Discussion of related adjustments is provided in each program narrative.

Recruitment and retention

According to Commerce staff, between July 2013 and June 2014 Commerce had difficulty in recruiting qualified applicants for two types of positions:

- Auditors
- Program specialists for mortgage servicing

Retirements

Commerce indicates that 71 employees within the agency or 35.5% are eligible for either full or early retirement. In FY 2014 Commerce paid \$15,300 in retirements and sick leave payouts.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix.

For this agency the general fund impact of the 5% plan is \$63,907 and the state special revenue impact is \$222,216.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following highlights the differences between the FY 2015 appropriations as shown in the agency budget comparison table to the FY 2015 legislative appropriations used for purposes of the base budget, by program.

FY 2015 Appropriation Transactions - Department of Commerce						
Program	Legislative Appropriation	Legislative App OTO	Consolid of Bien Approp	House Adj Reorgs		Total Executive Implementation
51 BUSINESS RES DIV	\$8,777,117	\$3,250,000	(\$1,125,000)	-		\$10,902,117
Pers Svcs	1,518,232	184,462	(23,090)			1,679,604
Op Exp	4,425,883	118,589	(10,000)	-		4,534,472
Grants	2,833,002	2,946,949	(1,091,910)			4,688,041
52 MT PROMOTION DIV	750,000					750,000
Op Exp	750,000					750,000
60 COMM DVLP DIV	9,140,112				\$6,659,468	15,799,580
Pers Svcs	1,532,254				391,368	1,923,622
Op Exp	761,865				92,174	854,039
Grants	6,845,993				6,175,926	13,021,919
74 HOUSING DIVISION	7,984,468			-	(6,659,468)	1,325,000
Pers Svcs	391,368				(391,368)	-
Op Exp	1,058,253			-	(92,174)	966,079
Grants	6,175,926				(6,175,926)	-
Benefits & Claims	358,921					358,921
78 BD OF HORSE RAC	148,272			-		148,272
Pers Svcs	97,223			-		97,223
Op Exp	51,049			-		51,049
81 MGMT SVCS DIV	550,000					550,000
Grants	550,000					550,000
Agency Total	\$27,349,969	\$3,250,000	(\$1,125,000)	-	-	\$29,474,969

Biennial transfers of \$1.1 million from FY 2015 to FY 2014 included \$750,000 of authority for the native language preservation project and \$341,910 of matching funds for federal grants for the SBIT/STTR Program was transferred within the Business Resource Division. Commerce transferred the HOME Program, a federal block grant, from the Housing Division to the Community Development Division. The funding from the U.S. Department of Housing and Urban Development is designed to create affordable housing for low-income households.

Total FY 2014 Actual Spending

The figure on the following page shows the expenditures and funding sources used by the agency in FY 2014, including statutory appropriations and non-budgeted proprietary funds, compared to the FY 2014 appropriation. Overall the agency spent \$26.9 million less than projected in the legislative budget adopted in April 2013.

It should be noted that the figure does not include \$43.2 million in additional expenditures that were provided through appropriation transfers, budget amendments, and other house bills such as the Treasure State Endowment Program or Quality Education Grant Program. About half of the \$43.2 million was for debt service for bond interest costs for housing bonds issued by the Board of Housing. Housing bonds finance low-interest mortgages for low and moderate income home buyers and the acquisition, construction, and rehabilitation of multifamily housing for low-income renters.

Department of Commerce FY 2014					
Expenditures	Budgeted	Actuals	% of Total	Difference	
				From Budgeted	% Change
Personal Services	\$14,800,951	\$14,044,897	14.12%	(\$756,054)	-5.11%
Operating Expenses	32,787,522	24,146,643	24.28%	(8,640,879)	-26.35%
Equipment & Intangible Assets	76,299	56,036	0.06%	20,263	26.56%
Capital Outlay	31,536	0	0.00%	(31,536)	-100.00%
Local Assistance	6,181,918	5,476,316	5.51%	(705,602)	-11.41%
Grants	28,645,855	16,058,264	16.14%	(12,587,591)	-43.94%
Benefits and Claims*	40,112,817	36,156,092	36.35%	(3,956,725)	-9.86%
Transfers-Out	1,591,000	1,488,833	1.50%	(102,167)	-6.42%
Debt Service	<u>2,098,162</u>	<u>2,036,613</u>	<u>2.05%</u>	<u>(61,549)</u>	<u>-2.93%</u>
Total Expenditures	<u>\$126,326,060</u>	<u>\$99,463,694</u>	<u>100.00%</u>	<u>(\$26,862,367)</u>	<u>-21.26%</u>
Funding					
General Fund	10,026,962	7,912,736	7.96%	(2,114,226)	-21.09%
State Special Revenue	38,773,318	29,808,056	29.97%	(8,965,262)	-23.12%
Federal Revenue	18,989,393	9,462,542	9.51%	(9,526,851)	-50.17%
Enterprise	51,598,657	45,467,609	45.71%	(6,131,047)	-11.88%
Internal Service	6,937,731	6,812,749	6.85%	(124,981)	-1.80%
Total Funding	<u>\$126,326,060</u>	<u>\$99,463,694</u>	<u>100.00%</u>	<u>(\$26,862,367)</u>	<u>-21.26%</u>
* Excluding STIP distributions and disbursements					

Local Assistance, Grants, and Benefits and Claims

Approximately \$69.6 million or 50% of the funding was spent in FY 2014 on benefits and claims, grants, and local assistance. Benefits and claims funded in HB 2 includes:

- \$15.8 million in Section 8 housing vouchers
- \$18.6 million in Section 8 project claims

Benefits and claims were below projected levels by \$3.9 million. The majority of the difference was less demand for Section 8 Housing Assistance Program Services (HAPS).

The following table shows the various grants. Budgeted amounts are shown for comparison purposes.

Department of Commerce Budgeted to Actuals Comparison Grants FY 2014				
Program	Budgeted	Actuals	Difference	% Change
<u>HB 2 Ongoing</u>				
BUSINESS RESOURCES HB2	\$2,491,092	\$1,374,300	\$1,116,792	44.83%
SBIR/STTR PROGRAM - RST/BIEN	683,796	559,600	124,196	18.16%
COMMUNITY DEVELOPMENT HB2	11,191,494	5,404,974	5,786,520	51.70%
COAL BOARD GRANTS - BIEN	2,148,386	997,285	1,151,101	53.58%
MGMNT SVSC/D.O. HB2	<u>550,000</u>	<u>453,944</u>	<u>96,056</u>	<u>17.46%</u>
Total Ongoing Funding	17,064,768	8,790,103	8,274,665	48.49%
<u>HB 2 One-time-only</u>				
TRIBAL DEVELOPMENT - OTO	672,000	671,981	19	0.00%
PRIMARY BUSINESS SECT BIEN/OTO	1,215,553	(36,741)	1,252,294	103.02%
BIOMEDICAL RESEARCH - BIEN/OTO	1,000,000	45,824	954,176	95.42%
MANUFACTURE EXTENSION RST/OTO	50,000	50,000	0	0.00%
NATIVE LANGUAGE (RST/BIEN/OTO)	<u>1,750,000</u>	<u>1,250,400</u>	<u>499,600</u>	<u>28.55%</u>
Total One-time-only	4,687,553	1,981,464	2,706,089	57.73%
<u>Proprietary and Statutory</u>				
BUSINESS RESOURCES HB1-SA	425,000	425,000	0	0.00%
BIG SKY DEV TRUST - SA	2,925,771	1,791,199	1,134,572	38.78%
RESEARCH & COMM - SA	1,077,763	883,214	194,549	18.05%
BED TAX - PROMOTION - SA	1,750,000	1,721,502	28,498	1.63%
L & C LICENSE PLATES - SA	55,000	32,865	22,135	40.25%
HARD ROCK COUNTY DIST - SA	600,000	375,918	224,082	37.35%
FACILITIES FINANCE - HB576	<u>60,000</u>	<u>57,000</u>	<u>3,000</u>	<u>5.00%</u>
Total Proprietary and Statutory	6,893,534	5,286,697	1,606,837	23.31%
	<u>\$28,645,855</u>	<u>\$16,058,264</u>	<u>\$12,587,591</u>	<u>43.94%</u>

Overall Commerce has 43.9% in unexpended appropriation authority provided in FY 2014 for grants. Biennial grants that can be spent in either year include:

- Primary business sector training
- Coal Board grants
- SBIR/STIR funding
- Biomedical research grants
- Native American language preservation

\$5.5 million in local assistance was provided to support regional and local tourism and marketing efforts. Expenditures were about 11.4% below the anticipated level.

Operating Expenses

\$17.0 million in operating expenses were supported through either proprietary funds or statutory appropriations, including:

- \$1.5 million in loans made in the SSBCI Treasury Grant Program

- \$0.7 million in loan forgiveness and \$0.2 million in bad debt write offs related to Distressed Wood Products Industry Program
- \$12.4 million in costs for the Montana Promotion Division including consulting and professional services at \$4.2 million and advertising of \$4.9 million
- \$6.5 million for the Board of Housing with \$3.9 million in consulting and professional services
- \$2.3 million for the Board of Investments
- \$0.7 million at the Montana Heritage Commission

Spending below levels projected in the budget for these funding sources include:

- \$3.9 million less in national advertising than anticipated associated with the Montana Promotion Division
- \$1.6 million less in consulting and professional services overall

HB 2 Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Expenditures included in HB 2 makes up about 13.6% of the total FY 2014 expenditures. Actual HB 2 FY 2014 expenditures are \$12.3 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- \$8.2 million in lower grant funding makes up the majority of the difference. As discussed in the comparison of FY 2014 budget to actuals, requests for grant funding were lower than anticipated in the budget estimates. It should be noted that a number of the grants supported in HB 2 were provided as biennial appropriations meaning the agency can expend all on the funds in either the first or second year or spend more in either year depending on the award process and number of qualified applicants
- Operating expenses were lower by \$3.3 million. Commerce included \$2.9 million a year for loans made with \$2.0 million for the Microbusiness Loan Program in FY 2015. Requests for loans in FY 2014 were \$575,000 or 19.8% of the anticipated level. The other component of operating expenses that was under budget was printing and graphics costs and national advertising for the Montana Promotion Division. Budgeted costs were \$752,300 while actuals in FY 2014 came in at \$102,000.
- Personal services were about \$0.6 million below estimated costs. Lower spending for personal services was mostly due to vacant positions. HB 2 positions had a vacancy rate of 18.8% in FY 2014 compared to a budgeted rate of 6%.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department of Commerce Funding by Source of Authority 2017 Biennium Budget - Department of Commerce						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	17,356,942	0	4,750,000	22,106,942	8.83 %	
State Special Total	12,908,788	0	65,131,358	78,040,146	31.16 %	
Federal Special Total	36,396,593	0	1,288,079	37,684,672	15.05 %	
Proprietary Total	0	110,098,285	2,528,860	112,627,145	44.97 %	
Other Total	0	0	0	0	0.00 %	
Total All Funds	\$66,662,323	\$110,098,285	\$73,698,297	\$250,458,905		
Percent - Total All Sources	26.62 %	43.96 %	29.43 %			

Almost 75% of the overall funding for the Department of Commerce is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as statutory appropriations.

Within HB 2, the Governor proposes restoring several programs that were funded with one-time-only general fund appropriations by the 2013 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections. The Governor proposes restoring the programs as listed below:

- Primary Business Sector Training - \$1.2 million for the 2017 biennium

- Tribal Economic Development – \$1.6 million for the 2017 biennium
- Native Language Preservation - \$1.5 million over the biennium

General fund also supports the Census and Economic Information Center, Regional Development Bureau, trade and international relations activities, Entrepreneur Development Program /NxLevel, and the Made in Montana program; and provides match for the federal Community Development Block Grant. \$2.5 million of general fund is statutorily appropriated for the Research and Commercialization Program. This appropriation is discussed as an issue in the program narrative for the Business Resources Division.

State special revenues support the Montana Promotion Division, the Microbusiness Loan Program, research and commercialization, the Treasure State Endowment Program, the Coal Board, the Hard Rock Mining Board, Distressed Wood Products Program, quality school project grants, the Big Sky Economic Development Program, and the Montana Heritage Commission. The Montana Heritage Commission is funded with \$400,000 in lodging use facility taxes received each year, a portion of light vehicle registrations, and revenues generated by Virginia City and Nevada City as well as Reeder's Alley. The funding supports 12.00 FTE and the costs of operating the historic properties.

**LFD
ISSUE**
Growing Fund Balance in the Big Sky Economic Development Income Fund Indicates Expansion of Uses Could Be Considered

Statute requires that 25% of the coal severance tax available to the coal severance tax permanent trust be segregated into the big sky economic development trust fund. The purpose as defined in statute of the Big Sky Economic Development Program established by the legislature is to:

- Create good-paying jobs for Montana residents
- Promote long-term, stable economic growth in Montana
- Encourage local economic development organizations
- Create partnerships between state, local governments, tribal governments, and local economic development organizations that are interested in pursuing these same economic development goals
- Retain or expand existing businesses
- Provide a better life for future generations through greater economic growth and prosperity in Montana Legislature
- Encourage workforce development, including workforce training and job creation, in high-poverty counties by providing targeted assistance

The income from the big sky economic development trust is deposited into the big sky economic development income fund and is thus available for transfer to a state special revenue fund for use by the program within the Department of Commerce. Statute requires that the state special revenue funds be used for administrative expenses and grants. The flow of funds and resulting fund balances are shown in the figure below. Of the money not used for administrative expenses the funds are to be allocated:

- 75% for distribution to local governments and tribal governments to be used for job creation efforts
- 25% for distribution to certified regional development corporations, economic development organizations that are located in a county that is not part of a certified regional development corporation, and tribal governments

Department of Commerce Big Sky Economic Development Funds							
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Big Sky Economic Development Trust Fund - 09051							
Beginning Balance	\$29,122,282	\$34,773,763	\$41,050,989	\$46,791,809	\$53,544,336	\$60,422,774	\$67,845,658
Revenues	\$5,651,481	\$6,277,226	\$5,740,821	\$6,752,527	\$6,878,439	\$7,422,884	\$7,159,124
Transfers Out	\$0	\$0	\$0	\$0	\$0	\$0	(\$298,819)
Ending Balance	\$34,773,763	\$41,050,989	\$46,791,809	\$53,544,336	\$60,422,774	\$67,845,658	\$74,705,963
Big Sky Economic Development Trust Income Fund - 09052							
Beginning Balance	(\$1,087,754)	\$2,050,514	\$1,035,660	\$4,715,733	\$6,894,719	\$10,926,041	\$10,683,340
Revenue - Allocations							
Administrative Costs	\$113,976	\$124,096	\$132,927	\$121,188	\$140,373	\$187,869	293,464
Local Governments	1,301,376	1,138,538	3,710,359	2,293,348	3,368,212	652,072	2,927,254
CRD C	433,792	379,513	1,236,786	764,449	1,122,737	217,357	975,751
Total Revenues	\$1,849,144	\$1,642,147	\$5,080,073	\$3,178,986	\$4,631,322	\$1,057,299	\$4,196,469
Transfers Out	(\$1,289,124)	\$2,657,000	\$1,400,000	\$1,000,000	\$600,000	\$1,300,000	\$2,600,000
Ending Balance	\$2,050,514	\$1,035,660	\$4,715,733	\$6,894,719	\$10,926,041	\$10,683,340	\$12,279,808
Big Sky Economic Development State Special Revenue - 02771							
Beginning Balance	\$1,214,915	\$12,244	\$331,931	\$193,900	\$215,433	\$183,741	(\$9,908)
Transfers In	(\$1,289,124)	\$2,657,000	\$1,400,000	\$1,000,000	\$600,000	\$1,300,000	\$2,600,000
Expenditures							
Personal Services	\$80,911	\$92,789	\$96,271	\$90,138	\$100,617	\$139,592	\$222,328
Operating Expenses	33,065	31,307	36,656	31,050	39,756	48,277	71,136
Grants	(200,429)	2,213,217	1,405,104	857,279	491,319	1,305,780	1,791,199
Total Expenditures	(\$86,453)	\$2,337,313	\$1,538,031	\$978,467	\$631,692	\$1,493,649	\$2,084,663
Ending Balance	\$12,244	\$331,931	\$193,900	\$215,433	\$183,741	(\$9,908)	\$505,429
CDR - Certified Regional Development Corporation							

As shown, the fund balance in the big sky economic development income account within the trust fund has been increasing, from \$2.0 million in FY 2008 to \$12.3 million in FY 2014 or 515% in six years.

The growth appears to be occurring for two primary reasons:

- Demand for funding from local and tribal governments for job creation efforts or from certified regional development centers for planning grants, support for business improvement districts and central business district redevelopment, industrial development, community profiles, or matching funds for federal funds are lower than the amount of available revenues
- Delays between grant awards and requests for reimbursements indicating grant requirements are fulfilled.

The figure on the following page shows, since the inception of the program, the total funds available in the income fund, administrative costs, funds awarded for job creation efforts, funds awarded for certified regional corporations or planning grants, and the remaining funds that have not been utilized.

Department of Commerce Big Sky Economic Development Trust Income					
Fiscal Year	Income Available	Personal Services	Operating Expenses	Grant Funds Available	% of Total
Administration					
FY 2006	\$98,440	\$0	\$18,841	\$79,599	80.86%
FY 2007	1,566,706	64,626	24,865	1,477,215	94.29%
FY 2008	1,849,144	80,911	33,065	1,735,168	93.84%
FY 2009	1,642,147	92,789	31,307	1,518,051	92.44%
FY 2010	5,080,073	96,271	36,656	4,947,146	97.38%
FY 2011	3,178,986	90,138	31,050	3,057,798	96.19%
FY 2012	4,631,322	100,617	39,756	4,490,949	96.97%
FY 2013	1,057,299	139,592	48,277	869,430	82.23%
FY 2014	4,196,469	222,328	71,136	3,903,005	93.01%
FY 2015*	\$375,800	\$33,596	\$9,519	\$332,685	88.53%
	Annual Income	Jobs Awards	% of Annual Income	Remaining Annual Available	Total Available
75% to Local Governments					
FY 2006	\$59,699	\$0	0.00%	\$59,699	\$59,699
FY 2007	1,107,911	685,000	61.83%	422,911	482,610
FY 2008	1,301,376	1,022,500	78.57%	278,876	761,486
FY 2009	1,138,538	1,830,000	160.73%	(691,462)	70,025
FY 2010	3,710,360	839,000	22.61%	2,871,360	2,941,384
FY 2011	2,293,349	640,000	27.91%	1,653,349	4,594,733
FY 2012	3,368,212	910,000	27.02%	2,458,212	7,052,944
FY 2013	652,073	3,393,980	520.49%	(2,741,908)	4,311,037
FY 2014	2,927,254	2,162,155	73.86%	765,099	5,076,136
FY 2015*	\$249,514	\$112,500	45.09%	\$137,014	\$5,213,150
25% to Certified Regional Development Centers/ Planning Grants					
	Annual Income	Planning Grants	% of Annual Income	Remaining Annual Available	Total Available
FY 2006	\$19,900	\$0	0.00%	\$19,900	\$19,900
FY 2007	369,304	274,123	74.23%	95,181	115,081
FY 2008	433,792	364,615	84.05%	69,177	184,258
FY 2009	379,513	556,850	146.73%	(177,337)	6,921
FY 2010	1,236,787	459,675	37.17%	777,112	784,032
FY 2011	764,450	478,529	62.60%	285,921	1,069,953
FY 2012	1,122,737	921,925	82.11%	200,812	1,270,765
FY 2013	217,358	689,969	317.44%	(472,612)	798,153
FY 2014	975,751	603,551	61.86%	372,200	1,170,354
FY 2015*	\$83,171	\$240,442	289.09%	(\$157,271)	\$1,013,083

* FY 2015 through September 12, 2014

From the figure above one can ascertain that of the \$12.3 million in fund balance available in the income trust fund at the end of FY 2014:

- \$5.1 million is due to demand for job creation efforts below revenues available

- \$1.2 million is related to demand for funds from certified regional development corporations that administer programs for workforce training and job creation in high-poverty counties or planning grants that is below revenues available
- \$6.0 million has been awarded but the grantees have not yet fulfilled the grant requirements to allow them to receive the awarded funds

The availability of \$6.3 million in the income fund and the ongoing increase in the fund balance indicates that the funds are not being fully utilized. The legislature may wish to consider expanding the uses of the funds in statute for other purposes. For example, one of the statutory purposes of the Big Sky Economic Development Program is workforce training. Currently the Governor proposes to provide \$1.2 million of general fund for the 2017 biennium for primary business sector training administered by the Business Resources Division within Commerce. Expanding the uses of the revenues to job training efforts for primary business sector training could offset the general fund request while still maintaining the stated purpose of the funds.

Legislative option

Expand the statutorily allowed uses of the funds.

Federal special revenues include the community development block grant, small business development centers, the Montana Council on Developmentally Disabilities, and various programs for housing.

Proprietary

44.6% of the funding for the agency is non-budgeted proprietary funding. Proprietary funds are discussed in detail in the narrative sections of each program.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	3,161,833	3,161,833	6,323,666	36.43 %	34,009,437	34,009,437	68,018,874	102.04 %
PL Adjustments	447,773	61,889	509,662	2.94 %	(5,649,308)	(6,230,857)	(11,880,165)	(17.82)%
New Proposals	5,261,740	5,261,874	10,523,614	60.63 %	5,261,740	5,261,874	10,523,614	15.79 %
Total Budget	\$8,871,346	\$8,485,596	\$17,356,942		\$33,621,869	\$33,040,454	\$66,662,323	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	21.84	21.84	24.34	24.34	21.84	24.34	2.50	11.45 %
Personal Services	1,547,886	1,679,604	1,959,098	1,965,045	3,227,490	3,924,143	696,653	21.58 %
Operating Expenses	2,069,032	4,534,472	4,135,127	4,137,446	6,603,504	8,272,573	1,669,069	25.28 %
Grants	2,318,767	4,688,041	5,496,449	4,928,961	7,006,808	10,425,410	3,418,602	48.79 %
Transfers	0	0	2,375,000	2,375,000	0	4,750,000	4,750,000	0.00 %
Total Costs	\$5,935,685	\$10,902,117	\$13,965,674	\$13,406,452	\$16,837,802	\$27,372,126	\$10,534,324	62.56 %
General Fund	2,735,505	3,738,352	7,726,541	7,355,746	6,473,857	15,082,287	8,608,430	132.97 %
State/Other Special Rev. Funds	651,289	2,989,365	2,236,009	2,235,265	3,640,654	4,471,274	830,620	22.82 %
Federal Spec. Rev. Funds	2,548,891	4,174,400	4,003,124	3,815,441	6,723,291	7,818,565	1,095,274	16.29 %
Total Funds	\$5,935,685	\$10,902,117	\$13,965,674	\$13,406,452	\$16,837,802	\$27,372,126	\$10,534,324	62.56 %

Program Description

The Business Resources Division is comprised of programs aimed at improving and diversifying Montana's economy. The division works closely with the private sector, local communities, economic development organizations, and state and federal government agencies to improve the economy of Montana through business creation, expansion, retention, and recruitment efforts.

Program Highlights

<p>Business Resources Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • General fund increases mainly due to: <ul style="list-style-type: none"> ◦ Enhancement of existing economic development programs - \$5.5 million ◦ Continuation of economic development programs that were designated as one-time-only ◦ Continuation of Native American language preservation and biomedical research designated as one-time-only
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Unused authority for loans generates large amounts of carryforward or authority for other operating costs or personal services • HB 2 does not include designations of \$7.0 million in general fund proposed by the executive as restricted, biennial, and one-time-only

Program Discussion -

Comparison of the 2015 Legislative Base and the 2015 Appropriation

The following table highlights the differences between the executive's implementation of FY 2015 appropriations as shown in the program budget comparison table above and the FY 2015 legislative appropriations used for purposes of the budget base.

Business Resources Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Consolidation of Biennial Approp	Total Executive Implementation
Personal Services	\$1,702,694	(\$23,090)	\$1,679,604
Operating Expenses	4,544,472	(10,000)	4,534,472
Grants	5,779,951	(1,091,910)	4,688,041
Total Costs	\$12,027,117	(\$1,125,000)	\$10,902,117

The difference between the FY 2015 legislative appropriation and the total executive implementation is the shifting of biennial budget authority. \$750,000 of authority for the native language preservation project and \$341,910 of matching funds for federal grants for the SBIT/STTR Program was transferred from FY 2015 to FY 2014 to allow the grant programs to fund requests in the first year of the biennium.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$6.1 million below the FY 2015 legislative appropriation. Primary reasons for the differences are:

- Vacancy savings of 23.8% within the program resulted in a lower personal services cost in FY 2014
- The majority of the reductions in operating expenses occurred in loans made for the microbusiness loan program, which were \$450,000 while the estimate in the budget was \$2.0 million
- Grants for special projects under the Community Development Block Grant were not requested at the level anticipated in the 2015 biennial budget

Executive Request

The program budget comparison table shows the impacts on the budget after the transfers of appropriation authority are taken into account. As shown the Business Resources Division personal services increase \$0.4 million each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Employee attainment of longevity milestones in the 2017 biennium
- Reclassification of 2 positions between biennia
- Changes in employer retirement contributions

When compared to FY 2014 actual spending, operating costs increase by \$2.1 million each year of the biennium. The majority of the difference is because approved requests for loans in the Microbusiness Loan Program were \$450,000 in FY 2014 while the anticipated amount included in the 2017 biennium budget is \$2.0 million each year of the biennium. New proposals include additional operating expenses of \$0.3 million each year.

**LFD
ISSUE**

Unused Authority for Loans Generates Large Amounts of Carryforward

The Microbusiness Loan Program provides loans for Montana-based businesses with fewer than 10 full-time equivalent employees and a gross annual revenue of less than \$1.0 million. The figure on the next page shows the appropriation requests, both base budget and present law adjustments, for loans since FY 2010. Because the Business Resources Division has consistently requested funding above the historic level of funding used, a significant amount of unused appropriation authority is generated. Statute allows state agencies to carry forward and spend up to 30% of any unexpended appropriations for personal services, operating expenses, and equipment. The carry forward appropriations can be used over the next two years for any purpose that is consistent with the goals and objectives of the agency.

Microbusiness Loan Funds					
Carry Forward Authority					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Loans Made Budgeted					
Base Included in Budget	\$0	\$0	\$382,000	\$382,000	\$900,000
Present Law Adjustments	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,154,000</u>	<u>2,493,000</u>	<u>1,634,630</u>
Total Included in Budget	2,000,000	2,000,000	2,536,000	2,875,000	2,534,630
Loans Made Actuals*					
	<u>0</u>	<u>650,000</u>	<u>900,000</u>	<u>(200,000)</u>	<u>450,000</u>
Remaining Authority	<u>\$2,000,000</u>	<u>\$1,350,000</u>	<u>\$1,636,000</u>	<u>\$3,075,000</u>	<u>\$2,084,630</u>
Uses of Authority					
Movement to Personal Services	\$0	\$0	\$0	\$0	\$221,807
Carry Forward Authority	600,000	405,000	490,800	922,500	558,847
* Accrued costs of \$450,000 in FY 2012 were reversed in FY 2013 offsetting \$250,000 in loan activity.					

As shown in figure, the unused appropriation authority has generated significant amounts of carry forward authority for the program, as loans made are included in operating expenses. In addition, the authority can be transferred from operating expenses to other expenditure categories such as personal services, grants, or benefits and claims, or used for other types of operating costs such as professional and consulting services. In FY 2016 and FY 2017 the annual request for loans made is \$2.1 million. As can be determined from the chart above, the highest amount of loans made were in FY 2011 at \$650,000 followed by \$450,000 in FY 2012, which is determined when considering the adjustments for accruals, and \$450,000 in FY 2014.

If the legislature wishes to reduce the flexibility granted to the agency including the amount of carry forward appropriation authority generated in Business Resources Division it could reduce the authority provided through operating expenses. For example, if the authority for loans made was reduced to the highest level of loans made of \$650,000 each year of the biennium it would be a reduction of \$1.45 million in operating expenses. Reducing authority to the highest biennial total of \$700,000 would be a reduction of \$3.5 million over the biennium.

Legislative Option

Reduce authority for loans made to the highest level of spending over either a fiscal year or a biennium.

Grant awards for Community Development Block grants were \$1.2 million in FY 2014 while the amount appropriated for grants in FY 2015 was about \$2.6 million. The executive proposes to establish these funds at the higher level in each year of the 2017 biennium.

General fund for the program increases significantly due to new proposals for:

- Economic development funding for tribal businesses - \$0.6 million annually
- Primary business sector grants for new and existing Montana businesses to train new employees - \$0.8 million annually
- Economic development to enhance current programs within Commerce - \$2.75 million annually
- Native American language preservation - \$0.75 million annually

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 51-Business Resources Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	15,082,287	0	4,750,000	19,832,287	44.53 %	
02090 Business Asst-Private	190,954	0	0	190,954	1.22 %	
02094 DISTRESSED WOOD MATCH	0	0	0	0	0.00 %	
02100 DISTRESSED WOOD STATE	0	0	896,400	896,400	5.75 %	
02116 Accommodation Tax Account	0	0	300,000	300,000	1.92 %	
02210 Microbusiness Admin Acct	262,320	0	0	262,320	1.68 %	
02212 Microbusiness Loan Acct	4,000,000	0	0	4,000,000	25.65 %	
02249 Governor's Office Operations Fund	0	0	0	0	0.00 %	
02258 Employment Security Account	0	0	0	0	0.00 %	
02271 L&C Bicentennial Plate Fund	0	0	0	0	0.00 %	
02444 BEAR Program	18,000	0	0	18,000	0.12 %	
02557 Research & Commercialization	0	0	2,898,653	2,898,653	18.59 %	
02563 Nat'l Dev. Cncl Training Funds	0	0	0	0	0.00 %	
02671 Trade Growth thru AG	0	0	0	0	0.00 %	
02771 Economic Development Trust Fund	0	0	7,026,807	7,026,807	45.06 %	
02848 SBDC PRIVATE REVENUE NONFED	0	0	0	0	0.00 %	
State Special Total	\$4,471,274	\$0	\$11,121,860	\$15,593,134	35.02 %	
03059 Community Development Block	5,452,393	0	0	5,452,393	59.87 %	
03061 EDA Revolving Loan Fund	252,145	0	0	252,145	2.77 %	
03092 Distressed Woods Federal	0	0	1,288,079	1,288,079	14.14 %	
03180 SBA JOBS Grant	0	0	0	0	0.00 %	
03207 Small Business Dev. Centers	1,465,874	0	0	1,465,874	16.10 %	
03233 INSTEP/EPSCoR Funds	0	0	0	0	0.00 %	
03286 SSBCI Treasury Grant	0	0	0	0	0.00 %	
03331 OIT STEP	0	0	0	0	0.00 %	
03397 STATE BROADBAND DATA & DEV	0	0	0	0	0.00 %	
03405 FY09 NPS Project Grant	0	0	0	0	0.00 %	
03671 SBA FAST Grant	0	0	0	0	0.00 %	
03932 CDBG RLF	648,153	0	0	648,153	7.12 %	
Federal Special Total	\$7,818,565	\$0	\$1,288,079	\$9,106,644	20.45 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$27,372,126	\$0	\$17,159,939	\$44,532,065		

HB 2 Funding

General fund supports a number of functions including technology research programs, the Montana Capital Investment Board, the Census and Economic Information Center, tribal economic development, the Made in Montana program, regional development programs, and international relations programs. The general fund increase is primarily due to a proposal to continue funding for economic development programs that had been designated as one-time-only in the previous biennia.

State special revenues include authority for loans made through Small Business Development Centers to micro-business development centers. Refer to the present law section of the narrative for the LFD issue related to this funding.

Federal special revenues are mainly comprised of federal funding for community development block grants and small business development centers.

Statutory Appropriations

Over half of the funding in the Business Resource Division is statutorily appropriated. The legislature may effect change in these appropriations through changes to the statutes providing the authority for the program. General fund for the research and commercialization program and business and economic development programs is provided in statute.

State special revenues include funding for the Distressed Wood Products Program, research and development funds that are transferred from the general fund, and the economic development trust fund account that receives interest and income from the coal tax trust.

**LFD
ISSUE**

Statutory Appropriations for Research and Commercialization Appropriated Twice

15-35-108(9)(b), MCA, appropriates general fund to the research and commercialization state special revenue account. Money in this state special revenue account is itself statutorily appropriated. This means the expenditures of the same money is being recorded twice on the accounting system. Money moved from one account into another account within the state treasury is a transfer and does not require an appropriation.

The 2013 Legislature passed HB 18 at the request of the Legislative Finance Committee, as the committee had determined that the general fund appropriation should be eliminated. To ensure the funding was available to the program, the bill transferred general fund into the state special revenue fund for use by the Research and Commercialization Program and eliminated the general fund appropriation, thus correcting the double appropriation of the funds.

The Governor vetoed the bill. In his veto message the Governor stated he was vetoing the bill due to a concern that it would conflict with HB 454, a bill to increase pension contributions from several sources including the coal severance taxes that also funds the transfer to the research and commercialization state special revenue account.

Legislative Option

If the legislature wished to eliminate the double appropriation of statutory appropriations for research and commercialization it may wish to request a bill similar to that passed by the 2013 Legislature.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	2,413,352	2,413,352	4,826,704	32.00 %	8,777,117	8,777,117	17,554,234	64.13 %
PL Adjustments	413,189	42,394	455,583	3.02 %	288,557	(270,665)	17,892	0.07 %
New Proposals	4,900,000	4,900,000	9,800,000	64.98 %	4,900,000	4,900,000	9,800,000	35.80 %
Total Budget	\$7,726,541	\$7,355,746	\$15,082,287		\$13,965,674	\$13,406,452	\$27,372,126	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating

expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	298,609	33,709	(123,780)	208,538	0.00	(32,827)	(35,542)	277,951	209,582
DP 99 - LEG. Present Law	0.00	114,580	12,935	(47,496)	80,019	0.00	75,221	81,442	(636,910)	(480,247)
Grand Total All Present Law Adjustments	0.00	\$413,189	\$46,644	(\$171,276)	\$288,557	0.00	\$42,394	\$45,900	(\$358,959)	(\$270,665)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

LFD COMMENT The present law adjustments for personal services and other expenditures such as operating expenses were calculated using an algorithm. While the funding changes for the two adjustments taken together are correct, the allocation of the funding between personal services and other expenditures are not always allocated appropriately. As shown in the tables below the funding between the two present law adjustments needs to be refined in this division. The Legislative Fiscal Division staff will work with Commerce staff to adjust the funding appropriately between the two present law adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	21.34	\$4,780	\$1,138	\$4,453	\$10,371
Executive Implementation of 2015 Pay Increase		13,852	3,297	12,905	30,054
Fully Fund 2015 Legislatively Authorized FTE		17,562	14,503	30,883	62,948
Other					
FTE transferred from Governor's Office		130,137	-	-	130,137
Remainder of Other	0.00	132,278	14,771	(172,021)	(24,972)
Total Other	0.00	262,415	14,771	(172,021)	105,165
Personal Services Present Law Adjustments	21.34	\$298,609	\$33,709	(\$123,780)	\$208,538
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	21.34	\$4,780	\$1,138	\$4,453	\$10,371
Executive Implementation of 2015 Pay Increase		13,852	3,297	12,905	30,054
Fully Fund 2015 Legislatively Authorized FTE		17,562	14,503	30,883	62,948
Other					
FTE transferred from Governor's Office		130,137	-	-	130,137
Remainder of Other	0.00	(199,158)	(54,480)	229,709	(23,929)
Total Other	0.00	(69,021)	(54,480)	229,709	106,208
Personal Services Present Law Adjustments	21.34	(\$32,827)	(\$35,542)	\$277,951	\$209,581

The executive proposes to increase support for personal services by 13.7% in FY 2016 and FY 2017 when compared to the FY 2015 legislative budget. As shown in the table over half of the change is due to the transfer of FTE from the Governor's Office. About 20% of the changes are due to costs associated with HB 13 of the 2013 Legislature. Other adjustments include:

- Reclassification of two positions
- Longevity
- Broad band pay increases
- Full funding of positions that were unfilled during a portion of the year

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases in FY 2016 and reductions in FY 2017 in costs and funding when compared to the FY 2015 legislative budget. Decreases in federal grants are offset by a proposed increase in both general fund and state special revenue support.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5105101 - Primary Business Sector Training	2.00	600,000	0	0	600,000	2.00	600,000	0	0	600,000
DP 5105102 - Indian Country Economic Development	1.00	800,000	0	0	800,000	1.00	800,000	0	0	800,000
DP 5105106 - Enhance Economic Development in Montana (RST/BIEN/OTO)	0.00	2,750,000	0	0	2,750,000	0.00	2,750,000	0	0	2,750,000
DP 5105107 - Native Language Preservation (RST/BIEN/OTO)	0.00	750,000	0	0	750,000	0.00	750,000	0	0	750,000
Total	3.00	\$4,900,000	\$0	\$0	\$4,900,000	3.00	\$4,900,000	\$0	\$0	\$4,900,000

DP 5105101 - Primary Business Sector Training -

The executive proposes funding for the Primary Sector Workforce Training Program to provide grant funds to new and existing Montana businesses to train new employees. A seven member grant review committee consisting of both public and private members reviews applications and allocates funding through the Department of Commerce. The legislature has funded this program with one-time-only funds for the last several biennia.

DP 5105107 - Native Language Preservation (RST/BIEN/OTO) -

This executive request includes funding an additional \$1.5 million in one-time-only general fund to continue the Native Language Preservation Program. The program documents and preserves the Native American languages of the various tribes in Montana. Speakers fluent in the Native American languages would be recorded, and written materials would be developed, to allow younger generations of the various tribes, as well as others, to develop language skills for the various Native American languages. The request is contingent on passage and approval of legislation that extends the Native Language Preservation program (LC0632).

LFD COMMENT	The 2013 Legislature approved \$1.0 million in general fund each year of the 2015 biennium for native language preservation. As part of its oversight duties the State Tribal Relations Interim Committee received updates on the project.
--------------------	--

LFD ISSUE	<u>Funding Not Designated as Restricted, Biennial, or One-time-only in HB 2 as Proposed</u>
	While the narrative submitted by the agency indicates this proposal is restricted, biennial, and one-time-only HB 2 as proposed by the Governor does not contain these restrictions on the funding.
	Legislative Option
	If the legislature decides to approve this proposal it can designate the funding as restricted, biennial, and/or one-time-only.

DP 5105102 - Indian Country Economic Development -

The executive requests support for the Indian Country Economic Development (ICED) program. The Tribal Economic Development Program: 1) provides technical assistance and financial resources to existing tribal businesses to help them expand operations and facilities and train and employs new workers; 2) assists in the development of start-up tribal businesses; and 3) delivers business skills training to the growing numbers of Indian entrepreneurs and helps Native

American businesses access capital. The legislature has funded this program with one-time-only funds for the last several biennia.

DP 5105106 - Enhance Economic Development in Montana (RST/BIEN/OTO) -

The executive proposes \$5.5 million in general fund one-time-only authority over the biennium to enhance the economic development programs within Commerce. These programs include Montana Board of Research and Commercialization, Small Business Development Centers, Small Business Innovation Research, Montana Manufacturing Extension Center, Export Trade Enhancement, and Certified Regional Development Corporations.

**LFD
COMMENT**

The information provided by the executive for the uses of \$5.5 million in general fund do not provide sufficient detail for the 2015 Legislature to formulate an appropriations policy for the uses of the funds. While several programs are discussed it is not apparent how the funds will be allocated among the programs. Objectives and proposed measurements for the funds are not included as part of the budget submission. In past biennia agencies have completed an expanded justification for new proposals which outlines the justification for the funds, proposed project outcomes, performance criteria, milestones, FTE, funding, obstacles, and risk if the project is not approved.

The Joint Appropriations Subcommittee on General Government may wish to request that the Business Resources Division provide additional information on its proposal for enhancement of economic development including an expanded justification.

**LFD
ISSUE**

Funding Not Designated as Restricted, Biennial, or One-time-only in HB 2 as Proposed

While the narrative submitted by the agency indicates this proposal is restricted, biennial, and one-time-only HB 2 as proposed by the Governor does not contain these restrictions on the funding.

Legislative Option

If the legislature decides to approve this proposal it can designate the funding as restricted, biennial, and/or one-time-only.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
Operating Expenses	272,751	750,000	750,000	750,000	1,022,751	1,500,000	477,249	46.66 %
Total Costs	\$272,751	\$750,000	\$750,000	\$750,000	\$1,022,751	\$1,500,000	\$477,249	46.66 %
State/Other Special Rev. Funds	272,751	750,000	750,000	750,000	1,022,751	1,500,000	477,249	46.66 %
Total Funds	\$272,751	\$750,000	\$750,000	\$750,000	\$1,022,751	\$1,500,000	\$477,249	46.66 %

Program Description

The Montana Promotion Division (division) strives to strengthen Montana’s economy through increased visitor travel, visitor expenditures, and film production, in the state. The division is responsible for implementing and promoting a positive brand image for Montana as a vacation destination and works to ensure brand consistency amongst its marketing and promotional efforts. The division focuses on attracting high value, low impact geotraveler visitors who contribute to Montana’s economic and social prosperity while respecting and appreciating Montana’s authentic natural and cultural assets. This program goal is accomplished through various marketing efforts, networking with the state’s public and private sector tourism and recreation industry and agencies, along with education and development assistance. The division works to project a positive image of the state through consumer advertising, electronic marketing, public relations efforts, international and domestic group travel marketing, printing and distribution of literature, staffing support and training of professional travel counselors, assisting in the development of tourism infrastructure and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes event marketing and infrastructure grants and oversees expenditures of six regional non -profit corporations and fifteen qualified convention and visitors bureaus.

Program Highlights

<p>Montana Promotion Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • Over 97% of the Montana Promotion Division budget, including 29.50 FTE is supported by statutory appropriations not reflected in HB 2 • The executive proposes a biennial increase in the program of 46.7% when compared to the 2015 biennium. Funding for private funds supports the change
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Proposed expenditures exceed revenues by \$1.9 million over the biennium • Proposal for private funds higher than trends indicate

Program Discussion -

As almost 97% of the budget is supported by statutory funding, the expenditures by type of costs are not shown in the program budget comparison table above. The following table shows the proposed executive budget for the program by year, types of expenditures, and source of funding. Revenues supporting the program are broken into the accounts

within the state special revenue fund and are shown using the HJR 2 estimated revenues adopted by the Revenue and Transportation Interim Committee on November 20, 2014.

Personal services increase between biennia due to:

- Elimination of 4% vacancy savings without a corresponding reduction in FTE
- Addition of 1.00 FTE for a program specialist
- Annualization of state share contribution to the cost of employee health insurance
- Annualization of FY 2015 pay increase
- Reclassification of 6.00 FTE
- Employee attainment of longevity requirements

Department of Commerce Montana Promotion Division Program Budget Comparison							
Budget Item	Base FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017	Biennium Fiscal 14-15	Biennium Fical 16-17	Biennium % Change
FTE	29.50	28.50	29.50	29.50	28.50	29.50	3.51%
Personal Services	\$1,995,929	\$1,945,376	\$2,254,892	\$2,250,521	\$3,941,305	\$4,505,413	14.31%
Operating Expenses	12,389,338	14,829,673	13,650,160	14,528,004	27,219,011	28,178,164	3.52%
Equipment and Intangibles	33,346	48,508	33,346	33,346	81,854	66,692	-18.52%
Local Assistance	5,476,316	6,246,437	6,285,000	6,835,000	11,722,753	13,120,000	11.92%
Grants	<u>1,756,029</u>	<u>1,099,320</u>	<u>1,756,029</u>	<u>1,756,029</u>	<u>2,855,349</u>	<u>3,512,058</u>	<u>23.00%</u>
Total Costs	21,650,958	24,169,314	23,979,427	25,402,900	45,820,272	49,382,327	7.77%
State Special							
Accomodation Tax Account*	16,271,154	16,237,000	17,054,000	18,095,000	32,508,154	35,149,000	8.12%
Regional Accomodation Tax*	5,452,747	5,629,000	5,912,000	6,273,000	11,081,747	12,185,000	9.96%
L& C Bicentennial Plate Fund	32,865	55,000	32,865	32,865	87,865	65,730	-25.19%
Film Production Credit	1,000	1,000	1,000	1,000	2,000	2,000	0.00%
State Special	<u>\$21,757,766</u>	<u>\$21,922,000</u>	<u>\$22,999,865</u>	<u>\$24,401,865</u>	<u>\$43,679,766</u>	<u>\$47,401,730</u>	<u>8.52%</u>
Over (under) expended	<u>\$106,808</u>	<u>(\$2,247,314)</u>	<u>(\$979,562)</u>	<u>(\$1,001,035)</u>	<u>(\$2,140,506)</u>	<u>(\$1,980,597)</u>	
* HJR 2 revenue estimates adopted 11/20/2014 for FY 2015, FY 2016 and FY 2017							

Projected revenues for FY 2014 were \$0.5 million higher than projected in early 2013. This updated figure was amended into the budget and increased spending for local assistance to local governments.

LFD ISSUE	<p>Proposed Expenditures Exceed Revenues By \$1.9 million Over the Biennium</p> <p>As shown in the figure above, proposed expenditures for the program exceed estimated revenues by \$1.9 million over the biennium. While statutory appropriations are not approved by the legislature, the proposed funding and expenditures are part of the overall state budget for the biennium. The source of funding for the accommodation tax account</p>
----------------------	--

and the regional accommodation tax is the lodging use facility tax. By statute, lodging facilities in the state assess a 7% tax on accommodations and is collected from customers of the facility upon payment for their stay. The tax is based on the fees charged for lodging. 87.4% of the tax collected is statutorily allocated to the Department of Commerce for:

- Promotion of the tourism industry in Montana – 64.9%
- Distribution to regional nonprofit tourism corporations and nonprofit convention and visitors bureau – 22.5%

By statute Commerce distributes funding to the regional tourism centers and cities based on the amount of lodging use tax collected. Thus, the LFD projects the expenditures for local assistance would be \$5.9 million in FY 2016 and \$6.3 million in FY 2017, a decrease of \$0.9 million over the biennium from the estimates included in the budgeting system. Other reductions that would need to occur are not currently outlined in the budgeting system and thus are not articulated to the legislature. The legislature may wish to request an updated projection of estimated costs for the statutory appropriations provided to the program prior to adopting the HB 2 portion of the division’s budget.

Legislative Option

If the legislature wishes to ensure that the overall division budget accurately reflects costs associated with the program it may request the division provide update estimates of costs for the program given the adopted revenue estimates.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 52-Montana Promotion Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02116 Accommodation Tax Account	36,741	0	36,943,859	36,980,600	71.62 %	
02154 MT Promotion-Private	1,463,259	0	0	1,463,259	2.83 %	
02254 Regional Accommodation Tax	0	0	13,120,000	13,120,000	25.41 %	
02271 L&C Bicentennial Plate Fund	0	0	65,730	65,730	0.13 %	
02293 Film Production Credit	0	0	2,000	2,000	0.00 %	
State Special Total	\$1,500,000	\$0	\$50,131,589	\$51,631,589	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$1,500,000	\$0	\$50,131,589	\$51,631,589		

The Montana Promotion Division is funded entirely with state special revenues. The primary funding source is a portion of the statutorily appropriated 7% accommodations tax. The funding table denotes the funding provided in HB 2 and the statutorily appropriated funds.

HB 2

The portion of the division’s budget that is considered by the legislature in HB 2 is less than 4% of the division’s total budget for the 2017 biennium. \$750,000 each year is from private contributions to joint private/state targeted advertising campaigns. The remaining funding is appropriated from a portion of the 4% Montana lodging facility use tax for legislative audit costs.

**LFD
ISSUE**

Funding Requested Higher Than Trends Indicate

Actual expenditures associated with private funds in the Montan Promotion Division for the last completed fiscal years are shown in the figure.

Department of Commerce Montana Promotion Division Private Funds			
	FY 2012	FY 2013	FY 2014
Private Funds	\$159,357	\$225,398	\$247,483
% Change	-66.01%	41.44%	9.80%

As shown in the figure, private funds collected by the program for the last three years have been significantly below the amounts requested in the budget, 67% below using FY 2014 which had the highest collections of the last three years. The legislature may wish to align the funding to a more realistic estimate of revenues by approving a lower amount of state special revenues from the Montana promotion private account. Options might include:

- \$247,483, the highest amount of revenues received over the last three years
- \$318,803, the highest percentage change applied to FY 2014 collections

Legislative Option

Reduce the appropriations for the Montana promotion private account.

Statutory Appropriations

The majority of the lodging facility use taxes are statutorily appropriated to the division. The legislature can affect change to these appropriations through amendments to the statutes listed in the funding tables. For additional information on the history, distribution, and division uses of the funds see the appendix for the Department of Commerce.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	750,000	750,000	1,500,000	0.00 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$750,000	\$750,000	\$1,500,000	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	0	0	0.00	0	0	0	0
DP 99 - LEG. Present Law	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$0	\$0	\$0	\$0

DP 98 - LEG. Personal Services Present Law -

As reflected in the present law adjustment table, the division does not have any personal services expenditures or funding provided in HB 2. Thus there is not an adjustment.

DP 99 - LEG. Present Law -

Operating expenses for the HB 2 appropriations as proposed as the FY 2015 legislative base budget.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	26.16	26.16	26.45	26.45	26.16	26.45	0.29	1.11 %
Personal Services	1,538,340	1,923,622	2,011,919	2,012,615	3,461,962	4,024,534	562,572	16.25 %
Operating Expenses	839,674	854,039	1,245,421	1,232,868	1,693,713	2,478,289	784,576	46.32 %
Grants	7,282,096	13,021,919	13,765,828	13,755,828	20,304,015	27,521,656	7,217,641	35.55 %
Total Costs	\$9,660,110	\$15,799,580	\$17,023,168	\$17,001,311	\$25,459,690	\$34,024,479	\$8,564,789	33.64 %
General Fund	719,878	748,481	1,144,805	1,129,850	1,468,359	2,274,655	806,296	54.91 %
State/Other Special Rev. Funds	2,194,673	3,069,087	3,136,227	3,133,337	5,263,760	6,269,564	1,005,804	19.11 %
Federal Spec. Rev. Funds	6,745,559	11,982,012	12,742,136	12,738,124	18,727,571	25,480,260	6,752,689	36.06 %
Total Funds	\$9,660,110	\$15,799,580	\$17,023,168	\$17,001,311	\$25,459,690	\$34,024,479	\$8,564,789	33.64 %

Program Description

The Community Development Division (CDD) administers five programs directly:

- Community Development Block Grant Program (CDBG);
- Community Technical Assistance Program (CTAP);
- HOME Investment Partnerships Program (HOME);
- Quality Schools Grant Program; and
- Treasure State Endowment Program (TSEP).

Two citizen boards appointed by the Governor, Montana Coal Board and the Montana Hard Rock Mining Impact Board, are attached to CDD for administrative purposes. The division provides office facilities, staff, and administrative support for the two boards.

Program Highlights

Community Development Division Major Budget Highlights
<ul style="list-style-type: none"> • Funding for the division increases between the two biennia primarily due to increases in federal funding and increased costs associated with the Hard Rock Mining Impact and Coal Boards • A reorganization in FY 2014 transferred the HOME Program to division with 5.83 FTE and \$6.7 million in federal funds
Major LFD Issues
<ul style="list-style-type: none"> • Computer software purchases can be considered one-time-only use of funds

Program Discussion -

Comparison of the FY 2015 Legislative Base and the FY 2015 Appropriation

The major change between the FY 2015 legislative base and the executive's implementation of the FY 2015 appropriation is due to a reorganization that transferred the HOME program from the Board of Housing to CDD. This change increases the FY 2015 appropriation by:

- 5.83 FTE including 4.33 program specialists, 1.00 FTE administrative assistant, and 0.50 FTE accountant. The administrative assistant and 0.71 FTE associated with a program specialist were eliminated by the division as part of its compliance with boilerplate language for HB 2 enacted by the 2013 Legislature
- \$391,368 in personal services
- \$92,174 in operating expenses
- \$6,175,926 in grants

Department of Commerce Community Development Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Reorganization	Total Executive Implementation
Personal Services	\$1,532,254	\$391,368	\$1,923,622
Operating Expenses	761,865	92,174	854,039
Grants	<u>6,845,993</u>	<u>6,175,926</u>	<u>13,021,919</u>
Total Costs	<u>\$9,140,112</u>	<u>\$6,659,468</u>	<u>\$15,799,580</u>

In addition, the CDD transferred \$206,750 in authority to operating expenses in FY 2014, \$146,750 from personal services and \$60,000 from grants.

Comparison of FY 2014 Actuals to the 2015 Legislative Base

FY 2014 actual spending is \$0.5 million above the 2015 legislative base due to the transfer of \$6.7 million in authority for the HOME Program.

Personal services changes are due to:

- Full funding of positions that were unfilled during a portion of the FY 2014
- Employee attainment of longevity milestones in FY 2015
- Annualization of the state share contribution to the employee health increase provided in FY 2014
- Implementation of a pay increase in FY 2015 as provided in HB 13
- Addition of 5.83 FTE and \$391,368 in authority

FY 2014 grants were significantly lower than FY 2015 appropriations for three programs:

- CDBG projected at \$5.3 million in FY 2015, actual spending in FY 2014 \$3.2 million
- Coal Board projected at \$1.7 million in FY 2015, actual spending in FY 2014 \$1.1 million
- HOME projected at \$6.2 million in FY 2015, actual spending in FY 2014 \$2.9 million

According to Commerce staff CDBG spending is dependent on requests from grantees and the process used to award the grants. Coal Board funding is a biennial appropriation. In the 2015 biennium the total amount appropriated was \$3.9 million with \$2.8 million available for awards in FY 2015. Commerce staff indicate that the spending level depends on grantee requests. Commerce appropriations for HOME funds are above projected grant awards as grantees have income that is generated from the program. According to Commerce staff if the grantee chooses to remit the program income to Commerce they must have a level of federal authority that is sufficient to then award the remitted funding to other community projects

Executive Request

The figure on the following page shows the changes for each of the programs between actual spending occurring in FY 2014 and the Governor's proposed budget in the 2017 biennium. Increases above FY 2014 actuals in operating expenses occur in the Coal Board, Community Development Block Grant Program, Treasure State Endowment Program, Community Technical Assistance Program, Quality Schools Program, and the HOME Program and include:

- Indirect and administrative charges
- Annual inflationary rent increase included in the lease agreement for non-Department of Administration building
- State Information Technology Services Division increases included in fixed costs

The Hard Rock Mining Board's (board) budget includes \$100,000 each year of the biennium for other services. Statute requires the board to maintain a reserve not to exceed \$100,000. The reserve account is funded through an allocation from the hard rock mining impact trust account. Expenditures may be made from the reserve:

1. For administrative and operating expenses of the board if the revenues from the license tax on metal mines are not sufficient to cover the estimated costs; or
2. To pay for the quasi-judicial responsibilities of the board related to impact plans.

The board did not need the reserve funding in FY 2014, which accounts for differences between FY 2014 and FY 2015 for this board.

The Coal Board is statutorily required to biennially designate eligible entities for Coal Board funds. The executive includes an additional \$10,000 in FY 2017 for this purpose.

The Community Technical Assistance Program has included an additional \$15,000 in funding above the amount spent in FY 2014 to purchase in-depth analysis software to provide communities with detailed plans and resource documents in FY 2016. The software can be used to provide in-depth technical assistance to communities interested in conducting targeted market analysis, housing studies, land use planning documents and economic development plans.

Department of Commerce Community Development Division					
Program	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change
Coal Board					
FTE	1.16	1.16	0.00%	1.16	0.00%
Personal Services	\$67,569	\$86,086	27.40%	\$85,894	27.12%
Operating Expenses	37,237	40,469	8.68%	49,455	32.81%
Grants	<u>1,146,268</u>	<u>1,730,000</u>	<u>50.92%</u>	<u>1,720,000</u>	<u>50.05%</u>
Total Expenditures	1,251,074	1,856,555	48.40%	1,855,349	48.30%
Hard Rock Mining Board					
FTE	1.16	1.16	0.00%	1.16	0.00%
Personal Services	80,548	84,586	5.01%	84,393	4.77%
Operating Expenses	<u>31,659</u>	<u>136,221</u>	<u>330.28%</u>	<u>135,720</u>	<u>328.69%</u>
Total Expenditures	112,207	220,807	96.79%	220,113	96.17%
Community Development Block Grant					
FTE	5.50	5.50	0.00%	5.50	0.00%
Personal Services	397,221	434,176	9.30%	435,207	9.56%
Operating Expenses	153,457	163,477	6.53%	162,698	6.02%
Grants	<u>3,218,732</u>	<u>4,118,732</u>	<u>27.96%</u>	<u>4,118,732</u>	<u>27.96%</u>
Total Expenditures	3,769,410	4,716,385	25.12%	4,716,637	25.13%
Treasure State Endowment					
FTE	6.17	6.17	0.00%	6.17	0.00%
Personal Services	453,977	506,369	11.54%	507,491	11.79%
Operating Expenses	<u>120,282</u>	<u>131,470</u>	<u>9.30%</u>	<u>130,327</u>	<u>8.35%</u>
Total Expenditures	574,259	637,839	11.07%	637,818	11.07%
Community Technical Assistance Program					
FTE	2.17	2.17	0.00%	2.17	0.00%
Personal Services	159,998	191,248	19.53%	191,115	19.45%
Operating Expenses	<u>272,266</u>	<u>299,387</u>	<u>9.96%</u>	<u>283,422</u>	<u>4.10%</u>
Total Expenditures	432,264	490,635	13.50%	474,537	9.78%
Quality Schools					
FTE	4.17	4.17	0.00%	4.17	0.00%
Personal Services	147,598	287,538	94.81%	287,207	94.59%
Operating Expenses	<u>108,872</u>	<u>132,451</u>	<u>21.66%</u>	<u>131,816</u>	<u>21.07%</u>
Total Expenditures	256,470	419,989	63.76%	419,023	63.38%

HOME Program					
FTE	5.83	4.12	-29.33%	4.12	-29.33%
Personal Services	231,429	276,025	19.27%	275,313	18.96%
Operating Expenses	115,901	126,097	8.80%	123,551	6.60%
Grants	<u>2,917,096</u>	<u>7,917,096</u>	<u>171.40%</u>	<u>7,917,096</u>	<u>171.40%</u>
Total Expenditures	3,264,426	8,319,218	154.84%	8,315,960	154.74%

**LFD
ISSUE**

Computer Software Purchases Can Be Considered One-Time-Only Use of Funds

Purchases that are not recurring in nature can be considered a one-time-only use of the funds. This designation ensures that the costs are not included in the base budget for the following biennium. Purchase of computer analysis software is considered a nonrecurring expenditure of funds. The legislature may wish to consider designating the funding as one-time-only. In addition the legislature may wish to ensure that the funds are only used to purchase the analysis software by restricting the funds to this purpose.

Legislative Option

Designate funding for analysis software as one-time-only, restricted, or both.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 60-Community Development Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	2,274,655	0	0	2,274,655	6.58 %
02049 Hard Rock Mining	440,920	0	525,000	965,920	14.22 %
02218 School Facility Imprvmnt Acct	841,083	0	0	841,083	12.38 %
02270 Treasure State Endowment	1,275,657	0	0	1,275,657	18.77 %
02445 Coal Board	3,711,904	0	0	3,711,904	54.63 %
State Special Total	\$6,269,564	\$0	\$525,000	\$6,794,564	19.67 %
03053 Neighborhood Stabilization Prg	0	0	0	0	0.00 %
03059 Community Development Block	8,845,082	0	0	8,845,082	34.71 %
03300 Home Grants	16,635,178	0	0	16,635,178	65.29 %
Federal Special Total	\$25,480,260	\$0	\$0	\$25,480,260	73.75 %
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$34,024,479	\$0	\$525,000	\$34,549,479	

General fund:

- Provides matching funds for the Community Development Block Grant
- Wholly supports the Community Technical Assistance Program

State special revenue is dominated by grant funding for Coal Board programs that fund governmental services that are a direct consequence of an increase or decrease of coal development or as the result of an increase or decrease in the consumption of coal by a coal-using energy complex.

Treasure State Endowment Programs (TSEP) are funded with interest earnings from the treasure state endowment fund, a subfund within the coal tax trust. Transfers into the fund will be capped at the end of FY 2016. At end of FY 2014 the TSEP trust fund had a balance of \$238.6 million while the income account within the trust has accumulated a fund balance of \$31.1 million that is available for projects. Revenue from the income account within the trust is then transferred to the state special revenue fund for administrative costs and grants provided by the program.

The CDBG program is primarily funded with federal block grant funds allocated through the US Department of Housing and Urban Development. The general fund provides a required match for a portion of the administrative costs of the program equal to 2% of the annual CDBG allocation.

Funding for the Quality Schools Grant Program is derived from the school facility and technology fund. The purpose of the fund is to provide funding for a number of needs for public schools in Montana.

LFD COMMENT At this time the funding in the account is not sufficient to provide for all of the intended uses of the fund. See LFD Issue in the funding discussion of the Local Education Activities Program for the Office of Public Instruction.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	748,481	748,481	1,496,962	65.81 %	9,140,112	9,140,112	18,280,224	53.73 %
PL Adjustments	34,584	19,495	54,079	2.38 %	7,521,316	7,499,325	15,020,641	44.15 %
New Proposals	361,740	361,874	723,614	31.81 %	361,740	361,874	723,614	2.13 %
Total Budget	\$1,144,805	\$1,129,850	\$2,274,655		\$17,023,168	\$17,001,311	\$34,024,479	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----				-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(9,607)	24,343	319,038	333,774	0.00	(9,521)	24,379	319,508	334,366
DP 99 - LEG. Present Law	0.00	44,191	42,797	7,100,554	7,187,542	0.00	29,016	39,871	7,096,072	7,164,959
Grand Total All Present Law Adjustments	0.00	\$34,584	\$67,140	\$7,419,592	\$7,521,316	0.00	\$19,495	\$64,250	\$7,415,580	\$7,499,325

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Present law adjustment increases are driven by the reorganization of the HOME Program that was moved from the Housing Division to the Community Development Division in FY 2014. This change was not contemplated by the 2013 Legislature.

Personal Services Present Law Adjustments					
CP 98 PSPL Item	FY 2016				
	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	24.45	\$1,254	\$6,158	\$4,471	\$11,883
Executive Implementation of 2015 Pay Increase		3,930	16,282	11,672	31,885
Fully Fund 2015 Legislatively Authorized FTE		5,593	-	-	5,593
Other					
Reorganization		-	-	391,368	391,368
Remainder of Other	0.00	(20,384)	1,903	(88,473)	(106,954)
Total Other	0.00	(20,384)	1,903	302,895	284,414
Personal Services Present Law Adjustments	24.45	(\$9,607)	\$24,343	\$319,038	\$333,774
CP 98 PSPL Item	FY 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	24.45	\$1,254	\$6,158	\$4,471	\$11,883
Executive Implementation of 2015 Pay Increase		3,930	16,282	11,672	31,885
Fully Fund 2015 Legislatively Authorized FTE		5,593	-	-	5,593
Other					
Reorganization		-	-	391,368	391,368
Remainder of Other	0.00	(20,298)	1,939	(88,003)	(106,362)
Total Other	0.00	(20,298)	1,939	303,365	285,006
Personal Services Present Law Adjustments	24.45	(\$9,521)	\$24,379	\$319,508	\$334,366

The executive proposes increases of 21.8% for personal services when compared to the 2015 legislative base budget. The majority of the increase is related to the reorganization as shown in the table above.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
	FY 2016			
	General Fund	State Special	Federal Special	Total Funds
CP 99 Item				
Coal Board	(\$11,057)	(\$15,286)	(\$4,358)	(\$30,701)
Hard Rock Mining Board	-	13,479	-	13,479
Community Development Block Grant	(15,237)	-	(938,281)	(953,518)
Treasure State Endowment Program	-	8,214	-	8,214
Community Technical Assistance Program	71,459	-	-	71,459
Quality Schools	(974)	36,390	-	35,416
Reorganization - HOME	\$0	\$0	8,043,193	8,043,193
Legislative Present Law Adjustments	\$44,191	\$42,797	\$7,100,554	\$7,187,542
	FY 2017			
	General Fund	State Special	Federal Special	Total Funds
CP 99 Item				
Coal Board	(11,318)	(15,937)	(4,460)	(31,715)
Hard Rock Mining Board	-	12,978	-	12,978
Community Development Block Grant	(14,182)	-	(940,115)	(954,297)
Treasure State Endowment Program	-	7,071	-	7,071
Community Technical Assistance Program	55,494	-	-	55,494
Quality Schools	(978)	35,759	-	34,781
Reorganization - HOME	\$0	\$0	8,040,647	8,040,647
Legislative Present Law Adjustments	\$29,016	\$39,871	\$7,096,072	\$7,164,959

The majority of the change for the Community Development Division is the reorganization transferring the HOME Program to CDD.

The Coal Board is statutorily required to biennially designate eligible entities for Coal Board funds. The adjustment includes authority to allow the department to hire consulting services to perform the designation study for proper allocation of Coal Board grants.

The Community Technical Assistance Program has requested additional funding to purchase in-depth analysis software to provide communities with detailed plans and resource documents. The software can be used to provide in-depth technical assistance to communities interested in conducting targeted market analysis, housing studies, land use planning documents and economic development plans. Please see the issue under the "Executive Request" section for further information.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 600604 - State Broadband Program	2.00	361,740	0	0	361,740	2.00	361,874	0	0	361,874
Total	2.00	\$361,740	\$0	\$0	\$361,740	2.00	\$361,874	\$0	\$0	\$361,874

DP 600604 - State Broadband Program -

The executive proposes state broadband data and development services as part of the Community Technical Assistance Program. The funding also includes \$175,000 per year for broadband mapping. Funding is requested as a biennial appropriation and is contingent upon passage of HB 14.

**LFD
ISSUE**

Funding Not Designated as Biennial or Contingent on the Passage of HB 14 as Proposed

While the narrative submitted by the agency indicates this proposal is biennial and contingent on the passage of HB 14, HB 2 as proposed by the Governor does not contain these restrictions on the funding.

Legislative Option

If the legislature decides to approve this proposal it can designate the funding as biennial, and/or contingent on the passage of HB 14.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	3.00	3.00	3.00	3.00	3.00	3.00	0.00	0.00 %
Personal Services	173,357	240,050	266,494	265,950	413,407	532,444	119,037	28.79 %
Operating Expenses	138,804	227,976	160,871	149,715	366,780	310,586	(56,194)	(15.32)%
Capital Outlay	0	31,536	0	0	31,536	0	(31,536)	(100.00)%
Grants	57,000	60,000	60,000	60,000	117,000	120,000	3,000	2.56 %
Transfers	18,833	18,000	19,775	19,775	36,833	39,550	2,717	7.38 %
Total Costs	\$387,994	\$577,562	\$507,140	\$495,440	\$965,556	\$1,002,580	\$37,024	3.83 %
Proprietary Funds	387,994	577,562	507,140	495,440	965,556	1,002,580	37,024	3.83 %
Total Funds	\$387,994	\$577,562	\$507,140	\$495,440	\$965,556	\$1,002,580	\$37,024	3.83 %

Program Description

The Facility Finance Authority (Authority) was created by the 1983 Legislature to assist health care and related facilities contain future health care costs by offering debt financing at low-cost, tax-exempt interest rates for capital construction and improvements. The legislature extended eligible facilities to include community pre-release centers and for-profit manufacturing facilities. Cost savings are shared with consumers in the form of lower fees. The ability to issue industrial development revenue bonds for small manufacturing facilities was added in 2009.

Facility Finance Authority - HFA Loan Program – 06012

Facilities Finance Authority – 06015

The Authority provides debt financing through a number of programs. The Authority has established reserve requirements for each including:

- Master Loan Program (Capital Reserve Account A) - The Authority designates certain funds equal to 10% of the bonds and loans under contract with the Board of Investments (BOI) for a required reserve. The Authority contracts with BOI to replenish the debt service reserve fund if necessary
- Permanent Coal Tax Trust Loan Program (Capital Reserve Account B) - Statute allows the Authority to make loans up to \$15.0 million from the coal trust for capital projects. The loan amount is reported as investments in the financial statements of the BOI. The Authority designates up to 10% of the amount of outstanding loans made from this program as reserve
- Direct Loan Program – by statute the Authority may make direct loans to eligible facilities for eligible projects including construction and renovation, facility acquisition, refinancing of qualified outstanding debt, or purchase of equipment. Funding for the loans is derived from the revenues deposited in the Facilities Finance Authority account that is transferred to the HFA Loan Program. As of FYE 2014 The Direct Loan Program had a fund balance of \$1.9 million. About \$0.9 million is available for loans with the remainder shown as reserves for the outstanding loans of about \$1.0 million.
- Working capital - National bond rating agencies, national bond insurers, and institutional investor expect the Facility Finance Authority to maintain a working capital reserve of two years' operating capital to assure that it can financially operate between legislative sessions. At the beginning of FY 2014 this was \$1.2 million.

The figure below shows the reserve requirements for each of the programs discussed above.

Department of Commerce Facility Finance Authority Reserve Requirements		
Net Assets	Required FY 2014	Funded FY 2014
Capital Reserve Account A	\$12,083,968	\$1,255,028
Capital Reserve Account B	507,219	0
Direct Loan Program	1,026,349	1,026,349
Working Capital Fund	<u>1,158,882</u>	<u>1,158,882</u>
	<u>\$14,776,418</u>	<u>\$3,440,259</u>
Percentage Funded		23.28%

As shown in the figure, the amount of the reserves for FY 2014 is 23.3% of the requirements established by the Authority.

Revenues & Expenses:

Expenses

The figure chart below provides the executive’s proposed budget for the Facilities Finance Authority.

Department of Commerce Facility Finance Authority				
Budget Item	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
FTE	3.00	3.00	3.00	3.00
Personal Services	\$173,357	\$222,375	\$266,502	\$265,959
Operating Expenses	138,804	227,976	160,871	149,715
Capital Outlay	0	31,536	0	0
Grants	57,000	60,000	60,000	60,000
Transfers	<u>18,833</u>	<u>18,000</u>	<u>19,775</u>	<u>19,775</u>
Total Expenditures	387,994	559,887	507,148	495,449
Funding				
Facilities Finance Authority	387,994	559,887	507,148	495,449
HF Loan Program	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Funding	<u>\$387,994</u>	<u>\$559,887</u>	<u>\$507,148</u>	<u>\$495,449</u>
Percentage Change		44.30%	-9.42%	-2.31%

Personal services changes are impacted by:

- Elimination of 4% vacancy savings without a corresponding reduction in FTE
- Annualization of state share contribution for employee health insurance and increases provided in FY 2015
- Full funding for program specialist that was vacant about 75% of FY 2014 and a financial specialist that was unfilled for about 25% of FY 2014

Operating expenses changes include:

- State Information Technology Services fixed cost adjustments
- Inflationary increases included in the rental agreement
- Additional support for indirect costs associated with the Director's Office

Revenues

The Facility Finance Authority is funded entirely by proprietary funds from two accounts within the enterprise fund.

2017 Biennium Report on Internal Service and Enterprise is shown in the figure below. It provides a summary of anticipated revenues, expenditures, and remaining fund balance for the two funds. Revenues are collected from interest, fees, and charges to participating institutions. Application and annual administrative fee assessments are contingent upon business volume. Customer volume is assumed to be at the current level throughout the 2017 biennium.

The Health Finance Authority Loan Program (06012) provides direct loans to various facilities. The Facilities Finance Authority funds operations. The accounts have been combined in the report provided below.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06012	HFA Loan Program					
		65010	Facility Finance Authority			
06015	Facilities Finance Authority					
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Administrative Fees		\$498,053	\$490,000	\$515,000	\$510,000
	Investment Earnings		45,718	49,000	42,000	45,000
	Other Operating Revenues		-	-	-	-
	Total Operating Revenues		543,771	539,000	557,000	555,000
Expenses						
	Personal Services		178,086	240,050	266,502	265,959
	Other Operating Expense		197,039	319,512	220,871	209,715
	Total Operating Expense		375,125	559,562	487,373	475,674
	Operating Income (Loss)		168,646	(20,562)	69,627	79,326
	Income (Loss) Before Contributions and Transfers		168,646	(20,562)	69,627	79,326
	Capital Contributions					
	Transfers In		-	-	-	-
	Transfers Out		(18,833)	(18,000)	(19,775)	(19,775)
	Change in Net Position		149,813	(38,562)	49,852	59,551
	Beginning Net Position - July 1		4,696,851	4,846,664	4,808,102	4,857,954
	Prior Period Adjustments		-	-	-	-
	Change in Net Position		149,813	(38,562)	49,852	59,551
	Ending Net Position - June 30		4,846,664	4,808,102	4,857,954	4,917,505
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)		-	-	-	-
	Unrestricted Net Position		\$4,846,664	\$4,808,102	\$4,857,954	\$4,917,505

Fund balance, also referred to as equity, for both funds is shown as \$4.9 million at the end of FY 2017. About \$1.9 million of the balance included is for the HFA Loan Program with the remainder available as reserves. For the 2017 biennium the working capital reserve is calculated as \$1,115,124, slightly less than the reserve requirements for FY 2014. The capital reserve account reserve requirements (both A and B) is projected to be \$11,615,345 for the biennium. Thus the amount of the unfunded reserves for this program is projected to be \$9,762,666. At the end of the 2017 biennium the reserves for the program would be 15.9% funded.

Proprietary Rate Explanation

The Facilities Finance Authority is funded by an enterprise fund, and Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

Requested Rates for Internal Service Funds Fee/Rate Information					
Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description: Application Fee:					
<u>Loan Amount</u>		<u>Fee</u>			
Up to \$5,000,000		30 basis points (bp) (.0030)			
Up to \$10,000,000		the > of 25 bp or \$ 15,000			
Up to \$25,000,000		the > of 15 bp or \$ 25,000			
Up to \$50,000,000		the > of 12.5 bp or \$ 37,500			
Up to \$100,000,000		the > of 7.5 bp or \$ 62,500			
Over \$100,000,000		the > of 6.5 bp or \$ 75,000			
Annual Fee:					
			<u>Fee</u>		
Stand Alone Bond Issues			5 bp X the outstanding principal amount		
Private Placement bond issues			5 bp X the outstanding principal amount		
Trust Fund Loan Program			5 bp X the outstanding principal amount		
Master Loan Program			10 bp X the outstanding principal amount		
Authority: Fee revenues: 90-7-202 and 90-7-211, MCA; Investment Earnings: 90-7-202, MCA					

The program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

Program Highlights

There are no highlights for this program.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 71-Facility Finance Authority Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06015 Facilities Finance Authority	0	1,002,580	0	1,002,580	100.00 %	
Proprietary Total	\$0	\$1,002,580	\$0	\$1,002,580	100.00 %	
Total All Funds	\$0	\$1,002,580	\$0	\$1,002,580		

This program is entirely funded with proprietary rates.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	559,887	559,887	1,119,774	0.00 %
PL Adjustments	0	0	0	0.00 %	(52,747)	(64,447)	(117,194)	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$507,140	\$495,440	\$1,002,580	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
Personal Services	4,090	0	0	0	4,090	0	(4,090)	(100.00)%
Operating Expenses	628,172	966,079	778,153	778,153	1,594,251	1,556,306	(37,945)	(2.38)%
Grants	0	0	0	0	0	0	0	0.00%
Benefits & Claims	157,063	358,921	370,731	370,731	515,984	741,462	225,478	43.70%
Total Costs	\$789,325	\$1,325,000	\$1,148,884	\$1,148,884	\$2,114,325	\$2,297,768	\$183,443	8.68%
State/Other Special Rev. Funds	0	150,000	150,000	150,000	150,000	300,000	150,000	100.00%
Federal Spec. Rev. Funds	789,325	1,175,000	998,884	998,884	1,964,325	1,997,768	33,443	1.70%
Total Funds	\$789,325	\$1,325,000	\$1,148,884	\$1,148,884	\$2,114,325	\$2,297,768	\$183,443	8.68%

Program Description

Housing Division is made up of a wide array of housing programs, funded through a variety of federal funding sources. The programs can easily be divided into two major categories.

1. The Housing Assistance Bureau (HAB) receives its funding from the U.S. Department of Housing and Urban Development (HUD). HAB administers:
 - Tenant-based Section 8 Housing Program, which includes the Housing Choice Voucher Program as well as the Veterans Affairs Supportive Housing (VASH) Program and the Shelter Plus Care Program. Leases are entered on the open rental market between tenants and private landlords and the program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities
 - Project-based Section 8 Housing Program performs annual property reviews, oversees property management, and makes rent subsidy payments to owners

2. The Board of Housing (BOH) is an agency of the state and operates within the Department of Commerce for administrative purposes. The BOH is funded by enterprise funds with revenue derived from administrative charges applied to projects and mortgages financed. BOH provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates BOH programs. The board's programs include:

- Regular Bond Homeownership Program
- Special Set-Aside Homeownership
- Multifamily Loan Program
- Low Income Housing Tax Credit Program
- Housing Montana Fund
- Reverse Annuity Mortgage (RAM) Program

Program Highlights

Housing Division Major Budget Highlights
<ul style="list-style-type: none"> • The budget increases by 8.7% compared to the 2015 biennium with changes reflecting funding for loans to finance replacment of substandard manufactured homes • The HOME Program with 5.83 FTE and \$6.7 million in appropriation authority was transferred to the Community Development Division
Major LFD Issues
<ul style="list-style-type: none"> • Available funding in the Manufacturing Home Replacement Program does not support proposed expenditures

Program Discussion -

As shown in the figure on funding, the majority of the programs in the Housing Division is supported by proprietary funds and discussed in the “Proprietary Rate” section of the program narrative. The following program discussion relates to appropriations contained in HB 2 as shown in the program budget comparison table above.

Comparison of the 2015 Legislative Base and the 2015 Appropriation

Department of Commerce Housing Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Reorganization	Total Executive Implementation
Personal Services	\$391,368	(\$391,368)	\$0
Operating Expenses	1,058,253	(92,174)	966,079
Grants	6,175,926	(6,175,926)	0
Benefits and Claims	<u>358,921</u>	<u>0</u>	<u>358,921</u>
Total Costs	<u>\$7,984,468</u>	<u>(\$6,659,468)</u>	<u>\$1,325,000</u>

The major change between the FY 2015 legislative base and the FY 2015 appropriation is due to a reorganization that transferred the HOME program from the Board of Housing to Community Development Division. This reorganization decreased the FY 2015 appropriation by:

- 5.83 FTE, including 4.33 program specialists, 1.00 FTE administrative assistant, and 0.50 FTE accountant.
- \$391,368 in personal services
- \$92,174 in operating expenses
- \$6,175,926 in grants

Comparison of FY 2014 Actuals to the 2015 Legislative Base

Operating expenses were lower than anticipated in two categories:

- Loans made
- Consulting and professional services

Montana’s Manufactured Home Replacement (MHR) Program administers a revolving loan fund to finance the replacement of substandard manufactured homes with newer, energy-efficient manufactured homes. Currently the program has about \$200,000 in long-term notes outstanding and funding available for additional loans of up to \$130,000. The program did

not have requests for loans in FY 2014 while the FY 2015 legislative appropriation includes \$150,000 for loans made. The executive proposes authority for loans made of \$150,000 each year of the 2017 biennium.

**LFD
ISSUE**

Available Funding in the MHR Fund Does Not Support Proposed Expenditures

As discussed above, current funding available for loans for MHR is \$130,000 while the executive proposes \$300,000 in funding to support operating expenses for loans made. Between FY 2015 and FY 2017, additional funding derived from loan repayments will be generated. In FY 2014 this amount was \$27,000. Based on FY 2014, up to an additional \$90,000 may be available for loans in the 2017 biennium. These additional funds combined with the available fund balance leaves a gap of about \$80,000 between the funding available and the amount requested by the executive.

Legislative Option

Reduce authority for operating expenses by \$80,000 over the biennium.

The Housing Division expended \$599,846 in consulting and professional services in FY 2014 while the FY 2015 legislative appropriation anticipated expenditures of \$729,428. The 2017 biennium proposal for funding supports the FY 2014 level of funding at \$599,846 each year.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 74-Housing Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02575 Mobile Home Revolving Loan Fund	300,000	0	0	300,000	100.00 %	
State Special Total	\$300,000	\$0	\$0	\$300,000	0.32 %	
03110 HUD Comprehensive Counseling	983,532	0	0	983,532	49.23 %	
03144 SHELTER PLUS CARE - HUD	753,332	0	0	753,332	37.71 %	
03282 EMERGENCY HOMEOWNERS LOAN PROG	10,986	0	0	10,986	0.55 %	
03300 Home Grants	0	0	0	0	0.00 %	
03521 Section 811 Project Rental	0	0	0	0	0.00 %	
03945 BOH FORCLOSURE MITIGATION	249,918	0	0	249,918	12.51 %	
Federal Special Total	\$1,997,768	\$0	\$0	\$1,997,768	2.11 %	
06030 BOH Financial Program Fund	0	4,711,348	0	4,711,348	5.09 %	
06031 Housing Trust Fund	0	30,000	0	30,000	0.03 %	
06032 Mortgage Loan Servicing	0	2,977,679	0	2,977,679	3.22 %	
06074 SEC 8 Project Based	0	40,282,247	0	40,282,247	43.53 %	
06075 HUD Section 8 Housing Program	0	40,014,069	0	40,014,069	43.24 %	
06078 Affordable House Revolving Ln	0	0	0	0	0.00 %	
06079 Revolving Loan Fund - TANF	0	20,000	0	20,000	0.02 %	
06085 Section 8 Mod Rehab	0	4,513,099	0	4,513,099	4.88 %	
Proprietary Total	\$0	\$92,548,442	\$0	\$92,548,442	97.58 %	
Total All Funds	\$2,297,768	\$92,548,442	\$0	\$94,846,210		

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

The programs funded through HB 2 include the state special revenues for the mobile home revolving loan fund. A LFD issue related to this funding is discussed under the Program Discussion narrative on the previous page. Federal funds include three federal grants:

- Shelter plus care grants help provide housing and supportive services on a long-term basis for homeless people with disabilities, especially serious mental illness, chronic drug or alcohol problems, and AIDS. Program grants are used for the provision of rental assistance payments through Section 8 Moderate Rehabilitation for Single Room Occupancy, sponsor-based rental assistance, tenant-based rental assistance, or project-based rental assistance
- Both the HUD Homeownership Counseling and National Foreclosure Mitigation Counseling program grant funds provide counselors that are available at no charge to assist any homebuyer who is facing foreclosure or anticipating difficulty in making their mortgage payments

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	14,643,936	14,643,936	29,287,872	0.00 %
PL Adjustments	0	0	0	0.00 %	(13,495,052)	(13,495,052)	(26,990,104)	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$1,148,884	\$1,148,884	\$2,297,768	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----				-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	0	(391,368)	(391,368)	0.00	0	0	(391,368)	(391,368)
DP 99 - LEG. Present Law	0.00	0	0	(13,103,684)	(13,103,684)	0.00	0	0	(13,103,684)	(13,103,684)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	(\$13,495,052)	(\$13,495,052)	0.00	\$0	\$0	(\$13,495,052)	(\$13,495,052)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General State Fund	Special	Federal Special	Total Funds
State Share Health Insurance		\$0		\$0	\$0
Executive Implementation of 2015 Pay Increase		-		-	-
Fully Fund 2015 Legislatively Authorized FTE		-		-	-
Other		-		(391,368)	(391,368)
Personal Services Present Law Adjustments	0.00	\$0		\$0 (\$391,368)	(\$391,368)
FY 2017					
CP 98 PSPL Item	FTE	General State Fund	Special	Federal Special	Total Funds
State Share Health Insurance		\$0		\$0	\$0
Executive Implementation of 2015 Pay Increase		-		-	-
Fully Fund 2015 Legislatively Authorized FTE		-		-	-
Other		-		(391,368)	(391,368)
Personal Services Present Law Adjustments	0.00	\$0		\$0 (\$391,368)	(\$391,368)

The only FTE in HB 2 for this program were those in the HOME Program. As shown in the program budget comparison table the executive has not included personal services as part of its 2017 biennium budget proposal of the Housing Division. The reductions in other reflect the elimination of FTE in this program when compared to the 2015 legislative base budget.

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments.

Legislative Present Law Adjustments				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Reorganization	\$0		\$0 (\$6,268,100)	(\$6,268,100)
Other	-		(6,835,584)	(6,835,584)
Legislative Present Law Adjustments	\$0		\$0 (\$13,103,684)	(\$13,103,684)
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Reorganization	\$0		\$0 (\$6,268,100)	(\$6,268,100)
Other	-		(6,835,584)	(6,835,584)
Legislative Present Law Adjustments	\$0		\$0 (\$13,103,684)	(\$13,103,684)

The transfer of the HOME Program to the Community Development Division are reflected in the reorganization. Reductions in federal grants make up the differences as shown in the other line of the table.

Other Issues -*Proprietary Program Description***Montana Board of Housing – 06030, 06031, 06032, 06078, 06079**

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing Programs. These programs include the Homeownership Program, Multifamily Loan Programs, Low Income Housing

Tax Credit Program, Housing Revolving Loan Fund, and the Reverse Annuity Mortgage (RAM) Program.

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

Expenditures:

Even though the BOH is supported by enterprise funds, the legislature can indicate its intent in relation to expenditures of the program. The figure that follows shows the proposed expenditures for the BOH, Section 8 programs, and loan servicing.

Board of Housing					
Program	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change
Tenant Based Section 8 Housing					
FTE	11.00	11.50	4.55%	11.50	4.55%
Personal Services	\$650,249	\$730,162	10.94%	\$731,233	12.45%
Operating Expenses	1,678,316	1,716,179	2.21%	1,703,688	1.51%
Benefits & Claims	<u>17,385,708</u>	<u>19,626,663</u>	<u>11.42%</u>	<u>20,019,171</u>	<u>15.15%</u>
Total Expenditures	19,714,273	22,073,004	10.69%	22,454,092	13.90%
Project Based Section 8 Housing					
FTE	9.50	9.83	3.36%	9.83	3.47%
Personal Services	562,739	676,705	16.84%	676,211	20.16%
Operating Expenses	252,251	284,429	11.31%	272,748	8.13%
Benefits & Claims	<u>18,614,554</u>	<u>18,996,095</u>	<u>2.01%</u>	<u>19,376,017</u>	<u>4.09%</u>
Total Expenditures	19,429,544	19,957,229	2.64%	20,324,976	4.61%
Loan Servicing					
FTE	9.50	13.50	29.63%	13.50	42.11%
Personal Services	416,702	828,440	49.70%	828,187	98.75%
Operating Expenses	<u>242,862</u>	<u>673,202</u>	<u>63.92%</u>	<u>647,803</u>	<u>166.74%</u>
Total Expenditures	659,564	1,501,642	56.08%	1,475,990	123.78%
Board of Housing					
FTE	16.50	16.50	0.00%	16.50	0.00%
Personal Services	1,228,605	1,170,247	-4.99%	1,172,795	-4.54%
Operating Expenses	1,517,188	1,214,659	-24.91%	1,192,838	-21.38%
Equipment & Intangibles	<u>5,345</u>	<u>5,345</u>	<u>0.00%</u>	<u>5,345</u>	<u>0.00%</u>
Total Expenditures	2,751,138	2,390,251	-15.10%	2,370,978	-13.82%
Total Proposed Budget					
FTE	46.50	51.33	9.41%	51.33	10.39%
Personal Services	2,858,295	3,405,554	16.07%	3,408,426	19.25%
Operating Expenses	3,690,617	3,888,469	5.09%	3,817,077	3.43%
Equipment & Intangibles	5,345	5,345	0.00%	5,345	0.00%
Benefits & Claims	<u>36,000,262</u>	<u>38,622,758</u>	<u>6.79%</u>	<u>39,395,188</u>	<u>9.43%</u>
Total Expenditures	<u>\$42,554,519</u>	<u>\$45,922,126</u>	<u>7.33%</u>	<u>\$46,626,036</u>	<u>9.57%</u>

As shown, the executive proposes reductions in the personal services and operating expenses for the Board of Housing while showing significant increases to the loan servicing function. According to the BOH, in FY 2014 a number of operating costs were recorded for the Board of Housing that should have been recorded as loan servicing costs. A reduction of \$294,000 is proposed for the Board of Housing to correctly reflect the anticipated operating expenses in the 2017 biennium. A corresponding increase is included within the proposed budget for the Loan Servicing Program.

The Loan Servicing Program also proposes to add an additional 4.00 FTE and \$448,076 in costs for personal services over the biennium including:

- 1.00 FTE administrative assistant
- 1.00 FTE program specialist
- 2.00 FTE accounting technicians

The loan servicing program was implemented in August 2011.

BOH issues bonds each year to purchase new mortgages. Once the bonds are sold, the BOH must repay the bondholders by making interest and principal payments. BOH is required to use mortgage and investment income to pay bondholders, buy mortgages, or pay operating costs. Bond debt payments are the most significant cost of the BOH at \$24.2 million in FY 2014, and \$29.1 million in FY 2016 and \$31.3 million in FY 2017 proposed by the executive. These costs are considered debt service and are presented in the 2017 Biennium Report on Internal Service and Enterprise Funds on the next page.

Revenues

BOH's income is derived primarily from mortgage and investment income. Mortgage income is the interest people pay on BOH loans and is limited by the Internal Revenue Service as a condition of using tax-free bonds as a financing source. Mortgage income is also controlled by the national financial markets, which set both mortgage rates and bond financing rates. Investment income comes from interest earned on investing reserves the BOH is required to hold and bond and program moneys not yet used to buy mortgages or pay bondholders. Both future mortgage and investment income depends on the interest rate environment, which is determined by the national financial markets. Anticipated revenues for the 2017 biennium are shown on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB				
Fund	Fund Name	Agency #	Program Name	
06030	BOH Financial Programs	65010	Housing Division - Board of Housing	
06031	Housing Trust Fund			
06032	BOH Loan Servicing			
06078	Affordable Housing Revolving			
06079	Revolving Loan - TANF			

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues				
Fees and Charges				
Administrative Fees	\$93,793	\$76,222	\$81,305	\$81,305
Investment Earnings	3,595,598	2,921,985	3,116,873	3,116,873
Securities Lending Income	505	410	439	439
Other Operating Revenues	25,230,748	27,785,366	29,922,981	31,853,621
Total Operating Revenues	28,920,644	30,783,983	33,121,598	35,052,238
Expenses				
Personal Services	1,674,445	1,858,093	1,998,687	2,000,982
Other Operating Expense	2,513,358	1,903,195	1,893,206	1,845,986
Debt Service	24,233,410	26,959,725	29,064,259	31,255,386
Total Operating Expense	28,421,213	30,721,013	32,956,152	35,102,354
Operating Income (Loss)	499,431	62,970	165,446	(50,116)
Income (Loss) Before Contributions and Transfers	499,431	62,970	165,446	(50,116)
Change in Net Position	499,431	62,970	165,446	(50,116)
Beginning Net Position - July 1	157,530,106	152,073,759	152,136,729	152,302,175
Prior Period Adjustments	(5,955,778)	-	-	-
Change in Net Position	499,431	62,970	165,446	(50,116)
Ending Net Position - June 30	152,073,759	152,136,729	152,302,175	152,252,059
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)	\$152,073,759	\$152,136,729	\$152,302,175	\$152,252,059
Unrestricted Net Position				

Rate(s) and Rate Explanation:

BOH recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on loan programs.

Requested Rates for Enterprise Funds Fee/Rate Information					
Fee		Actual FY 14	Budgeted FY 15	Budgeted FY 16	Budgeted FY 17
Cancellation fees-Single Family Program	1/2 of 1% of the loan amount reserved	No Change	No Change	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change
Post Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change
Pre 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change
Post 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change	No Change	No Change
PreApp/10% Final Fees-Housing Credit Program		\$750	\$750	\$1,000	\$1,000
Reservation fees-Housing Credit Program	% of the tax credit amount reserved	5.00%	6.00%	6.00%	6.00%
Compliance fees-Housing Credit Program	per unit	\$40	\$40	\$45	\$45
Interest income on reverse annuity mortgage loans	5% (new) 7% (old) loans	No Change	No Change	No Change	No Change
Housing Revolving Loan Fund (HRLA)	variable rates ranging from 2% to 6%	No Change	No Change	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change	No Change	No Change

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

HUD Section 8 Project Based - 06074

Program Description:

The Project Based Section 8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Section 8 Program renews rent contracts to project owners as they expire. Contract managers prepare special damage claims and annual rent increases, respond to emergencies, check

compliance for fair housing and waiting lists, conduct on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners.

Expenses:

In addition to the increases applicable to the agency as a whole, personal service costs increase due to:

- Proposal to add 0.33 FTE program specialist position
- Reclassifying a program specialist as a program manager
- Fully funding positions that had funding reduced by 4% in the 2015 biennium

Operating expense increases are for fixed costs such as insurance, SITSD costs, rent, and indirect costs to support the Director's Office.

Revenues

Revenues are generated in the Project Based Section 8 Contract Administration under a HUD performance based contract using 17 Incentive Based Performance Standards calculated by HUD monthly, quarterly, and annually. Revenues generated are required to be used for contract administration. Rental Assistance payments are made based on contracts negotiated by the program staff and tenant income data. Payments are paid and reimbursed monthly by HUD, based on actual program benefits paid to owners.

Projected revenues are reflected in the 2017 Biennium Report on Internal Service and Enterprise Funds on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06074	SEC 8 Project Based	65010	Housing Division - PB Section 8			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Investment Earnings		\$11,940	\$4,020	\$12,747	\$13,127
	Securities Lending Income		6	-		
	Other Operating Revenues		19,563,866	20,150,782	20,755,305	21,377,964
Total Operating Revenues			19,575,812	20,154,802	20,768,052	21,391,091
Expenses						
	Personal Services		568,732	488,053	676,705	676,211
	Other Operating Expense		18,867,307	20,874,971	19,280,524	19,648,765
Total Operating Expense			19,436,039	21,363,024	19,957,229	20,324,976
Operating Income (Loss)			139,773	(1,208,222)	810,823	1,066,115
Nonoperating Expenses						
	Other Expense A		(300,000)	-	-	-
Total Nonoperating Revenues (Expenses)			(300,000)	-	-	-
Income (Loss) Before Contributions and Transfers			(160,227)	(1,208,222)	810,823	1,066,115
Change in Net Position			(160,227)	(1,208,222)	810,823	1,066,115
Beginning Net Position - July 1			3,834,679	3,674,452	2,466,230	3,277,053
	Prior Period Adjustments		-	-	-	-
	Change in Net Position		(160,227)	(1,208,222)	810,823	1,066,115
Ending Net Position - June 30			3,674,452	2,466,230	3,277,053	4,343,168
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)		-	-	-	-
	Unrestricted Net Position		\$3,674,452	\$2,466,230	\$3,277,053	\$4,343,168

Rate(s) and Rate Explanation:

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD based on actual contracts negotiated between the department and the individual owners of the projects, set up on a procedure dictated by HUD.

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 14	Budgeted FY 15	Budgeted FY 16	Budgeted FY 17
Administration Contract				
Rate	2.00%	2.00%	2.00%	2.00%
Base fee rate paid by HUD = 2% time Fair Market Rent for all projects under ACC contract for standard performance, as judged by HUD monthly, quarterly and annually.				
Administration Contract				
Rate	1.00%	1.00%	1.00%	1.00%
Performance fee incentive rate based on 17 Incentive Based Performance Standards (IBPS), graded monthly, quarterly, and annually by HUD. Can be either positive or negative, based on whether time standards and performance requirements are met on each of the 17 IBPS standards.				
Rate 3 (per unit)				
Rents Contract				
Rate	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.				

HUD Section 8 Housing program – Tenant Based - 06075

HUD Section 8 Mod Rehab - Tenant Based - 06085

Program Description:

The tenant based Section 8 program provides rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

Expenses:

In addition to the increases applicable to the agency as a whole, personal service costs increase due to a proposal to add 0.50 FTE accountant position.

Operating expenses rise due to indirect costs allocated by the Director's Office, rent, SITSD costs, and human resource information system costs.

Revenues

The Tenant Based Section 8 program is supported by the enterprise fund with revenues derived from a performance based Annual Contribution Contract with HUD. Revenues for the Tenant Based Section 8 program are generated per unit for each rental unit under lease each month.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06075	HUD Section 8 Housing Program	65010	Housing Division - TB Section 8			
06085	HUD Section 8 Mod Rehab		Housing Division - TB Section 8			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Investment Earnings		\$7,400	\$6,588	\$7,850	\$8,085
	Securities Lending Income		-	-	-	-
	Other Operating Revenues		20,655,195	21,732,723	22,368,082	23,029,282
Total Operating Revenues			20,662,595	21,739,311	22,375,932	23,037,367
Expenses						
	Personal Services		644,637	844,844	730,162	731,233
	Other Operating Expense		19,189,823	22,453,247	21,342,842	21,722,859
Total Operating Expense			19,834,460	23,298,091	22,073,004	22,454,092
Operating Income (Loss)			828,135	(1,558,780)	302,928	583,275
Income (Loss) Before Contributions and Transfers			828,135	(1,558,780)	302,928	583,275
Change in Net Position			828,135	(1,558,780)	302,928	583,275
Beginning Net Position - July 1			5,115,801	5,943,936	4,385,156	4,688,084
	Prior Period Adjustments		-	-	-	-
	Change in Net Position		828,135	(1,558,780)	302,928	583,275
Ending Net Position - June 30			5,943,936	4,385,156	4,688,084	5,271,359
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)					
	Unrestricted Net Position		\$5,943,936	\$4,385,156	\$4,688,084	\$5,271,359

Projected revenues are reflected in the 2017 Biennium Report on Internal Service and Enterprise Funds above.

Rate(s) and Rate Explanation:

Fund revenues are derived from competitively awarded performance based Annual Contribution Contracts with HUD, and the program is completely self-supporting. The department is the only statewide housing authority in Montana and specifically budgeted for in HUD's ongoing appropriation for Tenant Based Section 8.

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 14	Budgeted FY 15	Budgeted FY 16	Budgeted FY 17
Administration Contract				
Rate	\$ 57.51	\$ 57.51	\$ 57.51	\$ 57.51
Base fee rate paid by HUD = \$45.79 per unit per month under lease for Housing Choice Vouchers, and \$45.79 per month for each unit under HAP contract on Mod Rehab. Estimate increases of 3.5% per year for FY 2006 and FY 2007.				
Under HUD contract, for every family with 3 or more minors which either leases the first time or moves; HUD will pay a fee of \$75.00.				
Homeownership Start-up Fee				
Rate	\$200.00	\$200.00	\$200.00	\$200.00
Under HUD contract, for every family the program starts in Homeownership Vouchers Homeownership Assistance, HUD allows a fee of \$1,000.				
Project Based Section 8 Opt-Out Start-up Fee				
Rate	\$250.00	\$250.00	\$ 250.00	\$ 250.00
Under HUD contract, for every unit HUD approves transferring from Project Based Section 8 to the Housing Choice Vouchers Program, HUD provides reimbursement of start-up expenses of \$250.				
Rents Contract				
Rate	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.				

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	32.00	32.00	32.00	32.00	32.00	32.00	0.00	0.00 %
Personal Services	3,125,531	3,302,746	3,686,784	3,681,222	6,428,277	7,368,006	939,729	14.62 %
Operating Expenses	2,348,414	2,303,946	2,595,430	2,564,826	4,652,360	5,160,256	507,896	10.92 %
Equipment & Intangible Assets	5,346	0	0	0	5,346	0	(5,346)	(100.00)%
Total Costs	\$5,479,291	\$5,606,692	\$6,282,214	\$6,246,048	\$11,085,983	\$12,528,262	\$1,442,279	13.01 %
Proprietary Funds	5,479,291	5,606,692	6,282,214	6,246,048	11,085,983	12,528,262	1,442,279	13.01 %
Total Funds	\$5,479,291	\$5,606,692	\$6,282,214	\$6,246,048	\$11,085,983	\$12,528,262	\$1,442,279	13.01 %

Program Description

The Board of Investments (BOI) manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. BOI consists of nine members appointed by the Governor. BOI also has two non-voting legislative liaisons from different political parties; one appointed by the President of the Senate and one appointed by the Speaker of the House.

Statute grants the board sole authority to invest state funds. BOI also invests local government funds at its discretion. BOI currently manages an investment portfolio with a market value of approximately \$15.9 billion. BOI manages the portfolio under the "prudent expert principle".

To provide for diversification and reduced risk, BOI manages several investment pools in which funds of similar types are invested. The investment pools operate like mutual funds. Investments not managed in pools are included in All Other Funds. The investment pools include:

- Retirement Funds Bond Pool
- Trust Funds Investment Pool
- Short Term Investment Pool
- Montana Domestic Equity Pool
- Montana International Equity Pool
- Montana Private Equity Pool
- Montana Real Estate Pool
- All Other Funds

Annual audited financial statements are prepared for each investment pool. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the BOI's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the BOI administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs. The INTERCAP and In-State Investment Programs were created in FY 1984 as part of the "Build Montana" program.

In-State Investment Program

Section 17-6-305, MCA, authorizes BOI to invest 25% of the permanent coal tax trust fund (trust fund) to assist Montana's economic development. This "In-State Investment Program" makes business loans from the trust fund in participation with financial institutions. BOI lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses located in the government's jurisdiction. BOI also lends low-interest monies funded from the trust fund to value-

added type businesses creating jobs. Throughout FY 2008, the BOI purchased Montana residential mortgages with pension funds as part of the In-State Investment Program. The In-State Investment Program also administers low interest loans for first time home buying Montana veterans funded through up to \$30.0 million of the permanent coal tax trust monies.

INTERCAP Program

BOI sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to 15 years, and short-term loans to finance cash flow deficits or bridge financing are also available.

Proprietary Program Description

Investment Division - 06527

Industrial Revenue Bond I-95 – 06014

The Board of Investments is funded by two proprietary fund types. The Industrial Revenue Bond Program, an enterprise fund, funds the INTERCAP Program. Investment Division Program, an internal service fund, funds the Investment Programs. BOI s' customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

Program Narrative

Expenses

Overall program administrative costs increase about 14% when compared to actual spending in FY 2014.

Department of Commerce Board of Investments					
	FY 2014	FY 2016	% Change	FY 2017	% Change
FTE	32.00	32.00	0.00%	32.00	0.00%
Personal Services	\$3,125,531	\$3,686,784	17.96%	\$3,681,222	17.78%
Operating Expenses	2,348,414	2,595,430	10.52%	2,564,826	9.22%
Equipment	<u>5,346</u>	<u>0</u>	<u>-100.00%</u>	<u>0</u>	<u>-100.00%</u>
Total Costs	5,479,291	6,282,214	14.65%	6,246,048	13.99%
Funding					
Industrial Revenue Bond	483,126	541,362	12.05%	531,455	10.00%
Investment Division	<u>4,996,165</u>	<u>5,740,852</u>	<u>14.91%</u>	<u>5,714,593</u>	<u>14.38%</u>
Total Funding	<u>\$5,479,291</u>	<u>\$6,282,214</u>	<u>14.65%</u>	<u>\$6,246,048</u>	<u>13.99%</u>

Personal services costs are higher due to increases for:

- Reclassification of two positions
- Elimination of 4% vacancy savings, fully funding all positions
- Restoration of funding for 1.00 FTE that was vacant throughout FY 2014 and four positions that were partially filled

28.00 FTE are supported by the investment division fund and the remaining 4.0 FTE are supported by the INTERCAP Program revenues.

**LFD
ISSUE**Changes in Budgeting Methodology Result in Personal Service Increases

As discussed in the agency summary, proprietary funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result, BOI proprietary program personal service costs increased by about \$125,000 each year of the biennium.

BOI's proposed budget includes an investment analyst position that has been vacant for a number of years. In addition, two investment analyst positions were only partially filled during the year, one 21.4% of the time and the other 45.8% of the time. Total costs for these three positions are about \$275,000 annually. The vacant position is funded at \$96,000 each year of the biennium. If the legislature wishes to mitigate the impact of higher personal services costs it may eliminate funding for the vacant investment analyst position and a portion of the funding for one of the other positions.

Legislative Option

Eliminate funding for the vacant investment analyst position and a portion of the funding for one of the other positions.

Operating expense increases include higher costs for consulting and professional services, legal fees, IT services, travel, rent, and indirect costs paid to the Director's Office. BOI eliminated funding used for equipment in FY 2014 from its budget proposal.

Over \$2.032 million was disbursed from the INTERCAP Program in FY 2014 via a statutory appropriation for debt service requirements related to the state's bonding activity.

Revenues

INTERCAP Program

Nearly all program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the program between draws. Remaining revenues are received monthly from the BOI's contract with the Montana Facility Finance Authority. The figure below shows the revenues, expenses, and fund balance for the industrial revenue bond fund that supports the INTERCAP Program.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06014	Industrial Revenue Bond I-95	65010	Board of Investments			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Investment Earnings		\$47,143	\$205,230	\$150,310	\$199,675
	Securities Lending Income		1	0	200	200
	Other Operating Revenues		762,538	1,716,019	1,356,765	1,666,655
Total Operating Revenues			809,682	1,921,249	1,507,275	1,866,530
Expenses						
	Personal Services		371,864	344,884	364,846	364,081
	Other Operating Expense		149,095	180,249	176,654	167,514
	Debt Service Expense (Statutory)		2,032,896	1,594,800	1,090,415	1,438,445
Total Operating Expense			2,553,855	2,119,933	1,631,915	1,970,040
Operating Income (Loss)			(1,744,173)	(198,684)	(124,640)	(103,510)
Income (Loss) Before Contributions and Transfers			(1,744,173)	(198,684)	(124,640)	(103,510)
	Capital Contributions					
	Transfers In		18,833	18,000	19,775	19,775
	Transfers Out		0	0	0	0
Change in Net Position			(1,725,340)	(180,684)	(104,865)	(83,735)
Beginning Net Position - July 1			7,223,482	5,438,142	5,317,458	5,212,533
	Prior Period Adjustments		0	0	0	0
Change in Net Position			(1,725,340)	(180,684)	(104,865)	(83,735)
Ending Net Position - June 30			5,498,142	5,317,458	5,212,533	5,128,858
Net Position (Fund Balance) Analysis						
	Restricted Net Position(Enterprise Funds Only)		0	0	0	0
	Unrestricted Net Position		\$5,498,142	\$5,317,458	\$5,212,533	\$5,128,858

Rate(s) and Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures and setting the fee at that level. Fees proposed for the INTERCAP Program are shown below.

Requested Rates for Enterprise Funds Fee/Rate Information				
	Actual FY 14	Budgeted FY 15	Budgeted FY 16	Budgeted FY 17
Budgeted Revenues				
Fees & Investment Revenues	\$ 1,658,269	\$ 1,921,249	\$ 1,507,275	\$ 1,866,530

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

Revenues

Investment Division Fund

Nearly all BOI revenues are generated from charges to each account that BOI invests. The revenue objective of the BOI is to fairly assess the costs of operations while maintaining a 60 day working capital reserve.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06527	Investment Division	65010	Board of Investments			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Administrative Fees		\$5,164,248	\$5,234,796	\$6,031,846	\$6,031,846
	Other Operating Revenues		12	0	0	0
Total Operating Revenues			5,164,260	5,234,796	6,031,846	6,031,846
Expenses						
	Personal Services		2,871,926	3,012,886	3,481,498	3,476,565
	Other Operating Expense		2,225,196	2,123,697	2,418,776	2,397,312
Total Operating Expense			5,097,122	5,136,583	5,900,274	5,873,877
Operating Income (Loss)			67,138	98,213	131,572	157,969
Income (Loss) Before Contributions and Transfers			67,138	98,213	131,572	157,969
Change in Net Position			67,138	98,213	131,572	157,969
Beginning Net Position - July 1			204,977	272,115	370,328	501,900
	Prior Period Adjustments		0	0	0	0
	Change in Net Position		67,138	98,213	131,572	157,969
Ending Net Position - June 30			272,115	370,328	501,900	659,869
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)		0	0	0	0
	Unrestricted Net Position		\$272,115	\$370,328	\$501,900	\$659,869

As shown, administrative fees are proposed to increase 16.8% when compared to actual FY 2014 revenues. The higher revenues support the higher costs for personal services and operating expenses.

Rate(s) and Rate Explanation:

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

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Approved FY 14	Approved FY 15	Budgeted FY 16	Budgeted FY 17
BOI Administrative Fee Rate	\$5,109,144	\$5,234,796	\$6,031,846	\$6,031,846
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.				

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Program Highlights

There are no highlights for this program.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 75-Board of Investments Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06014 Industrial Revenue Bond I-95	0	1,072,817	2,528,860	3,601,677	23.92 %	
06527 Investment Division	0	11,455,445	0	11,455,445	76.08 %	
Proprietary Total	\$0	\$12,528,262	\$2,528,860	\$15,057,122	100.00 %	
Total All Funds	\$0	\$12,528,262	\$2,528,860	\$15,057,122		

This program is entirely funded with proprietary rates.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	5,363,990	5,363,990	10,727,980	0.00 %	
PL Adjustments	0	0	0	0.00 %	918,224	882,058	1,800,282	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$6,282,214	\$6,246,048	\$12,528,262		

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	1.25	1.25	1.25	1.25	1.25	1.25	0.00	0.00 %
Personal Services	9,879	97,223	110,167	109,872	107,102	220,039	112,937	105.45 %
Operating Expenses	59,891	51,049	73,976	73,935	110,940	147,911	36,971	33.33 %
Total Costs	\$69,770	\$148,272	\$184,143	\$183,807	\$218,042	\$367,950	\$149,908	68.75 %
State/Other Special Rev. Funds	69,770	148,272	184,143	183,807	218,042	367,950	149,908	68.75 %
Total Funds	\$69,770	\$148,272	\$184,143	\$183,807	\$218,042	\$367,950	\$149,908	68.75 %

Program Description

The Board of Horse Racing (BOHR) Program is responsible for:

1. Regulation the live, simulcast, and advance deposit wagering horse racing industry;
2. Ensuring compliance by approximately 1,200 licensees with state laws and board rules;
3. Licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets; and
4. Auditing, supervising and conducting investigations related to the pari-mutuel racing system in Montana.

The Board of Horse Racing is funded with state special revenue derived from a 1% tax on gross receipts from pari-mutuel betting. For live racing and simulcast facilities, the tax is the greater of 1% of gross betting receipts or the actual cost to the board for regulating the meet.

Program Highlights

Board of Horse Racing
<ul style="list-style-type: none"> • Executive proposes 68.7% increase when compared to the 2015 budget • Financial issues limited spending in FY 2014
Major LFD Issues
<ul style="list-style-type: none"> • Proposed budget does not appear sustainable

Program Discussion -

Comparison of the 2015 Legislative Base and the 2015 Appropriation

The Board of Horse Racing did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$78,502 below the FY 2015 legislative appropriation. Primary reasons for the differences were the financial condition of the fund supporting BOHR as discussed in the following "Executive Request" narrative.

Personal service costs in FY 2014 were significantly below anticipated levels as the regulatory program manager position was vacant all of FY 2014 and through November 2014.

Operating expenses for FY 2014 were below FY 2015 legislative base estimates in travel. These reductions were partially offset by increased costs for laboratory testing and consulting and professional services. In addition, the fund has an outstanding liability for a general fund loan that was provided in FY 2012. Loan payments were not part of the budgeted expenditures for the program.

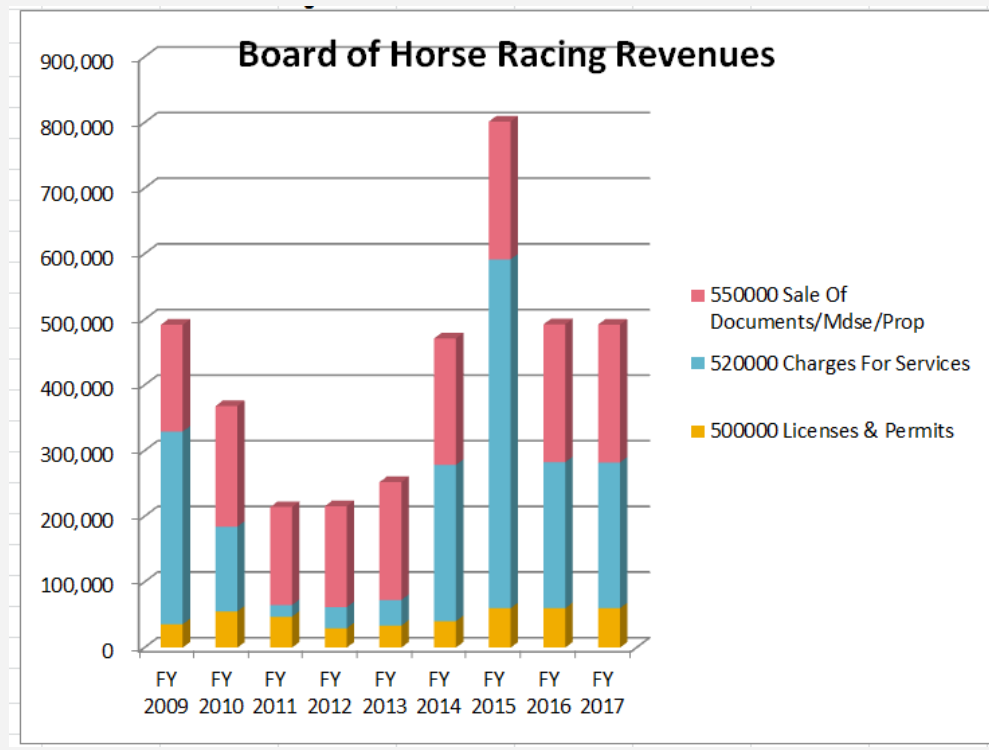
Executive Request

The legislature transferred the Board of Horse Racing from the Department of Livestock in SB 215. The state special revenue fund that supports the activities of BOHR had a negative fund balance when it was transferred to the department at the beginning of FY 2014 of (\$192,245). The balance of the fund also ended FY 2014 in the red at (\$214,357). The chart below shows the revenues, expenditures, and fund balance both actual and projected from FY 2014 through FY 2017. The figure includes both the HB 2 and statutory appropriations as reflected in the state's budgeting system.

Department of Commerce Board of Horse Racing				
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$192,245)	(\$214,357)	\$12,315	(\$15,528)
Revenues				
Licenses and Permits	40,230	60,000	60,000	60,000
Charges for Services	237,907	531,512	222,464	222,128
Fines and Forfeits	1,650	2,000	2,000	2,000
Sales of Documents/Mdse/Prop	<u>192,705</u>	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>
Total Revenues	472,492	803,512	494,464	494,128
Expenditures				
Personal Services	9,879	56,220	110,157	109,862
Operating Expenses	0	236,728	185,000	185,000
Other Services	60,620	26,624	41,453	41,453
Supplies and Materials	929	224	929	929
Communications	0	2,168	0	0
Travel	7,356	20,631	7,596	7,596
Rent	100	268	100	100
Maintenance and Repair	0	500	0	0
Other Expenses	<u>242,766</u>	<u>170,634</u>	<u>114,229</u>	<u>114,188</u>
Total Operating Expenses	311,771	457,777	349,307	349,266
Debt Service Payments	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>
Total Payments	384,493	576,840	522,307	521,971
Adjustments - Recognition of FY 2011 Costs	(110,111)	0	0	0
Ending Fund Balance	<u>(\$214,357)</u>	<u>\$12,315</u>	<u>(\$15,528)</u>	<u>(\$43,371)</u>

**LFD
ISSUE**Proposed Budget Based on Receiving Twice the Amount of Horse Racing Simulcast Revenues in FY 2015

As shown in the figure above the charges for services revenue category more than doubles in the FY 2015 projections when compared to actuals in FY 2014 or proposed for the 2017 biennium. Charges for services include the revenues generated from horse racing simulcasts. The graph below shows the revenues received from Board of Horse Racing activities from FY 2009 through the proposed budget for FY 2017. As shown, FY 2015 is significantly higher than any of the previous years or those proposed for the 2017 biennium.



From discussion with Commerce staff it appears that the revenues included in FY 2015 were not entered correctly. The figure below provides the estimated fund balance using updated agency revenue estimates.

Department of Commerce Board of Horse Racing				
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$192,245)	(\$214,357)	(\$204,197)	(\$139,504)
Revenues				
Licenses and Permits	40,230	60,000	60,000	60,000
Charges for Services	237,907	315,000	315,000	315,000
Fines and Forfeits	1,650	2,000	2,000	2,000
Sales of Documents/Mdse/Prop	<u>192,705</u>	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>
Total Revenues	472,492	587,000	587,000	587,000
Expenditures				
Personal Services	9,879	56,220	110,157	109,862
Operating Expenses	0	236,728	185,000	185,000
Other Services	60,620	26,624	41,453	41,453
Supplies and Materials	929	224	929	929
Communications	0	2,168	0	0
Travel	7,356	20,631	7,596	7,596
Rent	100	268	100	100
Maintenance and Repair	0	500	0	0
Other Expenses	<u>242,766</u>	<u>170,634</u>	<u>114,229</u>	<u>114,188</u>
Total Operating Expenses	321,650	457,777	349,307	349,266
Debt Service Payments	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>
Total Payments	394,372	576,840	522,307	521,971
Adjustments - Recognition of FY 2011 Costs	<u>(110,111)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>(\$214,357)</u>	<u>(\$204,197)</u>	<u>(\$139,504)</u>	<u>(\$74,475)</u>

Part of the reason for the negative fund balance is a general fund loan provided to the Board of Horse Racing in FY 2012. The loan balance was \$439,900 at FYE 2014. The loan payments are \$62,843 each year and are included as debt service.

Using updated revenue estimates from Commerce staff the Board of Horse Racing would continue to have a negative fund balance at the conclusion of FY 2017. The Board of Horse Racing proposed costs would need to be reduced by \$37,500 a year to address this shortfall. The legislature may wish to consider whether the budget as proposed is realistic in light the projected negative ending fund balance

Legislative Option

Reduce budgeted expenditures to ensure that the fund balance for the Board of Horse Racing is positive at the end of FY 2017.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 78-Board of Horse Racing Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02029 Board Of Horse Racing	367,950	0	550,662	918,612	100.00 %	
02063 BOHR SIMULCAST	0	0	0	0	0.00 %	
State Special Total	\$367,950	\$0	\$550,662	\$918,612	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$367,950	\$0	\$550,662	\$918,612		

State special revenues supporting the Board of Horse Racing and appropriated in HB 2 are derived from two main sources:

- Simulcast racing with 1% of the statewide simulcast “handle” returned for operations and 1% of all “handles” and 3% of exotic “handles for live racing in Montana
- Pari-mutuel gambling whereby 26% of the revenues are divided between the BOHR (16%), pari-mutuel network provider (Montana State Lottery 6%), and game retailers (4%)

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----					-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	148,272	148,272	296,544	0.00 %	
PL Adjustments	0	0	0	0.00 %	35,871	35,535	71,406	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$184,143	\$183,807	\$367,950		

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	12,944	0	12,944	0.00	0	12,649	0	12,649
DP 99 - LEG. Present Law	0.00	0	22,927	0	22,927	0.00	0	22,886	0	22,886
Grand Total All Present Law Adjustments	0.00	\$0	\$35,871	\$0	\$35,871	0.00	\$0	\$35,535	\$0	\$35,535

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

**LFD
COMMENT**

The executive proposes increases for personal services funding related to program manager positions that has been vacant all of FY 2014 through December 2014. BOHR contracted for administrative services instead.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases for the Board of Horsing operating costs when compared to the 2015 legislative base.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	1.25	1.25	1.25	1.25	1.25	1.25	0.00	0.00 %
Personal Services	9,879	97,223	110,167	109,872	107,102	220,039	112,937	105.45 %
Operating Expenses	59,891	51,049	73,976	73,935	110,940	147,911	36,971	33.33 %
Total Costs	\$69,770	\$148,272	\$184,143	\$183,807	\$218,042	\$367,950	\$149,908	68.75 %
State/Other Special Rev. Funds	69,770	148,272	184,143	183,807	218,042	367,950	149,908	68.75 %
Total Funds	\$69,770	\$148,272	\$184,143	\$183,807	\$218,042	\$367,950	\$149,908	68.75 %

Program Description

The Board of Horse Racing (BOHR) Program is responsible for:

1. Regulation the live, simulcast, and advance deposit wagering horse racing industry;
2. Ensuring compliance by approximately 1,200 licensees with state laws and board rules;
3. Licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets; and
4. Auditing, supervising and conducting investigations related to the pari-mutuel racing system in Montana.

The Board of Horse Racing is funded with state special revenue derived from a 1% tax on gross receipts from pari-mutuel betting. For live racing and simulcast facilities, the tax is the greater of 1% of gross betting receipts or the actual cost to the board for regulating the meet.

Program Highlights

Board of Horse Racing
<ul style="list-style-type: none"> • Executive proposes 68.7% increase when compared to the 2015 budget • Financial issues limited spending in FY 2014
Major LFD Issues
<ul style="list-style-type: none"> • Proposed budget does not appear sustainable

Program Discussion -

Comparison of the 2015 Legislative Base and the 2015 Appropriation

The Board of Horse Racing did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$78,502 below the FY 2015 legislative appropriation. Primary reasons for the differences were the financial condition of the fund supporting BOHR as discussed in the following "Executive Request" narrative.

Personal service costs in FY 2014 were significantly below anticipated levels as the regulatory program manager position was vacant all of FY 2014 and through November 2014.

Operating expenses for FY 2014 were below FY 2015 legislative base estimates in travel. These reductions were partially offset by increased costs for laboratory testing and consulting and professional services. In addition, the fund has an outstanding liability for a general fund loan that was provided in FY 2012. Loan payments were not part of the budgeted expenditures for the program.

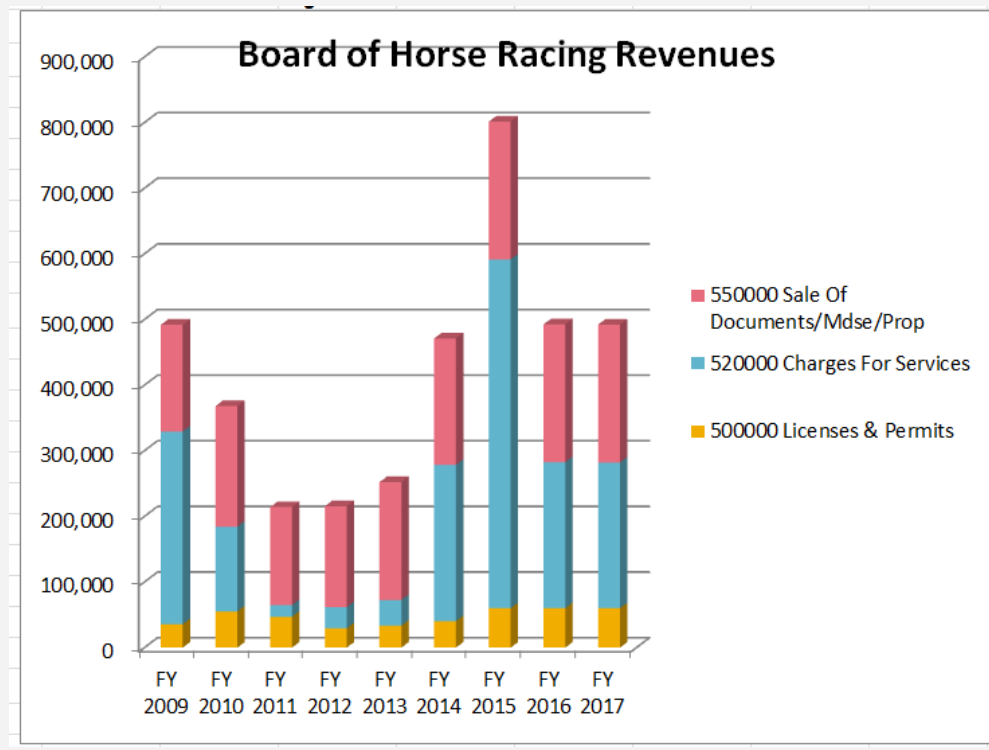
Executive Request

The legislature transferred the Board of Horse Racing from the Department of Livestock in SB 215. The state special revenue fund that supports the activities of BOHR had a negative fund balance when it was transferred to the department at the beginning of FY 2014 of (\$192,245). The balance of the fund also ended FY 2014 in the red at (\$214,357). The chart below shows the revenues, expenditures, and fund balance both actual and projected from FY 2014 through FY 2017. The figure includes both the HB 2 and statutory appropriations as reflected in the state's budgeting system.

Department of Commerce Board of Horse Racing				
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$192,245)	(\$214,357)	\$12,315	(\$15,528)
Revenues				
Licenses and Permits	40,230	60,000	60,000	60,000
Charges for Services	237,907	531,512	222,464	222,128
Fines and Forfeits	1,650	2,000	2,000	2,000
Sales of Documents/Mdse/Prop	<u>192,705</u>	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>
Total Revenues	472,492	803,512	494,464	494,128
Expenditures				
Personal Services	9,879	56,220	110,157	109,862
Operating Expenses	0	236,728	185,000	185,000
Other Services	60,620	26,624	41,453	41,453
Supplies and Materials	929	224	929	929
Communications	0	2,168	0	0
Travel	7,356	20,631	7,596	7,596
Rent	100	268	100	100
Maintenance and Repair	0	500	0	0
Other Expenses	<u>242,766</u>	<u>170,634</u>	<u>114,229</u>	<u>114,188</u>
Total Operating Expenses	311,771	457,777	349,307	349,266
Debt Service Payments	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>
Total Payments	384,493	576,840	522,307	521,971
Adjustments - Recognition of FY 2011 Costs	(110,111)	0	0	0
Ending Fund Balance	<u>(\$214,357)</u>	<u>\$12,315</u>	<u>(\$15,528)</u>	<u>(\$43,371)</u>

**LFD
ISSUE**Proposed Budget Based on Receiving Twice the Amount of Horse Racing Simulcast Revenues in FY 2015

As shown in the figure above the charges for services revenue category more than doubles in the FY 2015 projections when compared to actuals in FY 2014 or proposed for the 2017 biennium. Charges for services include the revenues generated from horse racing simulcasts. The graph below shows the revenues received from Board of Horse Racing activities from FY 2009 through the proposed budget for FY 2017. As shown, FY 2015 is significantly higher than any of the previous years or those proposed for the 2017 biennium.



From discussion with Commerce staff it appears that the revenues included in FY 2015 were not entered correctly. The figure below provides the estimated fund balance using updated agency revenue estimates.

Department of Commerce Board of Horse Racing				
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$192,245)	(\$214,357)	(\$204,197)	(\$139,504)
Revenues				
Licenses and Permits	40,230	60,000	60,000	60,000
Charges for Services	237,907	315,000	315,000	315,000
Fines and Forfeits	1,650	2,000	2,000	2,000
Sales of Documents/Mdse/Prop	<u>192,705</u>	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>
Total Revenues	472,492	587,000	587,000	587,000
Expenditures				
Personal Services	9,879	56,220	110,157	109,862
Operating Expenses	0	236,728	185,000	185,000
Other Services	60,620	26,624	41,453	41,453
Supplies and Materials	929	224	929	929
Communications	0	2,168	0	0
Travel	7,356	20,631	7,596	7,596
Rent	100	268	100	100
Maintenance and Repair	0	500	0	0
Other Expenses	<u>242,766</u>	<u>170,634</u>	<u>114,229</u>	<u>114,188</u>
Total Operating Expenses	321,650	457,777	349,307	349,266
Debt Service Payments	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>
Total Payments	394,372	576,840	522,307	521,971
Adjustments - Recognition of FY 2011 Costs	<u>(110,111)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>(\$214,357)</u>	<u>(\$204,197)</u>	<u>(\$139,504)</u>	<u>(\$74,475)</u>

Part of the reason for the negative fund balance is a general fund loan provided to the Board of Horse Racing in FY 2012. The loan balance was \$439,900 at FYE 2014. The loan payments are \$62,843 each year and are included as debt service.

Using updated revenue estimates from Commerce staff the Board of Horse Racing would continue to have a negative fund balance at the conclusion of FY 2017. The Board of Horse Racing proposed costs would need to be reduced by \$37,500 a year to address this shortfall. The legislature may wish to consider whether the budget as proposed is realistic in light the projected negative ending fund balance

Legislative Option

Reduce budgeted expenditures to ensure that the fund balance for the Board of Horse Racing is positive at the end of FY 2017.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 78-Board of Horse Racing Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02029 Board Of Horse Racing	367,950	0	550,662	918,612	100.00 %	
02063 BOHR SIMULCAST	0	0	0	0	0.00 %	
State Special Total	\$367,950	\$0	\$550,662	\$918,612	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$367,950	\$0	\$550,662	\$918,612		

State special revenues supporting the Board of Horse Racing and appropriated in HB 2 are derived from two main sources:

- Simulcast racing with 1% of the statewide simulcast “handle” returned for operations and 1% of all “handles” and 3% of exotic “handles for live racing in Montana
- Pari-mutuel gambling whereby 26% of the revenues are divided between the BOHR (16%), pari-mutuel network provider (Montana State Lottery 6%), and game retailers (4%)

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----					-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	148,272	148,272	296,544	0.00 %	
PL Adjustments	0	0	0	0.00 %	35,871	35,535	71,406	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$184,143	\$183,807	\$367,950		

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	12,944	0	12,944	0.00	0	12,649	0	12,649
DP 99 - LEG. Present Law	0.00	0	22,927	0	22,927	0.00	0	22,886	0	22,886
Grand Total All Present Law Adjustments	0.00	\$0	\$35,871	\$0	\$35,871	0.00	\$0	\$35,535	\$0	\$35,535

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

**LFD
COMMENT**

The executive proposes increases for personal services funding related to program manager positions that has been vacant all of FY 2014 through December 2014. BOHR contracted for administrative services instead.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases for the Board of Horsing operating costs when compared to the 2015 legislative base.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	12.00	12.00	12.00	12.00	12.00	12.00	0.00	0.00 %
Personal Services	529,375	727,807	722,908	722,837	1,257,182	1,445,745	188,563	15.00 %
Operating Expenses	735,859	494,373	668,176	664,326	1,230,232	1,332,502	102,270	8.31 %
Equipment & Intangible Assets	12,000	25,500	12,000	12,000	37,500	24,000	(13,500)	(36.00)%
Total Costs	\$1,277,234	\$1,247,680	\$1,403,084	\$1,399,163	\$2,524,914	\$2,802,247	\$277,333	10.98 %
State/Other Special Rev. Funds	1,277,234	1,247,680	1,403,084	1,399,163	2,524,914	2,802,247	277,333	10.98 %
Capital Projects Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$1,277,234	\$1,247,680	\$1,403,084	\$1,399,163	\$2,524,914	\$2,802,247	\$277,333	10.98 %

Program Description

The Montana Heritage Commission (MHC) manages three historic sites in Montana--Virginia City, Nevada City, and Reeder's Alley and the Pioneer Cabin in Helena.

In 1997, the Montana Legislature purchased Virginia City and Nevada City from the Bovey family. MHC is to promote and preserve these sites while encouraging Montanans, out-of-state visitors, and future generations to learn about the history of Montana. Virginia City and Nevada City represent authentic and tangible examples of the greatest gold strike in the Rocky Mountain West. Virginia City was the site of the state's first active territorial capital and the MHC offices now occupy the original Montana Legislative Offices.

MHC has two primary missions. The first is to operate and maintain the Virginia City, Nevada City, and Reeder's Alley properties and income-producing assets and artifacts with a goal of financial self-sufficiency. The second is to preserve the Virginia City and Nevada City artifacts and non-income producing assets (e.g., historical or cultural assets). The current value of all Virginia City, Nevada City, and Reeder's Alley assets, including land, buildings, and artifacts, is estimated to be \$41 million. MHC can move toward self-sufficiency primarily by increasing the number of visitors to its sites and by improving and expanding the visitor experiences at these sites.

Program Highlights

Montana Heritage Commission
<ul style="list-style-type: none"> • 100% of the Montana Heritage Commission is funded with statutory appropriations including 12.00 FTE
Major LFD Issues
<ul style="list-style-type: none"> • Revenue projections above projected trend lines thus increasing potential of operating losses

Program Discussion -

This program is entirely funded with statutory appropriations. As such, the legislature does not approve either the expenditures or the funding of the program. The table below shows the actual and proposed expenditures and funding for the program.

Department of Commerce Montana Heritage Commission				
	Actuals FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$13,105)	(\$50,952)	\$5,841	(\$36,854)
Revenues				
Taxes	665,871	627,395	627,395	627,395
Charges for Services	193,135	206,571	400,002	400,002
BOI Investment Earnings	66	2,005	2,005	2,005
Sales of Documents/Mdse/Property	32,279	55,395	55,395	55,395
Rentals/Leases/Royalties	158,202	229,936	229,936	229,936
Contributions/Premiums	505	220	220	220
Grants/Transfers/Misc	<u>189,119</u>	<u>183,475</u>	<u>45,436</u>	<u>45,436</u>
Total Revenues	1,239,177	1,304,997	1,360,389	1,360,389
Expenditures				
Personal Services	529,375	727,807	722,908	722,837
Operating Expenses	735,859	494,373	668,176	664,326
Equipment & Intangible Assets	<u>12,000</u>	<u>25,500</u>	<u>12,000</u>	<u>12,000</u>
Total Expenditures	1,277,234	1,247,680	1,403,084	1,399,163
Adjustments	<u>210</u>	<u>(524)</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>(\$50,952)</u>	<u>\$5,841</u>	<u>(\$36,854)</u>	<u>(\$75,628)</u>

As shown, funding for the program is projected to be below projected costs in both years of the 2017 biennium.

LFD ISSUE	<p><u>Revenue Projections Above Projected Trend Lines Thus Increasing Potential of Operating Losses</u></p> <p>MHC forecasts that revenues from charges for services will increase 107% above FY 2014 actuals. Changes in total charges for services revenues from FY 2008 through FY 2014 are shown in the figure below.</p>
----------------------	---

Department of Commerce Montana Heritage Commission Charges for Services Revenues		
Fiscal Year	Revenues	% Change
FY 2008	176,062	
FY 2009	164,909	-6.33%
FY 2010	191,847	16.34%
FY 2011	136,395	-28.90%
FY 2012	113,744	-16.61%
FY 2013	176,397	55.08%
FY 2014	193,171	9.51%
7 year average	164,646	
3 year average	161,104	

As shown in the table, revenues from charges for services have varied considerably. However, in no period over the last seven years have the revenues increased by more than 55% over the previous year. If the legislature wishes to ensure that the state special revenue fund used to fund the Montana Heritage Commission has a positive fund balance at FYE 2017, it may wish to request that MHC update its proposal for funding and expenditures in the budgeting system to reflect revenues more closely aligned with recent trends and corresponding reductions in proposed expenditures for the program.

Legislative Option

Request that MHC update its proposal for funding and expenditures in the budgeting system to reflect revenues more closely aligned with recent trends and corresponding reductions in proposed expenditures for the program.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 80-Montana Heritage Commission Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02102 MT Heritage Pres & Development	0	0	2,802,247	2,802,247	100.00 %	
State Special Total	\$0	\$0	\$2,802,247	\$2,802,247	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$0	\$0	\$2,802,247	\$2,802,247		

As shown, the Montana Heritage Commission is entirely funded with statutorily appropriated fundings. As shown on the table in the Montana Promotion Division narrative in this department, the funding from the lodging use facility tax is fixed at \$400,000 each year of the biennium. The remainder of the funding includes revenues from Virginia and Nevada cities and Reeder's Alley as well as funding from light vehicle registrations.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	1,191,258	1,191,258	2,382,516	0.00 %
PL Adjustments	0	0	0	0.00 %	211,826	207,905	419,731	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$1,403,084	\$1,399,163	\$2,802,247	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
Grants	453,944	550,000	550,000	550,000	1,003,944	1,100,000	96,056	9.57 %
Total Costs	\$453,944	\$550,000	\$550,000	\$550,000	\$1,003,944	\$1,100,000	\$96,056	9.57 %
Federal Spec. Rev. Funds	453,944	550,000	550,000	550,000	1,003,944	1,100,000	96,056	9.57 %
Total Funds	\$453,944	\$550,000	\$550,000	\$550,000	\$1,003,944	\$1,100,000	\$96,056	9.57 %

Program Description

The Director’s Office (office) provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions and administratively attached boards. The office provides executive, administrative, legal, and policy direction. The office acts in a public relations and informational capacity to ensure the public is informed of the services provided by the department. The office works with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state’s economic base. The office acts as the liaison with private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, other governmental agencies, and the Governor’s Office.

The Director’s Office also provides internal support to Department of Commerce staff, programs, bureaus, divisions and administratively attached boards in a positive customer service oriented manner. Services are provided by the Offices of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information.

The Montana Council on Developmental Disabilities is a citizen based advocacy group. Its members are appointed by the Governor to work to provide increased independence, integration, and productivity for persons with developmental disabilities.

Program Highlights

Director's Office
<ul style="list-style-type: none"> • 78.5% of the Director's Office, including 19.00 FTE, is funded with proprietary funds that are not included in HB 2 • The HB 2 budget increases 9.6% when compared to the 2015 biennium due to increases supporting the Montana Council on Developmental Disabilities

Program Discussion -

The Program Budget Comparison table above only reflects the funding for the Developmental Disabilities Planning and Advisory Council (DDPAC), which is the only portion of this program included in the appropriation section of HB 2. The federal Developmental Disabilities Assistance and Bill of Rights Act of 2000 requires each state to designate a state agency to administer the federal funds as long as the designated state agency does not provide or pay for services for individuals with developmental disabilities.

Since FY 2005 the department has had a contract with the Montana Council on Developmental Disabilities, a nonprofit corporation that carries out the responsibilities of DDPAC. DDPAC still remains administratively attached to the

department, with the agency acting as a go-between for disbursing federal funds to the nonprofit under the terms and conditions of the contract.

The proposed budget remains unchanged from the FY 2015 legislative appropriation. Actual spending in FY 2014 was slightly less than the amount of the FY 2015 legislative appropriation due to grants to local agencies that were lower than anticipated in the budget.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 81-Director's Office Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03441 DDPAC - Dev Disabled Council	1,100,000	0	0	1,100,000	100.00 %	
Federal Special Total	\$1,100,000	\$0	\$0	\$1,100,000	21.49 %	
06542 Commerce Centralized Services	0	4,019,001	0	4,019,001	100.00 %	
Proprietary Total	\$0	\$4,019,001	\$0	\$4,019,001	78.51 %	
Total All Funds	\$1,100,000	\$4,019,001	\$0	\$5,119,001		

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues that pay the contract for the nonprofit that carries out the responsibilities of DDPAC.

The Director's Office is funded by an internal service proprietary fund from indirect costs charged to all agency programs. For further discussion of the proprietary funded portion of this program refer to the "Proprietary Rates" section.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	550,000	550,000	1,100,000	0.00 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$550,000	\$550,000	\$1,100,000	

Other Issues -

Proprietary Program Description

Commerce Centralized Services - 06542

Program Description:

The Director's Office provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. Services are provided by the Office of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information.

Program Narrative

Overall costs for the program increase by 12.28% in FY 2016 when compared to FY 2014 actual spending and 11.83% in FY 2017. When compared to the FY 2015 appropriation the increase is higher.

Department of Commerce Director's Office					
	FY 2014	FY 2016	% Change	FY 2017	% Change
FTE	19.00	19.00	0.00%	19.00	0.00%
Personal Services	\$1,505,188	\$1,703,540	13.18%	\$1,703,298	13.16%
Operating Costs	<u>288,181</u>	<u>309,941</u>	<u>7.55%</u>	<u>302,153</u>	<u>4.85%</u>
Total Costs	<u>\$1,793,369</u>	<u>\$2,013,481</u>	<u>12.27%</u>	<u>\$2,005,451</u>	<u>11.83%</u>

The increase to operating expenses was funded by transferring \$70,000 in appropriation authority from personal services to operating expenses. Costs were higher than anticipated for communications, travel, rent, conferences, and public relation expenses. Personal services were below anticipated levels mainly due to a human resource manager position vacant for 82.1% of FY 2014. The department reclassified this position for the 2017 biennium as a human resource specialist.

**LFD
ISSUE**

Changes in Budgeting Methodology Result in Personal Service Increases

As discussed in the agency summary, proprietary funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result the Director's Office proprietary program personal service costs increased by about \$63,600 each year of the biennium.

The Director's Office proposed budget includes a human resource specialist position that was vacant for the majority of FY 2014 and was still vacant November 17, 2014. The vacant position is funded at \$54,000 each year of the biennium. If the legislature wishes to mitigate a portion of the impact of higher personal services costs it could eliminate funding for the vacant human resource specialist position.

Legislative Option

Eliminate funding for the vacant human resource specialist position.

The increased costs are allocated to each of the other programs within the Department of Commerce. The figure below shows the increased costs as measured from FY 2014 actuals that are apportioned to each of the programs.

Department of Commerce Director's Office Changes in Administrative Costs		
Division	FY 2016	FY 2017
Business Resources Division	\$55,309	\$56,206
Montana Promotion Division	25,537	24,920
Community Development Division	39,234	39,314
Facility Finance Authority	11,785	11,708
Housing Division	60,899	61,304
Board of Investments	61,328	60,545
Board of Horse Racing	14,085	14,044
Montana Heritage Commission	<u>24,373</u>	<u>24,363</u>
Total Changes in Indirect Costs	<u>\$292,550</u>	<u>\$292,404</u>

These increases are a component of the proposals for changes related to administrative cost adjustments requested in each program budget.

Expenses

The majority of the costs in the Director's Office are related to personal services for 19.00 FTE. These costs increase by 13.2% when compared to FY 2014 actual expenditures. As discussed in the program narrative, a portion of this increase is due to fully funding personal service costs without a corresponding reduction in FTE. This, taken together with the costs related to HB 13 approved by the 2013 Legislature, are the majority of the increase. In addition, the agency reclassified two positions:

- Human resource specialist was reclassified to an operations manager
- Human resource manager was reclassified to a human resource specialist

Finally, the Director's Office provided a strategic pay increase for one position. As shown on the 2017 Biennium Report on Internal Service and Enterprise Funds, personal services is projected to be above the estimated level in FY 2015 by \$100,000. As a result, fund balance for the internal service fund supporting the Director's Office declines.

Operating expenses increase due to SITSD, rent, and travel.

Revenues

The Director's Office is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated and legislatively approved indirect cost rates applied to actual personal services expenditures. It should be noted that the impacts of an approved pay plan for the 2017 biennium are not included in the projected revenues. Actual and anticipated revenues are shown in the 2017 Biennium Report on Internal Services and Enterprise funds shown on the next page. As shown, federal indirect cost recoveries are used to provide support for the program and offset operating losses for the program.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06542	Commerce Centralized Services	65010	Director's Office			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Administrative Fees		\$1,616,871	\$1,501,677	\$1,730,966	\$1,730,863
	Other Operating Revenues		259	0	0	0
Total Operating Revenues			1,617,130	1,501,677	1,730,966	1,730,863
Expenses						
	Personal Services		1,526,464	1,651,191	1,754,646	1,755,930
	Other Operating Expense		270,618	236,894	309,941	302,153
Total Operating Expense			1,797,082	1,888,085	2,064,587	2,058,083
Operating Income (Loss)			(179,952)	(386,408)	(333,621)	(327,220)
Nonoperating Revenues						
	Federal Indirect Cost Recoveries		334,973	302,365	302,365	302,365
Total Nonoperating Revenues (Expenses)			334,973	302,365	302,365	302,365
Income (Loss) Before Contributions and Transfers			155,021	(84,043)	(31,256)	(24,855)
Change in Net Position			155,021	(84,043)	(31,256)	(24,855)
Beginning Net Position - July 1			232,730	387,751	303,708	272,452
	Prior Period Adjustments					
	Change in Net Position		155,021	(84,043)	(31,256)	(24,855)
Ending Net Position - June 30			387,751	303,708	272,452	247,597
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)		0	0	0	0
	Unrestricted Net Position		\$387,751	\$303,708	\$272,452	\$247,597

Rate(s) and Rate Explanation:

The Director's Office calculates a federal indirect cost rate on an annual basis. This rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department.

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

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

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:				
State Programs				
Indirect Cost Rate	14.65%	14.65%	14.10%	14.10%
Federal Programs				
Indirect Cost Rate	14.65%	14.65%	14.10%	14.10%
Allocation Methodology: Indirect costs for the Director's Office are allocated to supported programs via a federally calculated indirect cost plan for federally funded programs, and a legislatively approved rate for state funded programs. Indirect cost rates are charged to supported programs based upon actual personal services expenditures.				
Authority: Federally calculated indirect cost plan for federally funded programs, and legislatively approved rate for state funded programs. FY 2016 and FY 2017 federally approved rate is an estimated rate.				

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

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

The Legislative Fiscal Division Presents an Agency Profile of:
The Department of Labor and Industry

Contact: Kris Wilkinson, Senior Fiscal Analyst
Rm. 131, State Capitol Building
Phone: (406) 444-2722

Updated August 2014

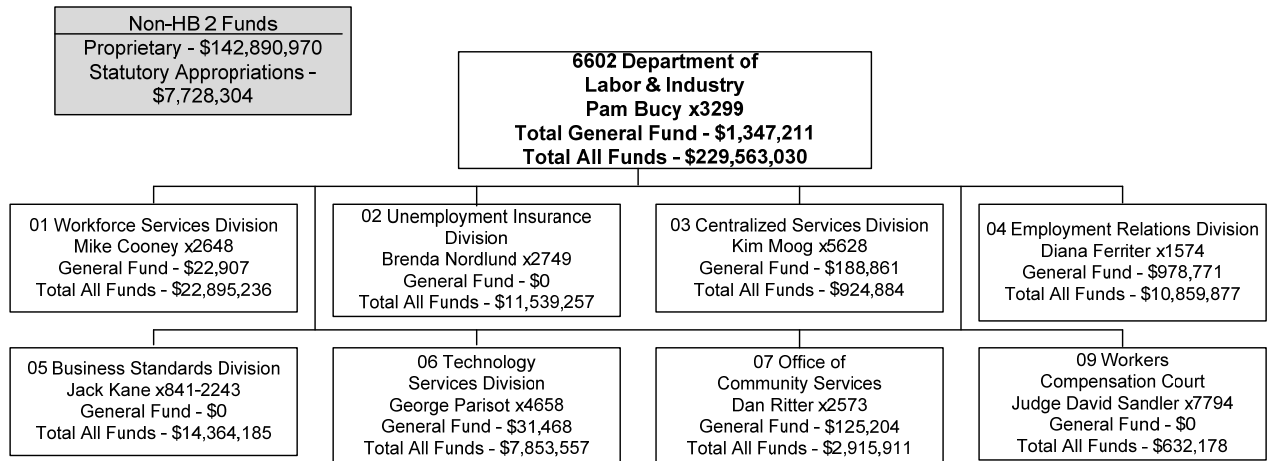
Agency Description

Definition of Terms

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

- Serves as an employment agency, provides job training to assist individuals in preparing for and finding jobs, and assists employers in finding workers
- Oversees federal and state training and apprenticeship programs
- Conducts research and collects employment statistics and collects, analyzes and provides workforce and career information
- Administers the unemployment insurance program and disburses state unemployment benefits
- Enforces state and federal labor standards, anti-discrimination laws, and state and federal safety-occupational health laws
- Provides adjudicative services in labor-management disputes
- Licenses, inspects, tests, and certifies all weighing or measuring devices used in making commercial transactions in the State of Montana
- Provides administrative and clerical services to the 40 professional boards and occupational licensing programs authorized by state statutes
- Establishes and enforces minimum building codes
- Administers the federal AmeriCorps, Campus Corps, and Volunteer Montana programs through the Office of Community Services
- Oversees and regulates the Montana Workers' Compensation system

Organizationally, the department is divided into six divisions: 1) Workforce Services; 2) Unemployment Insurance; 3) Commissioner's Office/Centralized Services; 4) Employment Relations; and 5) Business Standards; 6) Technology Services Division. The Office of Community Services, Workers' Compensation Court, and three boards are administratively attached.

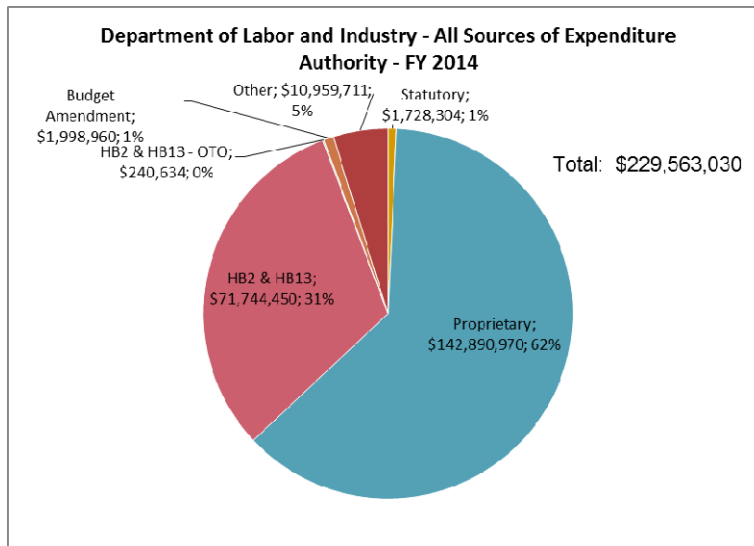


How Services are Provided

The Department of Labor and Industry consists of six divisions and two administratively attached entities with the following functions:

- Workforce Services Division provides a wide range of both federal- and state-funded employment and training programs to maintain a high quality workforce system that enhances the economic health of Montana.
- Unemployment Insurance Division administers the state unemployment insurance law and related federal programs through which benefits are paid, responds to inquiries concerning claims, collects employer contributions, and adjudicates disputed benefit claims.
- Centralized Services/Commissioner’s Division provides program direction and legal, administrative, and support services to the department. The Board of Labor Appeals is administratively attached and hears appeals concerning the administration of Montana unemployment insurance law and employer/employee relationships.
- Employment Relations Division regulates workers’ compensation insurance requirements, administers the contractor registration and independent contractor exemptions functions, assists with settlements of disputed workers’ compensation claims, enforces state and federal labor laws related to payment of wages, conducts mediation of collective bargaining contracts, hears disputes regarding both labor relations and wage and hour issues, enforces state and federal industrial safety laws, and investigates and resolves complaints of illegal discrimination. Unemployment Insurance Division administers the state unemployment insurance law and related federal programs through which benefits are paid, responds to inquiries concerning claims, collects employer contributions, and adjudicates disputed benefit claims.
- Business Standards Division establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator, and boiler codes. The division also licenses and regulates persons and businesses engaged in specific professions and occupations. Finally, the division is responsible for licensing, inspecting, testing, and certifying all weighing and measuring devices used in commercial transactions. T
- Technology Services Division The Technology Services Division (TSD) provides information technology services and support for the department including IT project management, application development, and network services.

Sources of Spending Authority

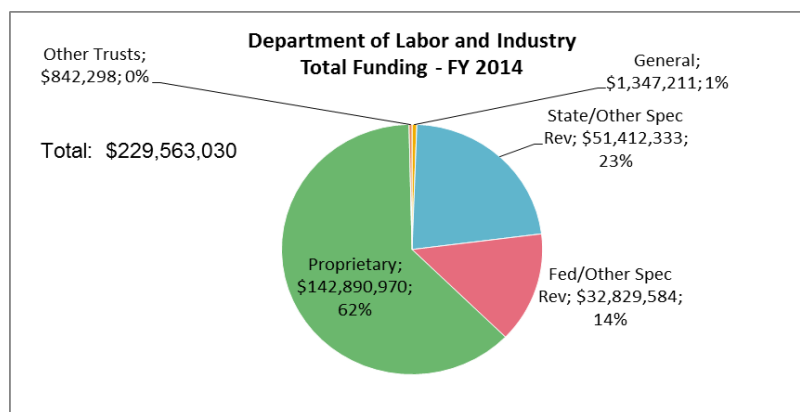


The above chart shows the sources of appropriation authority for the Department of Labor and Industry. For a more detailed description of accounting terminology, please refer to the definition of terms. The operations of the DOLI are primarily funded with proprietary funds. House Bill (HB) 2 funded about a third of the agency's functions in FY 2014. Included in the other category:

- \$6.4 million of employment security account funds approved in the long range building program and transferred from the Architecture and Engineering Division in the Department of Administration for the development of the STAARS system for unemployment insurance
- \$1.6 million in administrative appropriations from the Department of Public Health and Human Services (DPHHS). DPHHS transferred authority so that DOLI can provide various employment training and support using federal funds such as TANF
- \$0.8 million in carry forward authority used to purchase vehicles, provide for legal expenses and consulting and professional fees

The chart below shows the funding sources for the expenditures. The majority of the funding is from the unemployment insurance trust in the proprietary fund. Payments for unemployment insurance benefits are made from this account.

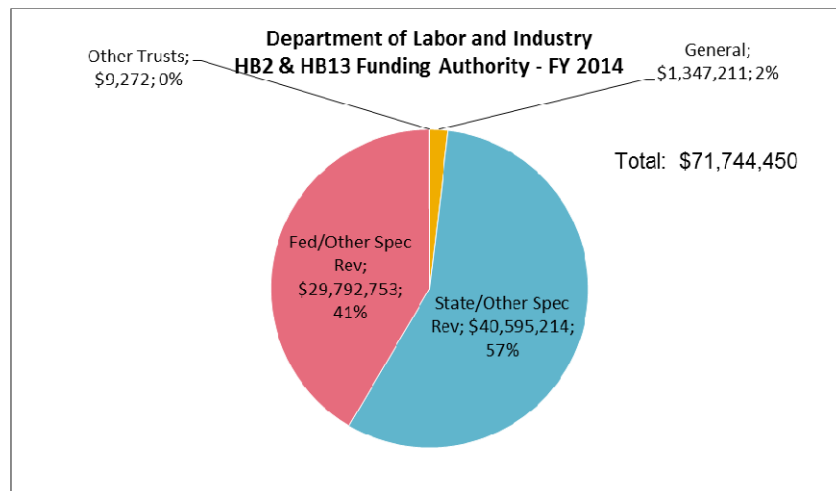
Funding



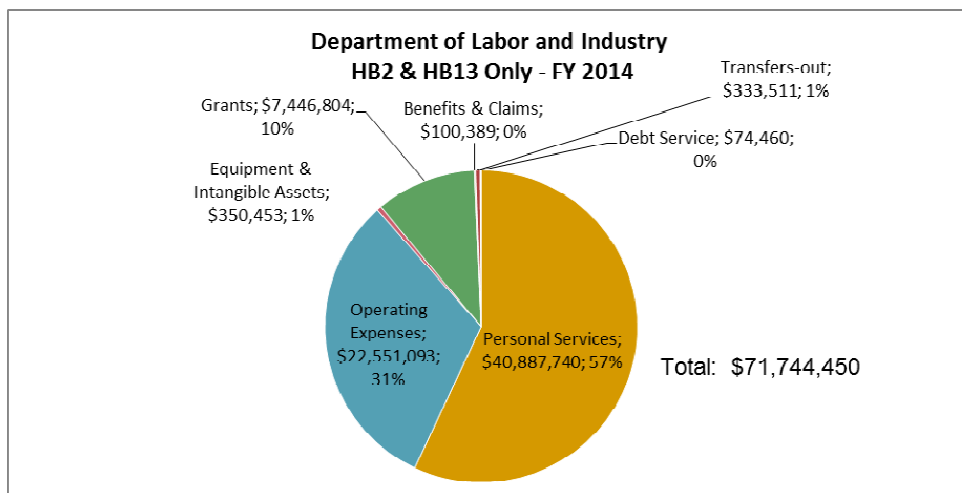
HB 2

The charts show the agency's HB 2 funding authority by fund. DOLI is mainly funded with state special revenue and federal special revenues. State special revenues include:

- Employment security account (ESA) which provided \$14.5 million of support in FY 2014. Statute provides for a special administration assessment that is deposited into the ESA within the state special revenue fund. The rate is assessed at varying rates, 0.08% to 0.18%, depending on the rate class and type of employer, with separate rates for nonprofits and government employers
- Licenses paid by various professionals and individuals working in the building trades provide for about \$16.6 million in state special revenue funds supporting the Business Standards Division
- \$7.3 million derived from workers compensation regulation funds. Workers compensation regulation and workplace safety activities are conducted by the Employment Relations Division



The next chart explains how the HB 2 authority is spent. Of the total authority, 54% was spent on personal services costs supporting 756.58 FTE and 29% on operating expenses. This chart matches the agency chart found in the 2015 Budget Analysis.



How the 2015 Legislature Can Effect Change

In order to change expenditure levels and/or Department of Labor and Industry (DOLI) activity, the legislature must address one or more of the following basic elements that drive costs.

- Workplace safety regulations – although there is a body of federal regulation that governs workplace safety (e.g., OSHA), state government also has the opportunity to regulate workplace conditions and determine how those regulations will be enforced. Addressing the definitions of workplace regulations as well as the frequency and manner that regulations are enforced and defining the remedies and sanctions related to violations may influence activity of the Department of Labor and Industry. All of these affect the DOLI's work in this area, including hearings activity.
- Human/civil rights protections – addressing the regulations, protections, and remedies or sanctions in this area may change DOLI activity. There are rights protections that are a matter of federal regulation, but state regulations may provide broader coverage than the federal regulations.
- Unemployment benefit eligibility and employer taxation – while much of the unemployment benefits system is driven by federal regulation (US Department of Labor), each state has the authority to define the eligibility criteria for benefits, the benefit levels for eligible recipients, and the tax schedule that employers use in contributing to the unemployment insurance trust fund. Therefore, addressing the definitions of eligibility, benefit levels and tax schedules can change DOLI activity.
- Building codes/weights and measures – the regulations that govern building codes as well as weights and measures include a body of state statute that defines both the standards as well as the frequency and content of inspections and enforcement. Each of these definitions can be addressed in order to change department activity in this area.
- Number of professional/occupational licensing boards – presently the DOLI provides administrative support for 32 licensing boards and 5 licensing programs. The regulations that govern these 37 areas, as well as the potential for additional areas to regulate, are a function of how the state defines its responsibilities in this area. DOLI activity in regulating may be addressed through these definitions and through decisions to add more professions/occupations to state regulation and oversight.
- Accessibility of job service programs – in order to deliver employment agency and job training programs to dislocated workers and employers, the DOLI operates 23 Job Service centers across Montana with 14 regional managers. Addressing either the number of centers in operation and/or the level of program delivery to be offered at each center may change DOLI activity in this area.

Major Cost Drivers

Activity for this agency varies depending upon:

- Level of employment within Montana
- Number of Montanans seeking employment
- Number of licensed businesses and professions
- Number of injured workers in Montana
- Number of worker's compensation court trials

Major Cost Drivers - Continued

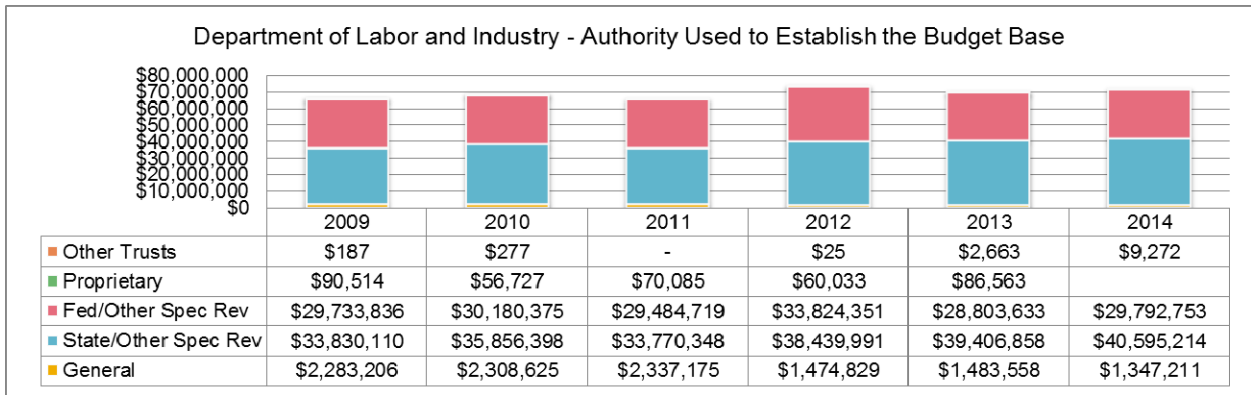
Element	FY 2008	FY 2014	Significance of Data
Montana unemployment rate	4.20%	5.20%	Influences job service programs and unemployment benefits administration
Unemployment benefits paid	\$93.5 million	\$135.0 million	Indicates demand for benefits administration
Workers receiving training	5,267	3,782	Indicates demand for job service programs
Total number of jobseekers	103,994	120,222	Indicates demand for job service programs
Average # of services per jobseeker	16	28.37	Indicates level of service needed
Workers' compensation claims filed	32,414	25,448	Indicates demand for services
Weights and measures inspections	19,530	18,500	Indicates demand for services
Licensed devices	23,329	23,888	Indicates demand for services
Building inspections	62,962	51,810	Indicates demand for services and workload over period
Number of professional and occupations licensing boards	32	40	Indicates demand for services over time
Number of AmeriCorp members	661	315	Indicates demand for program and changes to workload
Workers' Compensation Court trails, hearings, and reported conferences	47	76	Indicates demand for services and insight into changes to workers' compensation claims and regulations

Funding/Expenditure History, Authority Used to Establish Budget Base

General fund was reduced in FY 2012 is due to elimination of general fund supporting the Research and Analysis Bureau (R & A) and Jobs for Montana Graduates Program (JMG) included in HB 2 by the 2011 Legislature. The 2013 Legislature provided state special revenues funds for these functions but did not pass the companion bill that established the revenue source. State special revenue funds change over the period due to the fluctuation and expiration of funding made available through HB 645 (Implementation of the American Recovery and Reinvestment Act) and the increased use of state special revenues to support R & A and JMG. Federal special revenues increased between FY 2009 and FY 2012 due to additional federal grants for:

- Workforce Investment Act
- College Access
- Trade Adjustment Allowance

In FY 2014 the Trade Adjustment Allowance requirements for participation were changed which reduced the number of qualified participants and the federal funding supporting the program.



Major Legislative Changes in the Last Ten Years

Employment and Job Training

The 2003 Legislature established the Primary Sector Business Workforce Training Act. HB 564 provided for a seven-member loan review committee to make grants to qualifying primary sector businesses to pay for employee education and training by eligible service providers, and provided temporary funding for workforce training grants through Board of Investment loans. Among other requirements, HB 564 required the Department of Labor and Industry to analyze data and report on the available labor supply in Montana's rural, reservation, and urban labor markets. The legislature added 0.35 FTE and \$250,000 in state special revenue authority to allow the department to accomplish this study.

The 2003 Legislature provided for the creation of "empowerment zones" and provides tax credits to employers hiring new employees within these zones.

The 2005 Legislature revised the requirements for certification of independent contractors. The legislature appropriated \$1.6 million and added 6.0 FTE in HB 2 in the Employment Relations Division over the biennium to implement SB 108. The 2007 Legislature reduced the state unemployment tax and increases the employer security account tax. The state unemployment tax rate schedules are reduced by .25 percent, lowering the average tax rate from 1.37 percent to 1.12 percent. The bill increased the employer security account tax rates by 0.05 percent for experience rated private employers, 0.04 percent for governmental experience rated employers, and 0.03 percent for reimbursable employers to generate additional revenues to be used for administration of the unemployment insurance program.

The 2007 Legislature required at least one representative of military veterans in the membership of the State Workforce Investment Board.

The 2009 Legislature appropriated funds received by the state from the federal government under the American Recovery and Reinvestment Act (ARRA) of 2009. The Department of Labor and Industry was provided \$15.3 million in federal fund spending authority for worker and community benefit programs including worker training programs, special assistance to workers displaced by trade activities, re-employment services, job search assistance, funding for community service programs, and funding for the modernization and administration of the Unemployment Insurance Program. The 2009 Legislature codified the Incumbent Worker Training Program at the Department of Labor. The funding for the program was included in HB 2, including a portion of the \$400,000 additional annual funding contained in the appropriation for the 21st Century Workforce to the Workforce Services Division.

Major Legislative Changes in the Last Ten Years, cont.

Unemployment Insurance

The 2003 Legislature transferred responsibility for the collection and reporting of unemployment insurance taxes from the Department of Revenue to the Department of Labor and Industry. The Department of Revenue continued to administer the program until the function was transferred during the 2005 biennium. The legislature added 43.00 FTE and \$2.5 million in federal special revenue authority to the Unemployment Insurance Division to effect this transfer.

Workers' Compensation

The 2003 Legislature revised workers' compensation laws. Impacts to the Department of Labor and Industry included an increase in benefits paid from the uninsured employer fund.

The 2009 Legislature revised the Workers' Compensation Act regarding independent contractor laws that include the ongoing process of scanning and indexing all documents which requires additional expenditures.

The 2009 Legislature revised the Workers' Compensation Act on exemptions, claims examiners, and safety funding and required the establishment of a program to certify, maintain documentation, and approve training for claims examiners.

The 2009 Legislature provided for substitution of the Workers' Compensation Court judge in the event of a recusal by the Workers' Compensation judge.

The 2011 Legislature enacted numerous revisions to the workers' compensation laws of Montana. An appropriation of \$851,000 state special revenue for the costs associated with implementing these changes was been made in HB 2, including the addition of 1.50 FTE.

Silicosis

The 2005 Legislature appropriated \$26,400 each year of general fund to increase silicosis benefits by \$50 each month for any individual receiving benefits.

The 2007 Legislature increased the monthly benefit for individuals receiving silicosis grant-in-aid payments from \$300 to \$350.

For further information, you may wish to contact the agency at:

Department of Labor and Industry
P.O. Box 1728
Helena, MT 59624-1728
Phone: (406) 444-2840
Webpage: <http://dli.mt.gov>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	751.58	751.58	688.56	688.56	751.58	688.56	(63.02)	(8.39)%
Personal Services	40,887,893	46,966,539	46,349,883	46,378,345	87,854,432	92,728,228	4,873,796	5.55 %
Operating Expenses	22,540,224	23,025,299	27,844,400	27,979,487	45,565,523	55,823,887	10,258,364	22.51 %
Equipment & Intangible Assets	350,454	398,986	312,574	312,574	749,440	625,148	(124,292)	(16.58)%
Grants	7,446,806	11,587,525	7,854,036	7,854,036	19,034,331	15,708,072	(3,326,259)	(17.48)%
Benefits & Claims	100,389	91,464	100,389	100,389	191,853	200,778	8,925	4.65 %
Transfers	333,512	603,901	311,861	312,039	937,413	623,900	(313,513)	(33.44)%
Debt Service	74,470	70,237	189,407	231,082	144,707	420,489	275,782	190.58 %
Total Costs	\$71,733,748	\$82,743,951	\$82,962,550	\$83,167,952	\$154,477,699	\$166,130,502	\$11,652,803	7.54 %
General Fund	1,347,215	1,446,087	2,485,192	2,484,215	2,793,302	4,969,407	2,176,105	77.90 %
State/Other Special Rev. Funds	40,594,667	42,847,908	47,627,178	47,820,345	83,442,575	95,447,523	12,004,948	14.39 %
Federal Spec. Rev. Funds	29,791,866	38,449,956	32,850,180	32,863,392	68,241,822	65,713,572	(2,528,250)	(3.70)%
Proprietary Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$71,733,748	\$82,743,951	\$82,962,550	\$83,167,952	\$154,477,699	\$166,130,502	\$11,652,803	7.54 %

Mission Statement

The purpose of the Department of Labor and Industry is to promote and protect the well-being of Montana's workers, employers, and citizens, and to uphold their rights and responsibilities.

Agency Highlights

Department of Labor and Industry Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes to increase DOLI budget by \$7.5% between biennia • General fund increases \$2.2 million. Two requests drive the increase including: <ul style="list-style-type: none"> ◦ Fund Jobs for Montana Graduates Program - \$0.7 million ◦ Restore general fund support for the Human Rights Bureau - \$0.25 million • Agency reorganized to create a Technology Services Division (TSD) pulling FTE and funding from other programs within the agency
Legislative Action Issues
<ul style="list-style-type: none"> • Long-term ongoing vacancies indicate additional positions may be eliminated • Change in budgeting methodology increases proprietary rates • Proprietary rates for legal services above levels needed for 60 day working capital balance

Agency Discussion

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$10.0 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- About \$5.3 million less in personal services related to a high number of vacant positions. The percentage of hours worked for positions within DOLI by program are shown in the figure below.

Department of Labor and Industry Vacancy Percentages for FY 2014	
Program	% of Hrs Worked
Workforce Services Division	83.29%
Unemployment Insurance Division	92.22%
Commissioner's Office/CSD	89.53%
Employment Relations Division	88.50%
Business Standards Division	90.93%
Technology Services Division	77.81%
Office of Community Service	81.93%
Workers' Compensation Court	88.88%
Grand Total	87.22%

As shown, six of the divisions had vacancy rates of greater than 10% in FY 2014. In FY 2012 the overall vacancy rate for DOLI was 8.9%.

- Grants agency-wide were \$4.0 million less in FY 2014 actual spending than anticipated in either FY 2015 or FY 2014 legislative appropriations. The majority of the difference is related to the Trade Adjustment Allowance (TAA) funding. TAA is a program created at the federal level to retrain workers who have lost their jobs as a result of foreign trade. TAA offers a number of benefits and services to support workers seeking reemployment including: job training, income support, job search, relocation allowances, and assistance with health care premiums. During the Great Recession this program was expanded to include service sector workers. As that expansion has expired and Montana's unemployment rate has dropped, the federal grant funding for this service has dropped. Montana received \$0.5 million in FY 2014 compared to an estimated \$5.5 million. The executive proposal incorporates the projected reductions in this grant source in the 2017 biennium. This reduction is also the main reason for the decrease in federal funds shown in the biennial comparison table on the previous page.

Agency Wide Decision Packages

The following proposals are requested in several programs across the agency:

- TSD Funding Switch changes the funding for the Technology Services Division as shown. The proposal is to switch the funding from support provided by revenues appropriated in HB 2 to the proprietary fund. Divisions would transfer the equivalent of the amount they spent on direct provision of technology services, and would be assessed a like amount, with minor differences as shown in the following figure.

Department of Labor and Industry TSD Funding Switch										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Workforce Services Division	\$0	\$0	\$692,812	\$693,166	\$1,182,430	\$1,183,066	\$0	\$0	\$1,875,242	\$1,876,232
Unemployment Insurance Division	0	0	1,068,549	1,068,679	1,869,463	1,871,558	0	0	2,938,012	2,940,237
Commissioner's Office/CSD	23,409	23,441	13,124	13,141	5,516	5,516	110,462	125,565	152,511	167,663
Employment Relations Division	22,652	22,652	1,497,673	1,498,788	23,842	23,842	0	0	1,544,167	1,545,282
Business Standards Division	0	0	1,556,944	1,543,508	0	0	0	0	1,556,944	1,543,508
Technology Services Division	(42,941)	(43,653)	(4,624,919)	(4,654,980)	(3,357,440)	(3,366,530)	8,055,954	8,101,166	30,654	36,003
Office of Community Services	3,504	3,504	0	0	4,062	4,062	0	0	7,566	7,566
Workers' Compensation Court	0	0	11,009	11,009	0	0	0	0	11,009	11,009
Total	\$6,624	\$5,944	\$215,192	\$173,311	(\$272,127)	(\$278,486)	\$8,166,416	\$8,226,731	\$8,116,105	\$8,127,500

As shown above, the proposal increases general fund, state special revenue, and proprietary funds and reduces support from federal revenues. LFD Issues on vacancies and restoration of 4% vacancy services within the Technology Services Division and rate impacts are discussed in the Program Narrative for the division.

- CAP rate adjustments provide for increases in the Commissioner's Office/Centralized Services Division budget that is assessed to DOLI divisions through proprietary rates. This request is discussed further under "Proprietary Rates" for the Commissioner's Office. The table below shows the proposed impacts of the higher rates compared to actual division assessments in FY 2014. The proposed increases are included as part of the legislative present law adjustments within each division.

Department of Labor and Industry Commissioner's Office/Centralized Services Division Indirect Cost Adjustment										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Workforce Services Division	\$2,106	\$2,113	\$50,097	\$50,256	\$80,276	\$80,531	\$0	\$0	\$132,479	\$132,900
Unemployment Insurance Division	0	0	17,349	17,014	26,396	27,111	0	0	43,745	44,125
Commissioner's Office/CSD	0	0	0	0	0	0	0	0	0	0
Employment Relations Division	16,473	16,416	116,471	116,728	8,174	8,287	0	0	141,118	141,431
Business Standards Division	0	0	117,262	117,865	0	0	0	0	117,262	117,865
Technology Services Division	0	0	0	0	0	0	0	0	0	0
Office of Community Services	0	0	0	0	0	0	0	0	0	0
Workers' Compensation Court	0	0	4,941	4,868	0	0	0	0	4,941	4,868
Total	\$18,579	\$18,529	\$306,120	\$306,731	\$114,846	\$115,929	\$0	\$0	\$439,545	\$441,189

Overall, charges for indirect costs to the various divisions increase \$0.4 million each year of the biennium when compared to FY 2014 actuals. General fund, state special revenue, and federal funds support the changes.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

For this agency the general fund impact of the 5% plan is \$67,361 and the state special revenue impact is \$1,191,595.

Agency Personal Services

The personal services budget for the 2017 biennium included in HB 2 would increase \$15.0 million or 19.3% when compared to double the FY 2014 actual spending. In addition to annualization of HB 13 salary and benefit adjustments, increases for the 2017 biennium are due to:

- Restoration of the 2% reduction to funding support of personal services
- Change in employer pension costs
- Adjustments for longevity
- An overall vacancy saving rate of 12.8% in HB 2 positions compared to a budgeted 6% vacancy rate
- Reclassification of 129 positions department-wide between the 2015 and 2017 biennia
- Broadband pay increases provided in FY 2014 for market adjustments to bring positions within 15 occupations up to 85% of the 2012 market midpoint and proficiency agreement progression

**LFD
ISSUE**

Proposed FTE Maybe Higher Than Needed Based on Sustained Vacancies In Past Biennia

As shown in the figure on the previous page, vacancy rates within the Workforce Services Division, the Employment Relations Division, the Office of Community Services, the Workers' Compensation Court, the Technology Services Division, and the Commissioner's Office/Centralized Services Division (Commissioner's Office) are above 10% in FY 2014. In FY 2012 the department had a vacancy rate of 8.9%, while in FY 2014 the overall rate was 12.1%. DOLI eliminated 30.02 FTE (4% of FTE funded in HB 2) as part of their compliance with the boilerplate language but still has had high ongoing vacancies.

As of August 13, 2014 51.93 FTE were vacant or 7.5% of the total positions funded in HB 2 in the 2017 biennium. On November 20, 2014 DOLI had 50.12 FTE vacant or 7.3%. A continued high number of vacancies within DOLI provided the agency with flexibility to move positions between programs. In FY 2014 DOLI transferred six vacant employment specialist positions from Workforce Services Division to either the Unemployment Insurance Division or the Commissioner's Office and one vacant administrative assistant from the Employment Relations Division to the Commissioner's Office, allowing the programs to expand without legislative discussion or approval. Another result of having high vacancies is that DOLI does not utilize its full appropriation level in that year. By law an agency can retain up to 30% of money appropriated for that year in HB 2 for personal services, operating expenses, and equipment. The funds may be reappropriated to be spent during the following 2 years for any purpose that is consistent with the goals and objectives of the agency. The funds are considered one-time-only. In FY 2014 DOLI requested and was approved for \$1.5 million in carryforward appropriations related to the unexpended funding from FY 2013.

Agency Number	66020					
Agency Name	Labor & Industry					
	30% of Calculated					
	Administrative Reversion	30% of Actual	30% of Actual GF	30% of Actual SSR	30% of Actual FSR	
Program Name	Amount	Reversions	Reversion	Reversions	Reversions	
Workforce Services Division	823,370	1,959,097	0	220,494	1,738,603	
Unemployment Insurance Division	110,308	111,484	0	54,695	56,789	
Centralized Services Division	38,999	38,411	0	32,632	5,780	
Employment Relations Division	203,135	203,139	0	166,116	37,022	
Business Standards Division	256,789	263,900	0	261,375	2,525	

Office of Community Services	15,921	16,510	32	4,898	11,580
Workers' Compensation Court	10,571	10,571	0	10,571	0
Agency Totals	1,459,093	2,603,112	32	750,781	1,852,299
Maximum Agency Carry Forward Available:	1,459,093				

The figure above shows the programs and funding sources of the carryforward amounts. In other words, in FY 2014 DOLI had \$2.8 million in carryforward authority available for expenditures that were consistent with the agency's goals and objectives. The figure below page shows uses and funding related to carryforward authority for FY 2014.

Department of Labor and Industry Carryforward Funds Expended	
FY 2014	
Operating Expenses	
Consulting and Professional Services	\$100,675
IT Consulting and Professional Services	69,525
Postage and Mailing	2,629
Cellular Phones	603
SITSD Voice Services	734
DOLI Legal Expense	<u>136,983</u>
Total Operating Expenses	311,148
Equipment and Intangible Assets	
Autos and Trucks	<u>511,620</u>
Total Equipment and Intangible Assets	511,620
Total Expenditures	822,768
Funding - State Special Revenues	
Board of Outfitters	32,475
Boilers Program	87,836
Employment Security Account	3,966
Board of Psychologist Exam	5,500
Building Codes	493,309
Private Alternative Adolescent Programs	2,500
Board of Speech Pathologists	2,500
Board of Medical Examiners	<u>194,683</u>
Total Funding	<u>\$822,768</u>

The vast majority of the funding was used to provide additional services for the Business Standards Division with about \$4,000 utilized by the Commissioner's Office for postage and mailing, cellular phones, and SITSD voice services. As stated earlier, current statute allows the agency this discretion.

If the legislature wishes to more closely align funding with program uses it can consider further reducing funding for personal services. In addition to the 30.02 FTE that were eliminated to comply with the boilerplate language in HB 2, the budget proposal includes 9.00 FTE that were vacant all of FY 2014 including:

- 1.00 FTE for an employment specialist

- 1.00 FTE for a program manager
- 2.00 FTE for an unemployment insurance claims examiner
- 1.00 FTE for a training development specialist
- 1.00 FTE for an insurance claims technician
- 1.00 FTE for an occupational health and safety specialist
- 1.00 FTE for a compliance specialist
- 1.00 FTE for an administrative assistant

Funding in the proposed budget associated with these positions is \$541,604 in FY 2016 and \$541,032 in FY 2017. The figure on the next page shows the positions that were vacant on November 11, 2014 and the job listings posted on November 21, 2014. Positions that were eliminated through the boiler plate language from HB 2 passed by the 2013 Legislature are not included in the figure.

Department of Labor and Industry Comparison Between Vacant Positions and Job Listings November 20 and 21, 2014			
Position	FTE	Job Listing	2017 Biennium
			Costs
Administrative Assistant	1.00	Yes	\$106,049
Administrative Specialist	1.50	No	225,659
Benefits Assistant*	0.62	No	57,167
Building Codes Inspectors	5.00	No	621,815
Compliance Specialist	1.00	No	113,674
Computer Application Engineer	2.00	Yes	368,900
Computer Programmer	4.00	No	617,815
Data Processor Clerk**	1.00	No	74,539
Document Imaging Operator	1.00	No	78,331
Employment Specialist	9.50	No	1,023,686
Human Resource Assistant	5.00	No	453,004
Insurance Claims Technician***	1.00	No	112,162
Lawyer	2.00	No	381,187
License Permit Technician	1.50	No	144,631
Occupational Health Safety Specialist	3.00	No	417,249
Operations Research Analyst	2.00	No	308,695
Program Manager	1.00	No	169,839
Secretary	1.00	No	83,358
Training Development Specialist	2.00	No	234,786
Unemployment Insurance Claims Examiner	<u>5.00</u>	<u>No</u>	<u>520,849</u>
Total Positions Vacant	<u>50.12</u>		<u>\$6,113,395</u>
Percentage of Vacancies Advertised	5.99%		
Additional Positions Advertised That Do Not Show As Vacant			
Computer Security Specialist		Yes	
Computer Support Specialist		Yes	
Employment Specialist Supervisor		Yes	
* Reclassified to a UI Claims Examiner			
** Reflects HB 2 portion			
*** Reclassified to an Insurance Claims Examiner			

As shown in the table above, only 5.99% of the vacant positions were advertised on the state job listings site on November 21, 2014. The agency was not actively recruiting for 94% of the vacant positions as of November 21, 2014. While 16.50 FTE (32.9%) show on the human resource system as being vacant since October 2014, the remainder (61%) have been open for longer periods ranging as vacant from December 15, 2012 in one case to September 20, 2014 in another.

Based on the number of vacant positions, the unspent appropriations of \$5.3 million of personal services authority in FY 2014, and the overall high level of vacancies between the last two biennia, the legislature may wish to consider further reducing funding for personal services.

Legislative Option

If the legislature wishes to more closely align funding with program uses it can consider further reducing funding for personal services by eliminating funding for the 9.0 FTE that were vacant in FY 2014 and a portion of the funding related to other vacancies within the agency. The legislature may wish to discuss further reductions with DOLI to ensure agency work load is not impacted.

**LFD
ISSUE**Changes in Budgeting Methodology for Personal Services Results in Proprietary Rate Increases

The 2013 Legislature included boilerplate language in HB 2 outlining its intent that requests for personal services funding in the 2017 biennium be only for the level of personal services contained in the bill for fiscal years 2014 and 2015. The 2013 Legislature included a reduction of 4% in each position funded in HB 2 in DOLI for anticipated reductions of FTE in the 2015 biennium.

The positions within DOLI that are supported by proprietary rates also had vacancy savings included in the calculation of the costs for personal services that were used to establish the budgets or proprietary rates in the 2015 biennium. The figure below shows the total 4% vacancy savings amounts used to reduce personal service costs in the 2015 biennium by program for all appropriation types.

Department of Labor and Industry Vacancy Savings										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total Funds	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
HB 2										
Workforce Services Division	\$0	\$0	(\$222,208)	(\$222,365)	(\$435,375)	(\$436,048)	\$0	\$0	(\$657,582)	(\$658,412)
Unemployment Insurance Division	0	0	(99,390)	(98,321)	(245,431)	(246,578)	0	0	(344,821)	(344,899)
Commissioner's Office/CSD	(6,109)	(6,104)	(6,683)	(6,686)	(12,792)	(12,784)	0	0	(25,584)	(25,574)
Employment Relations Division	(34,618)	(34,651)	(291,400)	(291,761)	(20,049)	(20,054)	0	0	(346,067)	(346,466)
Business Standards Division	0	0	(383,851)	(384,314)	0	0	0	0	(383,851)	(384,314)
Office of Community Services	(2,570)	(2,572)	(107)	(107)	(11,282)	(11,328)	0	0	(13,959)	(14,008)
Worker's Compensation Court	0	0	(20,996)	(21,027)	0	0	0	0	(20,996)	(21,027)
Total HB 2	(43,298)	(43,327)	(1,024,634)	(1,024,581)	(724,929)	(726,792)	0	0	(1,792,861)	(1,794,701)
Proprietary										
Commissioner's Office/CSD	0	0	0	0	0	0	(220,265)	(220,574)	(220,265)	(220,574)
Total Proprietary	0	0	0	0	0	0	(220,265)	(220,574)	(220,265)	(220,574)
Total All Programs and Funding Sources	(\$43,298)	(\$43,327)	(\$1,024,634)	(\$1,024,581)	(\$724,929)	(\$726,792)	(\$220,265)	(\$220,574)	(\$2,013,126)	(\$2,015,275)

As shown, the majority of the 4% reduction assessed in the 2015 biennium was included in the personal services costs supported by HB 2 appropriations. About 10.9% of the vacancy was assessed against positions supported through proprietary rates assessed on other divisions of the agency, including those funded with general fund. In the 2017 biennium the assessment of an equivalent reduction in FTE of 4% is not included as part of the calculation of the positions funded through proprietary rates, increasing the cost of personal services between biennia and therefore the assessments (fixed costs) on the programs within DOLI. This increase is then passed on in higher fixed costs assessments on the agency divisions, including those funded with general fund and the Occupational and Licensing Boards within the Business Standards Division. Occupational and Licensing Boards are supported through license fees to their members that increase as the cost to operate the board increases.

Legislative Option

Should the legislature wish to apply the HB 2 boilerplate language to this proprietary fund and at the same time reduce fixed costs, it could consider eliminating funding supporting the number of FTE that is equal to the total amount of the 4% vacancy savings as was done for the HB 2. This is discussed further in the narrative sections of the applicable divisions.

Recruitment and Retention

DOLI indicates they have had difficulty attracting and retaining qualified applicants in Eastern Montana including Sidney, Glendive, and Wolf Point. The occupations include job service managers, employment specialists, and building codes inspectors. The other area where DOLI has had difficulty recruiting and receiving a qualified applicant pool is in the Technology Services Division. According to DOLI, Information Technology (IT) salaries are highly competitive within state government and DOLI often can't compete with the private sector for IT talent.

Retirements

DOLI indicates that about 44% of their employees are currently eligible for either early or full retirement. In FY 2014 the agency paid \$0.44 million in retirement and sick leave payouts that are not included as part of the 2017 biennium personal services funding.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

For this agency the general fund impact of the 5% plan is \$67,361 and the state special revenue impact is \$1,191,595.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the base budget, by program.

66020 - Department Of Labor & Industry

SUMMARY

FY 2015 Appropriation Transactions - Department of Labor & Industry							
Program	Legislative Approps	Legislative App OTO	House Adjust.	Operating Plan	Program Transfers	Program Reorgs	Total Exec. Implement
Workforce Services	\$32,540,025		-	-	(\$267,089)	(\$1,852,345)	\$30,420,591
Personal Services	16,817,391			-	(242,597)	(512,332)	16,062,462
Operations	6,883,406		(\$27,490)	-	(24,492)	(1,340,013)	5,491,411
Equipment	9,209						9,209
Grants	8,483,517		-				8,483,517
Tranfers	333,399						333,399
Debt Service	13,103		27,490				40,593
Unemployment Ins.	14,474,782			-	169,371	(1,752,689)	12,891,464
Personal Services	9,077,503				173,577	(747,581)	8,503,499
Operations	5,309,934			(7,830)	(4,206)	(1,005,108)	4,292,790
Tranfers	87,345						87,345
Debt Service				7,830			7,830
Commissioner's Office	847,257				99,635	(21,545)	925,347
Personal Services	672,423				70,000	(12,602)	729,821
Operations	174,834				29,635	(8,943)	195,526
Employee Relations	13,278,727	\$225,000		-	(189)	(1,897,931)	11,605,607
Personal Services	8,876,654			200,000		(540,702)	8,535,952
Operations	4,219,799	225,000		(200,000)	(189)	(1,357,229)	2,887,381
Equipment	90,810						90,810
Benefits	91,464						91,464
Business Standards	16,095,429			-	(1,728)	(1,427,422)	14,666,279
Personal Services	9,907,957			(19,128)		(717,038)	9,171,791
Operations	5,846,468			(1,518)	(1,728)	(710,384)	5,132,838
Equipment	298,967						298,967
Grants	8,582						8,582
Tranfers	33,455			(298)			33,157
Debt Service				20,944			20,944
Technology Services				-		6,962,416	6,962,416
Personal Services						2,530,255	2,530,255
Operations				(870)		4,432,161	4,431,291
Debt Service				870			870
Community Services	3,601,485			-		(4,859)	3,596,626
Personal Services	313,059						313,059
Operations	215,000					(4,859)	210,141
Grants	3,073,426			(150,000)			2,923,426
Tranfers				150,000			150,000
Work Comp Court	681,248					(5,625)	675,623
Personal Services	535,263						535,263
Operations	145,985					(5,625)	140,360
Agency Total	\$81,518,953	\$225,000	-	-	-	-	\$81,743,953

As shown in the figure above, DOLI created a new division, Technology Services, by transferring \$6.962 million in appropriation authority from other divisions in the agency. DOLI also transferred 33.00 FTE as part of the reorganizations. The impact of the reorganization on the various divisions is outlined within the program discussion narratives of each division.

DOLI transferred personal services from the Workforce Services Division to two other divisions:

- Unemployment Division received \$173,577 in additional authority
- Commissioner’s Office/Centralized Services Division received \$70,000

DOLI also transferred \$29,635 in operating expenses authority to the Commissioner’s Office/Centralized Services Division. The divisions reducing their authority and amounts transferred include:

- Workforce Services Division - \$24,492
- Unemployment Division - \$4,206
- Employment Relations Division - \$189
- Business Standards Division - \$1,728

In addition, DOLI reduced authority for operating expenses in the Employment Relations Division by \$200,000 and increased personal services authority by the same amount. Authority for local assistance was reduced by \$150,000 in the Office of Community Services while transfers were increased.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$10.0 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- About \$5.3 million less in personal services related to a high number of vacant positions. The percentage of hours worked for positions within DOLI by program are shown in the figure below.

Department of Labor and Industry Vacancy Percentages for FY 2014	
Program	% of Hrs Worked
Workforce Services Division	83.29%
Unemployment Insurance Division	92.22%
Commissioner's Office/CSD	89.53%
Employment Relations Division	88.50%
Business Standards Division	90.93%
Technology Services Division	77.81%
Office of Community Service	81.93%
Workers' Compensation Court	88.88%
Grand Total	87.22%

As shown, six of the divisions had vacancy rates of greater than 10% in FY 2014. In FY 2012 the overall vacancy rate for DOLI was 8.9%. This is discussed further under the Agency Personal Services narrative on the next page.

- Grants agency-wide were \$4.0 million less in FY 2014 actual spending than anticipated in either FY 2015 or FY 2014 legislative appropriations. The majority of the difference is related to the Trade Adjustment Allowance (TAA) funding. TAA is a program created at the federal level to retrain workers who have lost their jobs as a result of foreign trade. TAA offers a number of benefits and services to support workers seeking reemployment including: job training, income support, job search, relocation allowances, and assistance with health care premiums. During the Great Recession this program was expanded to include service sector workers. As that expansion has expired and Montana’s unemployment rate has dropped, the federal grant funding for this service has dropped. Montana received \$0.5 million in FY 2014 compared to an estimated \$5.5 million. The executive proposal incorporates

the projected reductions in this grant source in the 2017 biennium. This reduction is also the main reason for the decrease in federal funds shown in the biennial comparison table on the previous page.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department of Labor & Industry Funding by Source of Authority 2017 Biennium Budget - Department of Labor & Industry					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	4,969,407	0	0	4,969,407	1.05 %
State Special Total	95,447,523	0	1,580,068	97,027,591	20.54 %
Federal Special Total	65,713,572	0	0	65,713,572	13.91 %
Proprietary Total	0	304,569,137	0	304,569,137	64.49 %
Other Total	0	0	0	0	0.00 %
Total All Funds	\$166,130,502	\$304,569,137	\$1,580,068	\$472,279,707	
Percent - Total All Sources	35.18 %	64.49 %	0.33 %		

Almost 57% of the funding for DOLI is non-budgeted proprietary funding for unemployment benefits. State special revenue funds include the employment security account, individual accounts for each professional licensing board or program, and the uninsured employers fund. General fund supports activities within the Workforce Services Division and the Employment Relations Division.

**LFD
ISSUE**Employment Security Account Revenues Above Program Needs

State statute provides for a special administration assessment that is deposited into the Employment Security account. The rate is assessed at varying rates, 0.08% to 0.18% depending on the rate class and type of employer, with separate rates for nonprofits and government employers. Statute outlines the allowed uses of the fund as follows:

- Unemployment insurance benefits
- Administration of the unemployment insurance
- Costs for collecting special administrative assessment
- Cost for employment offices including expenses for providing services to the business community
- Apprenticeship and training programs
- Displaced homemaker services
- Department of Labor and Industry research and analysis programs
- Wage and hour laws, prevailing wages, and collective bargaining expenses of DOLI
- Principal, interest, and redemption of employment security revenue bonds

The figure below shows the revenues, expenditures, and fund balance for the account for the 2015 and 2017 biennia.

Department of Labor and Industry Employment Security Account				
Revenues, Expenditures, Fund Balance	Actual FY 2014	Budgeted FY 2015	Requested FY 2016	Requested FY 2017
Beginning Fund Balance	\$9,989,115	\$5,131,123	\$2,727,306	\$3,192,446
Revenues				
Charges for Services	\$40	\$300	\$300	\$300
Investment Earnings	12,285	7,627	14,416	21,861
Contributions/Premiums	16,252,989	16,900,000	17,188,801	17,532,577
Grants/Transfers/Misc	<u>0</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total Revenues	\$16,265,314	\$16,912,927	\$17,208,517	\$17,559,738
HB 2 Budgeted Expenditures				
Workforce Services Division	\$8,368,911	\$8,517,630	\$9,979,700	\$10,004,482
Unemployment Insurance Division	9,916,894	7,632,250	4,799,453	4,795,862
Commissioner's Office	309,138	603,306	357,476	359,533
Employment Relations Division	1,399,512	1,425,538	1,606,748	1,607,399
Technology Services Division	<u>1,021,264</u>	<u>1,138,020</u>	<u>0</u>	<u>0</u>
Total Expenditures	\$21,015,719	\$19,316,744	\$16,743,377	\$16,767,276
Adjustments	(\$107,587)	\$0	\$0	\$0
Ending Fund Balance	<u>\$5,131,123</u>	<u>\$2,727,306</u>	<u>\$3,192,446</u>	<u>\$3,984,908</u>

It should be noted that FY 2014 actuals for the Workforce Services Division were \$0.7 million below estimates, mainly due to high vacancy rates for employment specialist positions and program managers. If estimates are correct, the fund balance in the account is estimated to be almost \$4.0 million at the end of FY 2017.

In the 2013 and 2015 biennia fund balance was used to pay for the unemployment tax modernization information technology project. Originally this project was to be funded using employment security revenue bonding authority. The agency was able to pay for the project without bonding due to:

- The large fund balance
- Continuing increased revenues
- Decreased costs of the project

In the 2013 biennium the legislature used the employment security account to provide funding for the Jobs for Montana Graduates Programs. The legislature provided an alternative state special revenue source for these purposes in the 2015 biennium in HB 2; however, it failed to approve the companion bill that would have established the funding of the state special revenue account. DOLI used general fund appropriated in SB 410 to fund this program in the 2015 biennium. In the 2017 biennium the executive proposes to increase general fund by \$0.7 million to support these activities.

Legislative Options:

- Reduce the assessment rates for special administrative funds as outlined in 39-51-404, MCA
- Amend statute to expand the uses of the employment security account

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,446,088	1,446,088	2,892,176	58.20 %	81,518,953	81,518,953	163,037,906	98.14 %
PL Adjustments	1,032,480	1,032,183	2,064,663	41.55 %	943,713	1,169,567	2,113,280	1.27 %
New Proposals	6,624	5,944	12,568	0.25 %	499,884	479,432	979,316	0.59 %
Total Budget	\$2,485,192	\$2,484,215	\$4,969,407		\$82,962,550	\$83,167,952	\$166,130,502	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	282.45	282.45	261.50	261.50	282.45	261.50	(20.95)	(7.42)%
Personal Services	13,597,271	16,471,900	16,545,330	16,553,405	30,069,171	33,098,735	3,029,564	10.08 %
Operating Expenses	4,031,881	5,734,973	6,224,085	6,232,313	9,766,854	12,456,398	2,689,544	27.54 %
Equipment & Intangible Assets	12,908	9,209	12,908	12,908	22,117	25,816	3,699	16.72 %
Grants	5,020,870	8,655,517	5,189,036	5,189,036	13,676,387	10,378,072	(3,298,315)	(24.12)%
Transfers	187,966	333,399	44,936	45,114	521,365	90,050	(431,315)	(82.73)%
Debt Service	43,593	40,593	132,381	155,587	84,186	287,968	203,782	242.06 %
Total Costs	\$22,894,489	\$31,245,591	\$28,148,676	\$28,188,363	\$54,140,080	\$56,337,039	\$2,196,959	4.06 %
General Fund	22,908	43,910	647,275	647,340	66,818	1,294,615	1,227,797	1,837.52 %
State/Other Special Rev. Funds	8,444,686	9,431,560	10,093,334	10,118,219	17,876,246	20,211,553	2,335,307	13.06 %
Federal Spec. Rev. Funds	14,426,895	21,770,121	17,408,067	17,422,804	36,197,016	34,830,871	(1,366,145)	(3.77)%
Total Funds	\$22,894,489	\$31,245,591	\$28,148,676	\$28,188,363	\$54,140,080	\$56,337,039	\$2,196,959	4.06 %

Program Description

The Workforce Services Division (WSD) is a gateway to government services including:

- Retraining and reemployment services for laid-off workers
- Employment and training services for people transitioning from welfare to work
- Employment services for youth, veterans, seasonal/migrant farm workers, and general job seekers.

WSD operates through three bureaus: 1) Job Service Operations Bureau coordinates and guides the delivery of workforce development services to communities through a network of 25 Job Service Centers across the state; 2) Statewide Workforce Programs and Oversight Bureau performs oversight, regulatory, fiscal, tracking, registration, and support functions statewide for both state and federal programs; 3) Research and Analysis Bureau works in partnership with the US Department of Labor to provide labor market information that is used at the national and state level by businesses, policy makers, and educators. The bureau also provides kindergarten-adult career resources for use by educators, students, workforce development agencies, and job seekers. Also housed within WSD are the Incumbent Worker Training Program and State Workforce Investment Board (SWIB).

Program Highlights

Workforce Services Division Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes 4.1% increase in the budget between biennia with general fund and state special revenues offsetting reductions in federal funding • Decreases in federal funding are due to: <ul style="list-style-type: none"> ◦ Few qualified participants for the Trade Adjustment Allowance Program ◦ Loss of Department of Education grant • \$0.7 million in general fund is requested to support Jobs for Montana Graduates Program • Workforce Services Division transferred 7.00 FTE and \$1.8 million in appropriation authority to the Technology Services Division as part of a reorganization
Major LFD Issues
<ul style="list-style-type: none"> • Ongoing vacancies indicate additional positions may be eliminated • Two new proposals miscategorized as present law

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The agency summary contains a table showing the differences between the FY 2015 appropriations implemented by the executive compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Labor & Industry - Workforce Services Division FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	\$16,817,391	\$0	\$0		\$0 (\$242,597)	(\$512,332)	\$16,062,462
Operations	6,883,406		(27,490)		(24,492)	(1,340,013)	5,491,411
Equipment	9,209						9,209
Grants	8,483,517						8,483,517
Tranfers	333,399						333,399
Debt Service	13,103		27,490				40,593
Program Total	\$32,540,025	\$0	\$0		\$0 (\$267,089)	(\$1,852,345)	\$30,420,591

The figure for FY 2015 appropriation implemented by the executive doesn't tie to the figure shown in the table above because the executive included \$825,000 of general fund from SB 410. Due to the reorganization of information technology services within DOLI, the division transferred 7.0 FTE, \$0.5 million in personal services and \$1.3 million in operating expenses to the new Technology Services Division (TSD). Other changes include transferring \$242,597 in personal services authority and \$24,492 in operating costs to other divisions within the agency. As outlined in the Agency Discussion, the division was able to transfer personal services authority due to a high number of vacant positions that were not required to operate the Workforce Services Division.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$9.6 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Reorganization that occurred in FY 2014 that transferred \$1.8 million in authority to the new division
- High number of vacancies especially in employment specialists in FY 2014, which impacts personal services, which was \$3.2 million less in FY 2014 actuals than anticipated in the FY 2015 legislative appropriation
- Grants were \$3.4 million less in FY 2014 due to not receiving federal funds for a Department of Education grant and having few qualified participants for the Trade Adjustment Allowance Program

Executive Request

The program budget comparison table shows the impacts of the budget after the transfers of appropriation authority are taken into account. As shown the Workforce Services Division personal services increase \$2.9 million each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Market, proficiency agreement progression, (proficiency agreement progression refers to agreements with employees as part of negotiated settlement, career ladders, or training assignments whereby pay increases can be made if the employee attains specific agreed upon proficiencies) and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 8.7% in FY 2014 compared to a budgeted rate of 4.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in FY 2015
- Reclassification of 18 positions between biennia
- Changes in employer retirement contributions enacted by the 2013 Legislature

LFD COMMENT DOLI proposes to increase operating expenses by \$2.2 million each year of the biennium in the category of unallocated operating expenses. The majority of the operating expense increase is due to a proposal to charge proprietary rates for indirect costs associated with information technology services. The budgeting system has the functional capability to allow agencies to propose spending by expenditure category. For example, proposed increases of \$1.9 million for TSD proprietary rate charges can be categorized as indirect costs. Categorizing projected costs into expenditure categories allows for in-depth comparisons as to where costs were higher or lower than projected in the budget year. The legislature may wish to discuss with the division what specific operating costs the division is anticipating they will incur and to have those specifics included in the legislative budget.

The figure on the following page shows the FY 2014 actual expenditures, the proposed costs for each year of the biennium, and the increase when compared to the FY 2014 actual spending for the programs within the division:

- Job Service Operations Bureau
- Statewide Workforce Programs and Oversight Bureau
- Research and Analysis Bureau

Department of Labor and Industry Workforce Services Division					
Bureau	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change
Job Services Operations					
Personal Services	\$11,357,397	\$13,547,666	19.28%	\$13,553,983	19.34%
Operating Expenses	3,335,626	5,092,799	52.68%	5,100,885	52.92%
Equipment & Intangible Assets	12,908	12,908	0.00%	12,908	0.00%
Grants	2,098,734	2,098,734	0.00%	2,098,734	0.00%
Transfers	187,966	444,936	136.71%	45,114	-76.00%
Debt Service	<u>42,237</u>	<u>131,025</u>	<u>210.21%</u>	<u>154,231</u>	<u>265.16%</u>
Total Job Service Operations Bureau	<u>\$17,034,868</u>	<u>\$21,328,068</u>	<u>25.20%</u>	<u>\$20,965,855</u>	<u>23.08%</u>
Statewide Workforce Programs and Oversight					
Personal Services	\$1,150,529	\$1,526,793	32.70%	\$1,526,859	32.71%
Operating Expenses	319,146	601,726	88.54%	601,852	88.58%
Grants	2,922,136	3,090,302	5.75%	3,090,302	5.75%
Debt Service	<u>1,356</u>	<u>1,356</u>	<u>0.00%</u>	<u>1,356</u>	<u>0.00%</u>
Total Statewide Workforce Program and Oversight	<u>\$4,393,167</u>	<u>\$5,220,177</u>	<u>18.82%</u>	<u>\$5,220,369</u>	<u>18.83%</u>
Research and Analysis					
Personal Services	\$1,089,345	\$1,470,871	35.02%	\$1,472,563	35.18%
Operating Expenses	<u>377,109</u>	<u>529,560</u>	<u>40.43%</u>	<u>529,576</u>	<u>40.43%</u>
Total Research and Analysis	<u>\$1,466,454</u>	<u>\$2,000,431</u>	<u>36.41%</u>	<u>\$2,002,139</u>	<u>36.53%</u>

**LFD
ISSUE**

Ongoing Vacancies in Job Services Operations Indicate Additional Positions May Be Eliminated

As discussed in the LFD Issue on vacancies in the Agency Discussion, the Job Service Operations Bureau has experienced a high number of vacancies within its employment specialists and program managers, and is part of the reason for the increase of \$2.2 million in personal services each year of the 2017 biennium shown in the chart above. As part of its compliance with the boilerplate language the bureau has already reduced 20.00 FTE. Of the 9.00 FTE identified as vacant for all of FY 2014, 2.00 FTE are within the Job Service Operations Bureau, one employment specialist and a program manager with a biennial funding level of \$298,311. In addition, 23.50 FTE at a biennial cost of about \$2.7 million were filled less than 50% of FY 2014 including:

- 17.00 FTE employment specialists
- 3.00 FTE human resource assistants
- 1.00 FTE statistician
- 1.00 FTE training development specialist
- .50 FTE administrative specialist

While the division identified filling positions in eastern Montana as a challenge, examination of the counties where the positions had usage below 50% shows they were spread throughout Montana. The figure below shows the counties where the positions are located, the total number of positions in that county, the number of positions that were filled less than 50% of the time, and the actual percentage of time they were filled in FY 2014.

Department of Labor and Industry Workforce Services Division Location of Positions Below 50% Useage				
County	Total FTE	FTE Low Useage	% of Total FTE	Useage
Broadwater	0.50	0.50	100.00%	8.56%
Cascade	17.00	1.00	5.88%	33.53%
Flathead	28.00	2.00	7.14%	46.18%
Gallatin	14.00	2.00	14.29%	29.86%
Lake	10.00	2.00	20.00%	18.27%
Lewis and Clark	70.01	6.50	9.28%	21.13%
Missoula	29.50	3.00	10.17%	30.89%
Ravalli	8.00	3.00	37.50%	30.41%
Stillwater	3.00	1.00	33.33%	24.75%
Yellowstone	25.50	2.50	9.80%	32.00%
Total	205.51	23.50	11.43%	28.09%

As shown in the above figure, the majority of the positions that were vacant more than 50% of FY 2014 were located in Lewis and Clark County and the counties in western Montana. This would indicate that competition for employees in eastern Montana is not a factor in the majority of the positions with low usage rates.

Legislative Option

If the legislature wishes to reduce personal services for the 2017 biennium it can reduce funding for personal services supporting the 2.0 FTE that were vacant all of FY 2014 and discuss with the division the need for the 23.50 FTE that were filled less than 50% of the during FY 2014.

Statewide Workforce Programs and Oversight Bureau includes the Jobs for Montana Graduates Program. This program was funded through one-time-only appropriations in FY 2014. Annual increases of \$162,510 in operating expenses and \$168,166 in grants are due to the executive’s proposal to fund this program with ongoing general fund in the 2017 biennium.

The executive proposes to increase the budget for the Research and Analysis Bureau by \$62,467 in operating expenses each year of the biennium to support the career resource network, previously funded with one-time-only funds in the 2015 biennium.

<div style="border: 1px solid black; padding: 2px; display: inline-block;">LFD ISSUE</div>	<p><u>Two Present Law Adjustments Should Be Categorized As New Proposals</u></p> <ul style="list-style-type: none"> • WSD restore GF to Jobs for Montana Graduates • WSD Restore ESA to Research Analysis CRN <p>Both functions were funded with state special revenue funds by the 2013 Legislature. The funding sources were dependent on a companion bill to HB 2 which failed to pass the legislature. As a result the agency utilized one-time-only funds from SB 410 as a funding source for the functions. Based on statutory requirements, items that are one-time-only are considered new proposals in the following budget.</p> <p>Legislative Option</p>
---	---

If the legislature decides to adopt the executive's proposal for Jobs for Montana Graduates and the career resource network it may wish to direct staff to re-categorize the proposals as new proposals.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 01-Workforce Services Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,294,615	0	0	1,294,615	2.30 %	
02242 Contracts From PHHS	0	0	0	0	0.00 %	
02245 Jobs For MT's Graduates (JMG)	0	0	0	0	0.00 %	
02252 DoLI Operations Acct	0	0	0	0	0.00 %	
02256 Electrical Apprenticeship	0	0	0	0	0.00 %	
02258 Employment Security Account	19,984,182	0	0	19,984,182	98.88 %	
02455 Workers Comp Regulation	227,371	0	0	227,371	1.12 %	
State Special Total	\$20,211,553	\$0	\$0	\$20,211,553	35.87 %	
03124 Employment Trng Grants	17,613,553	0	0	17,613,553	50.57 %	
03128 L & I Federal Funding	903,217	0	0	903,217	2.59 %	
03131 OSHA Stat Prgm Fed.St Sdy	227,307	0	0	227,307	0.65 %	
03194 Research/Analysis CRN	1,495,886	0	0	1,495,886	4.29 %	
03197 WSD-Dept of Education Grant	0	0	0	0	0.00 %	
03297 Labor And Industry Veteran Gra	1,308,220	0	0	1,308,220	3.76 %	
03338 Contracts From PHHS	0	0	0	0	0.00 %	
03682 Wagner Peyser	11,687,318	0	0	11,687,318	33.55 %	
03692 Alien Labor Certification(ALC)	101,038	0	0	101,038	0.29 %	
03693 Wrk Opportunities Tx Crdt/WOTC	108,711	0	0	108,711	0.31 %	
03694 Trade Adjustment Assist/NAFTA	1,367,025	0	0	1,367,025	3.92 %	
03954 UI Administrative Grants	18,596	0	0	18,596	0.05 %	
03972 WSD-Dept of Justice Grant	0	0	0	0	0.00 %	
Federal Special Total	\$34,830,871	\$0	\$0	\$34,830,871	61.81 %	
06051 Montana Career Info System	0	16,322	0	16,322	100.00 %	
Proprietary Total	\$0	\$16,322	\$0	\$16,322	0.03 %	
Total All Funds	\$56,337,039	\$16,322	\$0	\$56,353,361		

HB 2 Funding

State special revenue

The majority of the state special revenue funding is from the employment security account. The revenue for this account is generated from an administrative assessment against the payrolls of Montana employers. Statute enumerates the uses of the fund, including the operating expenses of the Job Service offices.

Federal revenues

Approximately 62% of the total funding for the Workforce Services Division is from federal special revenue. Nearly 85% of this funding is from two federal programs: Wagner-Peyser Act and Workforce Investment Act. The uses and requirements for these funds are determined by the federal agencies granting the funding.

Proprietary Funds

The proprietary funding is considered and approved as rates charged to entities participating in the Montana Career Information System and are discussed in the "Proprietary Rates" section of the narrative.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	43,910	43,910	87,820	6.78 %	32,540,025	32,540,025	65,080,050	115.52 %
PL Adjustments	603,365	603,430	1,206,795	93.22 %	(6,266,591)	(6,227,894)	(12,494,485)	(22.18)%
New Proposals	0	0	0	0.00 %	1,875,242	1,876,232	3,751,474	6.66 %
Total Budget	\$647,275	\$647,340	\$1,294,615		\$28,148,676	\$28,188,363	\$56,337,039	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----				-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(69,483)	(52,081)	(153,505)	(275,069)	0.00	(69,443)	(49,316)	(148,235)	(266,994)
DP 99 - LEG. Present Law	0.00	672,848	(70,662)	(6,593,708)	(5,991,522)	0.00	672,873	(48,896)	(6,584,877)	(5,960,900)
Grand Total All Present Law Adjustments	0.00	\$603,365	(\$122,743)	(\$6,747,213)	(\$6,266,591)	0.00	\$603,430	(\$98,212)	(\$6,733,112)	(\$6,227,894)

DP 98 - LEG. Personal Services Present Law -

The following table outlines various components of the changes included in the PSPL adjustment.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	261.50	7,960	43,293	75,836	\$127,089
Executive Implementation of 2015 Pay Increase		20,549	92,163	162,207	274,919
Fully Fund 2015 Legislatively Authorized FTE		-	120,778	416,258	537,036
Other					
Reorganization		-	(273,565)	(238,767)	(512,332)
Remainder of Other	0.00	(97,992)	(34,749)	(569,040)	(701,781)
Total Other	0.00	(97,992)	(308,314)	(807,807)	(1,214,113)
Personal Services Present Law Adjustments	261.50	(\$69,483)	(\$52,081)	(\$153,505)	(\$275,069)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	261.50	\$7,960	\$43,293	\$75,836	\$127,089
Executive Implementation of 2015 Pay Increase		20,549	91,808	162,562	274,919
Fully Fund 2015 Legislatively Authorized FTE		-	120,778	416,258	537,036
Other					
Reorganization	0.00	-	(273,565)	(238,767)	(512,332)
Remainder of Other		(97,952)	(31,630)	(564,125)	(693,706)
Total Other	0.00	(97,952)	(305,195)	(802,892)	(1,206,038)
Personal Services Present Law Adjustments	261.50	(\$69,443)	(\$49,316)	(\$148,235)	(\$266,994)

Increases for the implementation of HB 2 and HB 13 are offset by reductions due to the reorganization that created the Technology Services Division. The majority of the remaining reductions occurred due to implementation of the boilerplate language included in HB 2 enacted by the 2013 Legislature.

DP 99 - LEG. Present Law -

The table on the next page shows the executive’s proposal for changes to other costs such as operating expenses and grants.

Legislative Present Law Adjustments				
	FY 2016			
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Jobs for Montana Graduates	\$330,676		\$0	\$330,676
Research Analysis CRN	-	62,467	-	62,467
General Operating Adjustments	(3,246)	60,732	(81,888)	(24,402)
CAP Rate Adjustment	2,106	50,097	80,276	132,479
Bond Reduction	-	(143,030)	-	(143,030)
Other	343,312	(100,928)	(6,592,096)	(6,349,712)
Legislative Present Law Adjustments	\$672,848	(\$70,662)	(\$6,593,708)	(\$5,991,522)
	FY 2017			
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Jobs for Montana Graduates	\$330,676	\$0	\$0	\$330,676
Research Analysis CRN	-	62,467	-	62,467
General Operating Adjustments	(3,246)	88,021	(76,899)	7,876
CAP Rate Adjustment	2,113	50,256	80,531	132,900
Bond Reduction	-	(142,852)	-	(142,852)
Other	343,330	(106,788)	(6,588,509)	(6,351,967)
Legislative Present Law Adjustments	\$672,873	(\$48,896)	(\$6,584,877)	(\$5,960,900)

Federal revenues are reduced due to:

- \$4.5 million reduction each year of the biennium in support for Trade Adjustment Allowance Program that includes a number of expense categories including \$3.3 million in grants
- \$0.8 million each year related to the reorganization

As shown in the figure, the division has offset a portion of the remaining reductions in federal revenues with an increase in general fund support of \$0.3 million each year of the biennium.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101005 - TSD Funding Switch	0.00	0	692,812	1,182,430	1,875,242	0.00	0	693,166	1,183,066	1,876,232
Total	0.00	\$0	\$692,812	\$1,182,430	\$1,875,242	0.00	\$0	\$693,166	\$1,183,066	\$1,876,232

DP 101005 - TSD Funding Switch -

The Workforce Services Division requests \$1,875,242 in FY 2016 and \$1,876,232 in FY 2017 for operating expenses related the reorganization of the Technology Services Division. These costs are the estimated amount Workforce Services Division will be assessed through Technology Services Division rates. This decision package is related to DP6001 of Technology Services Division.

Other Issues -

Proprietary Rates

Montana Career Info System - 06051

Proprietary Program Description

The purpose of Montana Career Information System (MCIS) is to deliver current career and labor market information to Montanans in an easy-to-use and easy-to-understand format. This is the only career information delivery system in the country that has specific Montana labor market information included in each file. MCIS is currently being funded by a College Access Challenge Grant for a wide variety of users: job service offices, vocational rehabilitation offices, high schools, community colleges, universities, tribal colleges, educational and training agencies, home use, and adult education programs. When the grant ends, MCIS will need to seek other funding or resort back to license fees for the basic system. There are currently optional components of MCIS not funded by the grant such as IDEAS (an interest inventory), Peterson Practice Tests, and Dependable Strengths that requires the program to collect fees associated with each component.

Program Narrative

Expenses

The expenses of the proprietary program are limited to the operational expenses of the optional features. These are typically site specific licensing fees.

Revenues

Revenues are generated through fees for purchase of a one year optional component license. The department collects the fees from the sites purchasing the license/assessment, and then pays those fees to the service provider on a 1:1 ratio.

Proprietary Rates

For the 2017 biennium the following rates are proposed by the executive.

Requested Rates for Internal Service Funds					
Fee/Rate Information					
	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:					
(fees are collected from schools and transferred to MCIS contractor on a 1:1 ratio)					
IDEAS Assessment: \$100 per site license, per year	100	100	100	100	100
Dependable Strengths: \$200 per site license, per year	200	200	200	200	200
Peterson's Academic Practice Tests: \$225 per site, per practice test package	225	225	225	225	225
Peterson's Civil Service Practice Test Package \$175 per site	175	175	175	175	175

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	149.50	149.50	148.12	148.12	149.50	148.12	(1.38)	(0.92)%
Personal Services	7,996,743	8,503,499	9,269,869	9,274,412	16,500,242	18,544,281	2,044,039	12.39 %
Operating Expenses	3,534,917	4,292,790	6,530,307	6,511,138	7,827,707	13,041,445	5,213,738	66.61 %
Equipment & Intangible Assets	0	0	0	0	0	0	0	0.00 %
Transfers	0	87,345	0	0	87,345	0	(87,345)	(100.00)%
Debt Service	7,609	7,830	20,350	29,905	15,439	50,255	34,816	225.51 %
Total Costs	\$11,539,269	\$12,891,464	\$15,820,526	\$15,815,455	\$24,430,733	\$31,635,981	\$7,205,248	29.49 %
State/Other Special Rev. Funds	3,490,575	3,612,945	4,813,660	4,810,069	7,103,520	9,623,729	2,520,209	35.48 %
Federal Spec. Rev. Funds	8,048,694	9,278,519	11,006,866	11,005,386	17,327,213	22,012,252	4,685,039	27.04 %
Total Funds	\$11,539,269	\$12,891,464	\$15,820,526	\$15,815,455	\$24,430,733	\$31,635,981	\$7,205,248	29.49 %

Program Description

The Unemployment Insurance (UI) Division administers the state unemployment insurance law and related federal programs, which provide temporary, partial wage replacement to unemployed workers. The division provides services through three bureaus: 1) Contributions; 2) Claims Processing; and 3) Program Support. The Contributions Bureau is responsible for UI employer registration, contribution rate assignments, tax and wage report collection, wage revisions, and employer audits. The Claims Processing Bureau has two claims processing centers (Billings and Helena) that file and process claims (monetary eligibility, issue investigation, adjudication, and employer charging) and respond to all UI claim related inquires. The Claims Processing Bureau is also responsible for Trade Readjustment Assistance, military, federal, and multi-state claims. The Program Support Bureau manages the information technology systems and infrastructure, the division budget and accounting, and the UI trust fund. They also provide management analysis and research for economic, program management, reporting, and legislative purposes in addition to operating tax and benefit quality control, benefit payment control, and integrity programs.

Program Highlights

<p>Unemployment Insurance Division Major Budget Highlights</p>
<ul style="list-style-type: none"> • Executive proposes to increase budget \$7.2 million or 29.5% between the 2015 and 2017 biennium • \$3.0 million of the increase in operating expenses is due to a proposal to create proprietary rates for the newly formed Technology Services Division
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Ongoing vacancies in Unemployment Insurance Division

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the FY 2015 appropriations as shown in the program comparison table on the previous page compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Labor & Industry - Unemployment Division							
FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	\$9,077,503				\$173,577	(\$747,581)	\$8,503,499
Operations	5,309,934			(7,830)	(4,206)	(1,005,108)	4,292,790
Tranfers	87,345						87,345
Debt Service				7,830			7,830
Program Total	\$14,474,782	\$0	\$0	\$0	\$169,371	(\$1,752,689)	\$12,891,464

The majority of the changes are related to the formation of the Technology Services Division. UI transferred 8.00 FTE, \$0.7 million in personal services appropriation authority, and \$1.0 million in operating expenses to the newly formed division. In addition, transfers of \$173,577 in personal services authority were made from the Workforce Services Division increasing funding authority by 2%. DOLI transferred 4.50 FTE from the Workforce Services Division to the Unemployment Insurance Division.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$2.9 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Reorganization in FY 2014 that transferred \$1.8 million in authority to the new division
- High number of vacancies, especially in insurance claims examiners, in FY 2014, which impacts personal services

Executive Request

The program budget comparison table shows the impacts of the proposed budget changes after the transfers of appropriation authority are taken into account. As shown the Unemployment Insurance Division personal services increase \$1.3 million each year of the biennium when compared to FY 2014 actual spending.

In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Market, proficiency agreement progression, and negotiated pay schedule increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Reclassification of 16 positions between biennia
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement

**LFD
ISSUE**

Ongoing Vacancies in Unemployment Insurance Division

The Unemployment Insurance Division has experienced a high number of vacancies within its UI claims examiners. This is part of the reason for the increase of \$1.3 million in personal services, compared to FY 2014 actuals, each year of the 2017 biennium shown in program budget comparison. In FY 2014 UI had 3.00 FTE that were vacant all year including 2.00 FTE for UI claims examiners and 1.00 FTE for a training development specialist.

Similar to the Workforce Services Division vacancies, the ongoing nature of the vacancies, the decreased need for employment services due to the Montana economic recovery as indicated by an unemployment rate of 4.5%, and the use of technology to serve a number of the unemployed are the reason that further reductions in FTE may be indicated. The executive proposes \$332,711 over the biennium to support these positions.

Legislative Option

If the legislature wishes to more closely align spending on personal services with estimated costs for the 2017 biennium it can reduce funding by \$332,711 over the biennium for personal services supporting the 3.0 FTE that were vacant all of FY 2014.

When compared to FY 2014 actual spending, operating costs increase by \$3.0 million each year of the biennium. About \$2.9 million is due to the proposal to implement proprietary rates for the Technology Service Division. As shown in the table on the previous page, the division transferred \$1.0 million in operating expenses and \$0.7 million in personal services to TSD in FY 2014. Both components are included in the rates for the 2017 biennium. Increases to costs of TSD are presented in the "Proprietary Rate" narrative for that division.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 02-Unemployment Insurance Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02258 Employment Security Account	9,595,315	0	0	9,595,315	99.70 %	
02315 DLI Info Exchange/Rental	28,414	0	0	28,414	0.30 %	
State Special Total	\$9,623,729	\$0	\$0	\$9,623,729	3.21 %	
03278 UI PENALTY & INTEREST	1,431,377	0	0	1,431,377	6.50 %	
03954 UI Administrative Grants	20,580,875	0	0	20,580,875	93.50 %	
03967 UI Reed Act	0	0	0	0	0.00 %	
Federal Special Total	\$22,012,252	\$0	\$0	\$22,012,252	7.34 %	
06069 UI Tax Benefit Fund	0	268,417,592	0	268,417,592	100.00 %	
Proprietary Total	\$0	\$268,417,592	\$0	\$268,417,592	89.46 %	
Total All Funds	\$31,635,981	\$268,417,592	\$0	\$300,053,573		

HB 2 Funding

The HB 2 funded functions of the division support the administrative and operational portions of unemployment insurance.

State Special Revenues

The majority of the state special revenues are derived from an assessment charged to employers as a percentage of their payroll and deposited into the employment security account.

Federal Revenues

Unemployment insurance (UI) administrative grants are federal funds that Montana receives for the administration of the unemployment insurance program. Montana businesses pay a federal unemployment tax that is partially used to fund these grants. For further information on the sources and uses of federal unemployment tax see the appendix for the Department of Labor and Industry.

Proprietary Funding

State unemployment taxes (SUTA) are paid into a proprietary account to fund unemployment benefits for claimants. The amount of the tax depends on the ratio of unemployment insurance trust fund balance to the total covered wages in Montana and the employer's experience. Montana uses 11 schedules with 9 contribution rates in each schedule to assess the SUTA. In calendar year 2014 Montana used schedule V, while in calendar year 2015 the rate will be calculated using schedule III, a reduction in costs to Montana employers.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	14,474,782	14,474,782	28,949,564	0.00 %	
PL Adjustments	0	0	0	0.00 %	(1,641,667)	(1,648,607)	(3,290,274)	0.00 %	
New Proposals	0	0	0	0.00 %	2,987,411	2,989,280	5,976,691	0.00 %	
Total Budget	\$0	\$0	\$0		\$15,820,526	\$15,815,455	\$31,635,981		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	14,345	178,021	192,366	0.00	0	15,065	181,844	196,909
DP 99 - LEG. Present Law	0.00	0	(136,770)	(1,697,263)	(1,834,033)	0.00	0	(141,200)	(1,704,316)	(1,845,516)
Grand Total All Present Law Adjustments	0.00	\$0	(\$122,425)	(\$1,519,242)	(\$1,641,667)	0.00	\$0	(\$126,135)	(\$1,522,472)	(\$1,648,607)

DP 98 - LEG. Personal Services Present Law -

The following table outlines various components of the changes included in the PSPL adjustment.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	148.12	\$0	\$15,711	\$56,275	\$71,986
Executive Implementation of 2015 Pay Increase	-	-	33,232	119,033	152,265
Fully Fund 2015 Legislatively Authorized FTE	-	-	35,907	-	35,907
Other	-	-	(70,505)	2,713	(67,793)
Personal Services Present Law Adjustments	148.12	\$0	\$14,345	\$178,021	\$192,366
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	148.12	\$0	\$15,711	\$56,275	\$71,986
Executive Implementation of 2015 Pay Increase	-	-	33,234	119,032	152,265
Fully Fund 2015 Legislatively Authorized FTE	-	-	35,907	-	35,907
Other	-	-	(69,787)	6,537	(63,250)
Personal Services Present Law Adjustments	148.12	\$0	\$15,065	\$181,844	\$196,909

Reductions as shown in table as other are related to the division’s implementation of the boilerplate language contained in HB 2 as enacted by the 2013 Legislature.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, the executive proposes reductions in funding for operating expenses. \$1.0 million of the reduction is due to the reorganization. In total federal funding support for the program was reduced by \$1.5 million a year, \$0.7 million for the reorganization and the remainder due to reduced costs overall in FY 2014 that were carried forward into the 2017 biennial budget.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 202004 - Unemployment Insurance Funding Switch	0.00	0	(31,491)	31,491	0	0.00	0	(31,502)	31,502	0
DP 202005 - TSD Funding Switch	0.00	0	1,068,549	1,918,862	2,987,411	0.00	0	1,068,679	1,920,601	2,989,280
Total	0.00	\$0	\$1,037,058	\$1,950,353	\$2,987,411	0.00	\$0	\$1,037,177	\$1,952,103	\$2,989,280

DP 202004 - Unemployment Insurance Funding Switch -

UI is proposing a fund switch from state special revenue (DLI Info Exchange/ Rental) to federal special revenue (UI Administrative Grants) to be in compliance with federal regulations. UI receives program income from information sharing and is required by federal regulations to use the revenue before requesting funds from the federal grant.

DP 202005 - TSD Funding Switch -

The Unemployment Insurance Division requests \$2,938,012 in FY 2016 and \$2,940,237 in FY 2017 for operating expenses related the reorganization of the Technology Services Division. These costs are the estimated amount Unemployment Insurance Division will be assessed through Technology Services Division rates.

Other Issues -

Proprietary Rates

UI Tax Benefit Fund - 06069

Proprietary Program Description

The Department of Labor and Industry (DLI) collects the contributions paid by employers, based on their industry or individual experience rate, to pay for their Unemployment Insurance. DLI expends the funds by paying Unemployment Insurance benefit claims.

Program Narrative

Expenses

Significant costs for the program are unemployment insurance benefits paid to claimants while unemployed, including federal withholding tax benefits and child support payments the claimants have elected to be taken out of the benefit check. Projected expenses and revenues for the 2015 and 2017 biennia are shown in the following chart.

2017 Biennium Report on Internal Service and Enterprise Funds								
Agency # 66020	Agency Name: Department of Labor & Industry		Program Name: Unemployment Insurance Division					
	Fund	Fund Name						
	06069	UI Tax Benefit Fund						
			Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:								
Fee and Charges								
Revenue A			3,594,398	4,197,229	4,985,071	6,370,000	7,180,000	7,445,000
Revenue B			159,224,666	160,367,957	157,284,437	137,711,000	116,425,000	109,208,000
Revenue C			92,485,617	56,772,451	24,674,343	15,053,000	15,300,000	15,800,000
Total Operating Revenues			255,304,681	221,337,637	186,943,851	159,134,000	138,905,000	132,453,000
Expenses:								
Other Operating Expenses								
			217,829,746	179,826,038	136,174,297	136,155,914	134,208,796	134,208,796
Total Operating Expenses			217,829,746	179,826,038	136,174,297	136,155,914	134,208,796	134,208,796
Operating Income (Loss)			37,474,935	41,511,599	50,769,554	22,978,086	4,696,204	(1,755,796)
Nonoperating Revenues:								
Nonoperating Expenses:								
Total Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers			37,474,935	41,511,599	50,769,554	22,978,086	4,696,204	(1,755,796)
Change in Net Position			37,474,935	41,511,599	50,769,554	22,978,086	4,696,204	(1,755,796)
Beginning Net Position - July 1			100,700,222	138,175,157	179,686,756	230,456,310	253,434,396	258,130,600
Change in Net Position			37,474,935	41,511,599	50,769,554	22,978,086	4,696,204	(1,755,796)
Ending Net Position - June 30			138,175,157	179,686,756	230,456,310	253,434,396	258,130,600	256,374,804
Net Position (Fund Balance) Analysis								

Revenues

The revenues received in the proprietary fund are from unemployment insurance tax collections, federal reimbursement for claims on federal employees, military personnel, claimants in other states, and interest earnings to the Unemployment Insurance Trust Fund. As shown in the figure above, although premiums are projected to fall throughout the 2017 biennium, the fund balance will increase due to the corresponding decrease in unemployment benefit payments associated with the low unemployment rate.

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:				
Unemployment Insurance Premiums	\$157,284,437	\$137,711,000	\$116,425,000	\$109,208,000
Investment Earnings	\$4,985,071	\$6,370,000	\$7,180,000	\$7,445,000
MCA 39-51-1217 sets the rate which the employers are charged contributions for the purpose of paying Unemployment Insurance Benefits.				

Rates and Rate Explanation

The Unemployment Insurance Division administers the state unemployment insurance law. The rate calculation is set in statute under 39-5-1217, MCA.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	10.00	10.00	10.00	10.00	10.00	10.00	0.00	0.00 %
Personal Services	683,259	729,821	840,240	840,616	1,413,080	1,680,856	267,776	18.95 %
Operating Expenses	240,377	195,525	294,772	294,906	435,902	589,678	153,776	35.28 %
Transfers	56	0	56	56	56	112	56	100.00 %
Debt Service	1,194	0	1,194	1,194	1,194	2,388	1,194	100.00 %
Total Costs	\$924,886	\$925,346	\$1,136,262	\$1,136,772	\$1,850,232	\$2,273,034	\$422,802	22.85 %
General Fund	188,863	195,736	250,652	251,144	384,599	501,796	117,197	30.47 %
State/Other Special Rev. Funds	348,698	324,374	416,980	419,972	673,072	836,952	163,880	24.35 %
Federal Spec. Rev. Funds	387,325	405,236	468,630	465,656	792,561	934,286	141,725	17.88 %
Proprietary Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$924,886	\$925,346	\$1,136,262	\$1,136,772	\$1,850,232	\$2,273,034	\$422,802	22.85 %

Program Description

The Commissioner's Office and the Centralized Services Division (Commissioner's Office) provide program direction, legal, administration, and support services to the department's six programs and two administratively attached entities. The Office of Administrative Hearings makes up the majority of the functions provided for in HB 2.

Program Highlights

Commissioner's Office and Centralized Services Division Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes 22.8% increase in Commissioner's Office • Increased personal services costs are due transfer of FTE and authority from other divisions and reclassification of position
Major LFD Issues
<ul style="list-style-type: none"> • Change in budgeting methodology for proprietary rates increase costs of support personal services • Proprietary rates for legal services above levels needed for 60 day working capital balance

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights how the executive implementation of FY 2015 appropriations contained differs from the FY 2015 legislative appropriations used for purposes of the budget base.

66020 - Department Of Labor & Industry03-Commissioner's Office & Centralized Services Division

Department of Labor & Industry - Commissioner's Office							
FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	\$672,423	\$0	\$0	\$0	\$70,000	(\$12,602)	\$729,821
Operations	174,834	-	-	-	29,635	(8,943)	195,526
Program Total	\$847,257	\$0	\$0	\$0	\$99,635	(\$21,545)	\$925,347

The majority of the changes were related to the funding authority that was transferred from other programs to the Commissioner's Office increasing personal services by 10.4% and operating expenses by 16.9%. DOLI transferred 1.00 FTE, an employment specialist position, from the Workforce Services Division to the Commissioner's Office. The Commissioner's Office reclassified the position to a public relations specialist and is requesting support for the new position in HB 2. In addition, the formation of the Technology Services Division meant that the Commissioner's Office transferred \$12,602 in personal services appropriation authority and \$8,943 in operating expenses to the newly formed division from authority provided in HB 2. Funding and related FTE transferred from the proprietary support programs within the Commissioner's Office are discussed in the "Proprietary Rate" section.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$77,629 above the FY 2015 legislative appropriation. The primary reasons for the difference are the transfer of an additional \$99,635 in authority from other divisions in the agency, including \$70,000 for higher personal services costs related to the transfer of an employment specialist. This position was reclassified to a public relations specialist.

Executive Request

The program budget comparison table shows the impacts of the proposed budget changes after the transfers of appropriation authority are taken into account. As shown, the Commissioner's Office personal services increase by about \$157,000 each year of the biennium when compared to FY 2014 actual spending.

In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Market and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium. The majority of these costs are related to reclassifying an administrative support supervisor to a lawyer position
- Vacancy savings that were 10.5% in FY 2014 compared to a budgeted rate of 6.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement

When compared to FY 2014 actual spending, operating costs increase by about \$52,000 each year of the biennium. About \$40,000 is due to the proposal to implement proprietary rates for the Technology Service Division. As shown in the figure above, the division transferred \$8,900 in operating expenses and \$12,600 in personal services to TSD in FY 2014. Both components are included in the rates for the 2017 biennium. Increases to costs of TSD are presented in the "Proprietary Rate" narrative for that division. The remaining increase is due to higher rent costs.

66020 - Department Of Labor & Industry03-Commissioner's Office & Centralized Services Division

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 03-Commissioner's Office & Centralized Services Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	501,796	0	0	501,796	3.21 %	
02190 OCS CBI Training	0	0	0	0	0.00 %	
02233 BSD Hearings	101,099	0	0	101,099	12.08 %	
02258 Employment Security Account	717,009	0	0	717,009	85.67 %	
02315 DLI Info Exchange/Rental	2,142	0	0	2,142	0.26 %	
02455 Workers Comp Regulation	16,702	0	0	16,702	2.00 %	
02833 Board Of Nursing	0	0	0	0	0.00 %	
State Special Total	\$836,952	\$0	\$0	\$836,952	5.36 %	
03122 EEOC	61,068	0	0	61,068	6.54 %	
03124 Employment Trng Grants	0	0	0	0	0.00 %	
03195 On-Site Consultation	0	0	0	0	0.00 %	
03293 Country of Origin Labeling	0	0	0	0	0.00 %	
03322 MT Community Service FSR	0	0	0	0	0.00 %	
03389 ARRA UI Modernization	0	0	0	0	0.00 %	
03694 Trade Adjustment Assist/NAFTA	0	0	0	0	0.00 %	
03954 UI Administrative Grants	873,218	0	0	873,218	93.46 %	
Federal Special Total	\$934,286	\$0	\$0	\$934,286	5.99 %	
06546 Commissioners Office/CSD	0	8,408,282	0	8,408,282	63.05 %	
06552 Admin Services	0	4,927,048	0	4,927,048	36.95 %	
06568 Technical Services	0	0	0	0	0.00 %	
Proprietary Total	\$0	\$13,335,330	\$0	\$13,335,330	85.44 %	
Total All Funds	\$2,273,034	\$13,335,330	\$0	\$15,608,364		

HB 2 Funding

The majority of the funding for HB 2 supports the Hearings Unit. The state special revenue is mainly derived from the assessments on employers deposited into the employment security account. Unemployment insurance administrative grants make up the majority of the federal funding.

Proprietary rates

The Commissioner's Office has two different proprietary funding sources for the operations of the various functions within the office. A discussion of the proposed uses and funding for each of the functions is included under the Proprietary Rates section of the narrative. These funds are considered and approved as rates charged to other divisions within the agency.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	200,351	200,351	400,702	79.85 %	847,257	847,257	1,694,514	74.55 %
PL Adjustments	26,892	27,352	54,244	10.81 %	246,956	247,417	494,373	21.75 %
New Proposals	23,409	23,441	46,850	9.34 %	42,049	42,098	84,147	3.70 %
Total Budget	\$250,652	\$251,144	\$501,796		\$1,136,262	\$1,136,772	\$2,273,034	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	22,716	98,806	46,295	167,817	0.00	22,884	99,064	46,245	168,193
DP 99 - LEG. Present Law	0.00	4,176	74,015	948	79,139	0.00	4,468	76,732	(1,976)	79,224
Grand Total All Present Law Adjustments	0.00	\$26,892	\$172,821	\$47,243	\$246,956	0.00	\$27,352	\$175,796	\$44,269	\$247,417

DP 98 - LEG. Personal Services Present Law -

The following table outlines various components of the changes included in the PSPL adjustment.

66020 - Department Of Labor & Industry03-Commissioner's Office & Centralized Services Division

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	10.00	\$1,074	\$1,666	\$2,120	\$4,860
Executive Implementation of 2015 Pay Increase		3,282	4,913	6,481	14,676
Fully Fund 2015 Legislatively Authorized FTE		-	3,025	-	3,025
Other		18,360	89,202	37,694	145,256
Personal Services Present Law Adjustments	10.00	\$22,716	\$98,806	\$46,295	\$167,817
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	10.00	\$1,074	\$1,666	\$2,120	\$4,860
Executive Implementation of 2015 Pay Increase		3,308	5,166	6,202	14,676
Fully Fund 2015 Legislatively Authorized FTE		-	3,025	-	3,025
Other		18,503	89,207	37,923	145,632
Personal Services Present Law Adjustments	10.00	\$22,884	\$99,064	\$46,245	\$168,193

The executive budget includes transferring one FTE at a costs of \$70,000 a year and reclassifying an administrative support supervisor to a lawyer position. These make up the majority of the cost increases included in the other line in the table.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table above, the executive proposes increased funding for operating expenses when compared to the 2015 legislative base budget. Operating expenses increases include \$16,000 in postage and mailing, \$18,000 in program expenses, and \$31,000 in printing and graphics

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 303001 - TSD Funding Switch	0.00	23,409	13,124	5,516	42,049	0.00	23,441	13,141	5,516	42,098
Total	0.00	\$23,409	\$13,124	\$5,516	\$42,049	0.00	\$23,441	\$13,141	\$5,516	\$42,098

DP 303001 - TSD Funding Switch -

The Centralized Services Division requests \$42,049 in FY 2016 and \$42,098 in FY 2017 for operating expenses related the reorganization of the Technology Services Division. These costs are the estimated amount the Centralized Services Division will be assessed through Technology Services Division rates. This decision package is related to DP6001 of Technology Services Division.

Other Issues -

Proprietary Rates

Program Description

The proprietary programs included in the Commissioner's Office are:

- Centralized Services Division
- Legal Unit

Proposed costs for each program are shown in the figure below.

Department of Labor and Industry Commissioner's Office 2017 Biennium Executive Request					
	FY 2014	FY 2016	% Change	FY 2017	% Change
Legal Unit					
FTE	20.75	20.75	0.00%	20.75	0.00%
Personal Services	\$1,941,783	\$2,091,143	7.69%	\$2,092,581	7.77%
Operating Expenses	351,554	368,413	4.80%	368,473	4.81%
Debt Service	3,219	3,219	0.00%	3,219	0.00%
Total	<u>\$2,296,556</u>	<u>\$2,462,775</u> ✓	<u>7.24%</u>	<u>\$2,464,273</u>	<u>7.30%</u>
Commissioner's Office/Centralized Services					
FTE	33.00	33.00	0.00%	33.00	0.00%
Personal Services	\$2,092,835	\$2,478,613	18.43%	\$2,479,700	18.49%
Operating Expenses	1,396,079	1,807,641	29.48%	1,637,592	17.30%
Debt Service	2,368	2,368	0.00%	2,368	0.00%
Total	<u>\$3,491,282</u>	<u>\$4,288,622</u> ✓	<u>22.84%</u>	<u>\$4,119,660</u>	<u>18.00%</u>

**LFD
ISSUE**

Change in Budgeting Methodology Increases Proprietary Rates to Support Personal Service Costs

As discussed in the agency summary, about 10.9% of the vacancy savings for the agency were assessed against positions supported through proprietary rates. In the 2017 biennium the assessment of an equivalent reduction in FTE of 4% is not included as part of the calculation of the positions funded through proprietary rates, increasing the cost of personal services between biennia and increasing fixed costs in the programs within DOLI. This increase is then passed on in higher fixed costs assessments on divisions including those funded with general fund. In addition the Business Services Division within DOLI is funded through licensing fees charged to licensees. Higher costs for indirect rates is passed on to the licensees.

A 4% vacancy savings assessment in personal services is about \$99,000 a year for the Commissioner' Office and \$84,000 a year for the Legal Unit. A review of the positions within each function shows that within the Commissioner's Office an operations research analyst and a public relations specialist were filled less than 5% of FY 2014. The 2016 budget for these positions is \$117,000 a year. In the Legal Unit a lawyer was filled less than 45% of FY 2014 with a proposed budget of \$106,645.

Legislative Option

If the legislature wishes to reduce the personal service costs supported by proprietary rates by approximately 4% it can consider reducing the rates for the positions that were vacant a significant portion of FY 2014.

Program Description

Supportive services provided by the Commissioner's Office and Centralized Services Division are funded through an indirect cost rate whereby the department programs are assessed a percentage of their personal services costs.

Expenses

As shown in the figure on the previous page, expenses for this program increase by almost 23% in FY 2016 when compared to actual spending in FY 2014. Personal services changes include reclassifying 5.00 FTE or 15% of the positions within the program from one biennium to the next. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Market, proficiency agreement progression, and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 8.5% in FY 2014 compared to a budgeted rate of 4.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in FY 2015
- Changes in employer retirement contributions

Increases in operating expenses are mainly due to the changes proposed as part of the fixed costs increases included in the legislative present law adjustment. Operating expenses also increase due to the proposal to establish proprietary rates for TSD services.

The 2017 Biennium Internal Services and Enterprise Fund Report for this proprietary rate is shown on the following page.

66020 - Department Of Labor & Industry03-Commissioner's Office & Centralized Services Division

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor & Industry			Program Name: Commissioner's Office & Centralized Services Division			
	Fund	Fund Name					
	06546	Commissioners Office/CSD					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		2,243,530	1,396,190	2,154,039	2,094,607	2,542,057	2,542,057
Other Operating Revenue		2,168	758	13,447	680	-	-
Total Operating Revenues		2,245,698	1,396,948	2,167,486	2,095,287	2,542,057	2,542,057
Expenses:							
Personal Services		1,826,372	2,064,569	2,135,509	2,037,667	2,491,156	2,491,156
Other Operating Expenses		1,240,399	1,379,804	1,467,997	1,405,942	1,595,246	1,595,246
Total Operating Expenses		3,066,771	3,444,373	3,603,506	3,443,609	4,086,402	4,086,402
Operating Income (Loss)		(821,073)	(2,047,425)	(1,436,020)	(1,348,322)	(1,544,345)	(1,544,345)
Nonoperating Revenues:							
Other Revenue A		1,372,370	943,700	1,309,029	1,516,785	1,544,345	1,544,345
Nonoperating Expenses:							
Other Expense A		-	(108,370)	(109,101)	-	-	-
Total Nonoperating Revenues (Expenses)		1,372,370	835,330	1,199,928	1,516,785	1,544,345	1,544,345
Income (Loss) Before Contributions and Transfers		551,297	(1,212,095)	(236,092)	168,463	-	-
Transfers Out							
		-	(3,092)	-	-	-	-
Change in Net Position		551,297	(1,215,187)	(236,092)	168,463	-	-
Beginning Net Position - July 1		376,332	927,642	(283,744)	(519,836)	(351,373)	(351,373)
Prior Period Adjustments		13	3,801	-	-	-	-
Change in Net Position		551,297	(1,215,187)	(236,092)	168,463	-	-
Ending Net Position - June 30		927,642	(283,744)	(519,836)	(351,373)	(351,373)	(351,373)
Net Position (Fund Balance) Analysis							

It should be noted that the negative fund balance is related to liabilities established for other post-employment benefits. Accounting standards require states to record the cost of providing health insurance to retirees. In Montana, retirees are responsible for payment of any premiums associated with obtaining health insurance. As a result, the fund will not be required to pay any cost for the \$756,000 liability. Without this entry the fund would have a fund balance of \$406,474.

Revenues

The Commissioner's Office/Centralized Services Division is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based on federally calculated and federally approved indirect cost rates applied to actual personal service expenditures as well as rates charged based on time distribution and full time equivalent positions.

Rates and Rate Explanation

The cost allocation plan (CAP) must be approved by the U.S. Department of Labor, which has requirements including a working capital of no more than 60 days. The rate, which is assessed to personal services expenditures, is determined by calculating the total costs of providing the services divided by the projected department personal services expenditures. The rates requested for the 2017 biennium is 8.07% compared to a FY 2014 rate of 8.00%.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	8.00%	8.00%	8.07%	8.07%

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Admin Services - 06552

Program Description

The Office of Legal Services provides legal assistance to the department's six programs and two administratively attached entities, whereby an hourly rate for attorney fees is established.

Expenses

As shown in the figure on the previous page, expenses for this program increase by slightly more than 7% when compared to the FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Market and proficiency agreement progression increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Employee attainment of longevity milestones in the 2017 biennium

Operating expenses also increase due to the proposal to establish proprietary rates for TSD services.

The 2017 Biennium Internal Services and Enterprise Fund Report for this proprietary rate is shown on the following page.

66020 - Department Of Labor & Industry03-Commissioner's Office & Centralized Services Division

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor & Industry			Program Name: Commissioner's Office & Centralized Services Division			
	Fund	Fund Name					
	06552	Admin Services					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A							
		1,265,397	855,686	2,421,572	2,421,572	2,575,000	2,575,000
Total Operating Revenues							
		1,265,397	855,686	2,421,572	2,421,572	2,575,000	2,575,000
Expenses:							
Personal Services							
		1,034,073	1,089,045	1,995,473	1,728,418	2,012,846	2,073,231
Other Operating Expenses							
		213,586	181,350	396,264	356,980	420,248	420,248
Total Operating Expenses							
		1,247,659	1,270,395	2,391,737	2,085,398	2,433,094	2,493,479
Operating Income (Loss)							
		17,738	(414,709)	29,835	336,174	141,906	81,521
Nonoperating Revenues:							
Nonoperating Expenses:							
Other Expense A							
		(36,874)	(40,810)	(76,567)	-	-	-
Total Nonoperating Revenues (Expenses)							
		(36,874)	(40,810)	(76,567)	-	-	-
Income (Loss) Before Contributions and Transfers							
		(19,136)	(455,519)	(46,732)	336,174	141,906	81,521
Change in Net Position							
		(19,136)	(455,519)	(46,732)	336,174	141,906	81,521
Beginning Net Position - July 1							
		225,958	180,164	(275,355)	(322,087)	14,087	155,993
Prior Period Adjustments							
		(26,658)	-	-	-	-	-
Change in Net Position							
		(19,136)	(455,519)	(46,732)	336,174	141,906	81,521
Ending Net Position - June 30							
		180,164	(275,355)	(322,087)	14,087	155,993	237,514
Net Position (Fund Balance) Analysis							

**LFD
ISSUE**

Proprietary Rates for Legal Services Above Levels Needed for 60 Working Capital Balance

As proposed, the proprietary rates will generate a working capital balance that will be \$118,662 above the 60 day working capital balance at the end of FY 2017. A rate of \$100.50 an hour would reduce the working capital balance to just below the allowable 60 days.

Legislative Option

The legislature may wish to consider approving a lower rate of \$100.50 an hour to ensure the working capital balance stays below 60 days.

Revenues

Revenues for the Office of Legal Services are derived from charges for attorney time incurred by DOLI divisions.

Rates and Rate Explanation

The rate per hour is calculated on projected costs of services for the 2017 biennium divided by the projected direct hours of service to be provided in the 2017 biennium.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	\$95/hour	\$95/hour	\$103/hour	\$103/hour

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	120.60	120.60	118.06	118.06	120.60	118.06	(2.54)	(2.11)%
Personal Services	7,331,777	8,660,951	8,928,180	8,940,007	15,992,728	17,868,187	1,875,459	11.73 %
Operating Expenses	3,176,136	2,887,381	4,930,579	5,079,304	6,063,517	10,009,883	3,946,366	65.08 %
Equipment & Intangible Assets	10,941	90,810	10,941	10,941	101,751	21,882	(79,869)	(78.49)%
Benefits & Claims	100,389	91,464	100,389	100,389	191,853	200,778	8,925	4.65 %
Total Costs	\$10,619,243	\$11,730,606	\$13,970,089	\$14,130,641	\$22,349,849	\$28,100,730	\$5,750,881	25.73 %
General Fund	978,772	1,047,414	1,439,020	1,437,643	2,026,186	2,876,663	850,477	41.97 %
State/Other Special Rev. Funds	8,894,116	9,648,864	11,758,508	11,917,159	18,542,980	23,675,667	5,132,687	27.68 %
Federal Spec. Rev. Funds	746,355	1,034,328	772,561	775,839	1,780,683	1,548,400	(232,283)	(13.04)%
Total Funds	\$10,619,243	\$11,730,606	\$13,970,089	\$14,130,641	\$22,349,849	\$28,100,730	\$5,750,881	25.73 %

Program Description

The Employment Relations Division (ERD) provides five service areas to the public: 1) Workers' Compensation (WC) Regulation Bureau, which regulates WC insurance coverage requirements, policy compliance, medical regulations, contractor registration, and independent contractor exemptions; 2) WC Claims Assistance Bureau, which assists organizations and individuals to arrive at early, less expensive settlements of their disputes, and provides management information on the workers' compensation system; 3) Labor Standards Bureau (and administratively attached Board of Personnel Appeals), which enforces state and federal labor laws related to the payment of wages and provides collective bargaining mediation; 4) Safety and Health Bureau, which administers federal and state industrial safety laws; and 5) Human Rights Bureau (and administratively attached Human Rights Commission), which enforces the Montana Human Rights Act and Governmental Code of Fair Practices through investigations, conciliation, hearings, and education.

Program Highlights

Employment Relations Division Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes to increase budget 25.7% between the 2015 and 2017 biennia • Human Rights Bureau requests restoration of \$250,000 in general fund • Employment Relations Division transferred \$10.00 FTE and \$1.9 million in authority to the newly formed Technology Services Division • Increased operating costs primarily due to a proposal to implement proprietary rates for TSD
Major LFD Issues
<ul style="list-style-type: none"> • Ongoing vacancies indicate additional positions within the division may be eliminated • Misclassification of a new proposal as present law • Budget for administrative assessments based on statutory changes that have not been approved by the legislature

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the executive’s implementation of FY 2015 appropriations as shown in the budget comparison table compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Labor & Industry - Employment Relations Division							
FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	8,876,654			200,000		(540,702)	8,535,952
Operations	4,219,799	225,000		(200,000)	(189)	(1,357,229)	2,887,381
Equipment	90,810						90,810
Benefits	91,464						91,464
Program Total	\$13,278,727	\$225,000	\$0	\$0	(\$189)	(\$1,897,931)	\$11,605,607

The total executive implementaion in the figure above does not tie to the FY 2015 appropriation on the program budget comparison table because the executive inadvertently included \$124,999 of general fund from SB 410. As part of the reorganization to create TSD the Employment Relations Division transferred 10.00 FTE, \$0.5 million in personal services authority, and \$1.4 million in operating expenses. ERD also transferred \$200,000 out of operating expenses to personal services.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$2.7 million below the FY 2015 legislative appropriation. The primary reasons for the differences are:

- Reorganization that occurred in FY 2014 that transferred \$1.9 million in authority to the new division
- High number of vacancies, especially in occupational health specialists, in FY 2014, which impacts personal services

Executive Request

The program budget comparison table shows the impacts of the budget after the transfers of appropriation authority are taken into account. As shown the Employment Relations Division personal services increase \$1.6 million each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Market, proficiency agreement progression, competency, and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 13.1% in FY 2014 compared to a budgeted rate of 6.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2017 biennium
- Reclassification of 11 positions between biennia
- Changes in employer retirement contributions

LFD ISSUE	• <u>Ongoing Vacancies in Employment Relations Division Indicate Additional Positions May Be Eliminated</u>
------------------	---

As discussed in the LFD Issue on vacancies in the Agency Discussion, the Employment Relations Division experienced a high number of vacancies during FY 2014. This is part of the reason for the increase of \$1.6 million in personal services each year of the 2017 biennium as shown in the program budget comparison table. As part of its compliance with the HB 2 boilerplate language the bureau has already reduced 2.54 FTE. Of the 9.00 FTE identified as vacant for all of FY 2014, 2.00 FTE are within the Employment Relations Division including:

- 1.00 FTE occupational health specialist
- 1.00 FTE insurance claims technician

The executive proposes to fund these positions over the biennium at a cost of \$229,632. In addition, 11.00 FTE at a biennial cost of \$1.3 million were filled less than 50% of FY 2014.

Legislative Option

If the legislature wishes to more closely align spending on personal services with estimated costs for the 2017 biennium it can reduce funding by \$229,632 over the biennium for personal services supporting the 2.0 FTE that were vacant all of FY 2014. The legislature may wish to further discuss the need for the 11.00 FTE that were filled less than half of the time in FY 2014.

When compared to FY 2014 actual spending, operating costs increase by \$2.2 million each year of the biennium. About \$1.9 million is due to the proposal to implement proprietary rates for the Technology Services Division. As shown on the figure on the previous page, ERD transferred \$1.9 million in FY 2014 related to information technology services. Cost increases for these services are discussed in the "Proprietary Rates" narrative of the Technology Services Division.

The remaining increase is related to the executive's proposal to increase the proprietary rates for the Commissioner's Office and general fund for the Human Rights Bureau.

LFD ISSUE

Proposal to Restore General Fund to the Human Rights Bureau Should Be a New Proposal

The executive proposes to restore general fund for the Human Right Bureau and includes the decision in as present law. The legislature reduced general fund in the 2015 biennium to ensure that a fund balance in the federal funds supporting this program were fully utilized. This change was designated as one-time-only. Based on statutory requirements, requests for budget authority for functions that were not funded on an ongoing basis (one-time-only) are considered new proposal in the following budget.

Legislative Option

If the legislature decides to adopt the executive's proposal for general fund to support the Human Rights Bureau it may wish to direct staff to re-categorize the proposal as a new proposal.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 04-Employment Relations Division					
Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	2,876,663	0	0	2,876,663	9.24 %
02252 DoLI Operations Acct	0	0	0	0	0.00 %
02258 Employment Security Account	3,214,147	0	0	3,214,147	12.73 %
02263 Subsequent Injury Admin	72,051	0	0	72,051	0.29 %
02315 DLI Info Exchange/Rental	10,990	0	0	10,990	0.04 %
02346 Contractor Registration	2,741,497	0	0	2,741,497	10.86 %
02455 Workers Comp Regulation	14,384,462	0	0	14,384,462	56.96 %
02941 Uninsured Employer Fund	3,252,520	0	1,579,942	4,832,462	19.13 %
State Special Total	\$23,675,667	\$0	\$1,579,942	\$25,255,609	81.11 %
03122 EEOC	416,031	0	0	416,031	26.87 %
03130 Coal Mine Safety	0	0	0	0	0.00 %
03195 On-Site Consultation	1,132,369	0	0	1,132,369	73.13 %
Federal Special Total	\$1,548,400	\$0	\$0	\$1,548,400	4.97 %
06040 Subsequent Injury-Trust Fund	0	1,456,752	0	1,456,752	100.00 %
06096 Stay at work/return to work	0	0	0	0	0.00 %
Proprietary Total	\$0	\$1,456,752	\$0	\$1,456,752	4.68 %
Total All Funds	\$28,100,730	\$1,456,752	\$1,579,942	\$31,137,424	

HB 2 Funding

General fund supports the personal services and general operating costs of the Human Rights Bureau and a small percentage of the overall administration of the division. State special revenue funds include:

- Employment security funds generated through an assessment charged to employers as a percentage of their payroll
- An annual administrative assessment of 3% of all compensation and medical benefits (excluding costs above \$200,000 per claim) paid during the previous calendar year that funds workers' compensation regulation.
- Contractor registration funding supporting the Workers' Compensation Regulation Bureau and a portion of administration. Registration fees for independent contractor exemptions and construction contractor application fees are deposited into the fund
- Uninsured employer fund assessments statutorily set at the premium uninsured employers would have paid had they been carrying workers' compensation insurance, with a minimum penalty of \$200. The funds are used to provide benefits to employees injured on the job while working for an employer that does not carry workers' compensation insurance as required by law

**LFD
ISSUE**

Budget for Administrative Assessments Based on Statutory Changes

The administrative assessment discussed above funds a number of programs within DOLI including the Workforce Services Division, the Commissioner's Office, the Employment Relations Division, and the Workers' Compensation Court. The majority of the funds are allocated to the Employment Relations Division and include:

- Workers' Compensation Regulation Bureau \$2,259,306
- Management Services Bureau \$807,971
- Workers' Compensation Assistance Bureau \$7,116,438
- Safety and Health Bureau \$4,200,747

The funding shown above is for the 2017 biennium. It should be noted that statute requires the fund to be used for the worker's compensation administrative and regulatory functions of DOLI as well as the Worker's Compensation Court.

Statute does not include safety and health functions in the definition of required services. The Safety and Health Bureau provides education, training, and outreach to employers on reducing workplace injuries.

The figure below shows the proposed uses of the fund for the 2017 biennium as well as the actual and appropriated funds in the 2015 biennium.

Department of Labor and Industry Employment Relations Division Workers' Compensation Regulation				
	FY 2014	FY 2015	FY 2016	FY 2017
Beginning Fund Balance	\$5,095,202	\$4,799,010	\$2,835,434	\$1,064,308
Revenues				
Licenses and Permits	35,750	35,750	35,750	35,750
Charges for Services	34,067	37,500	37,500	37,500
Fines and Forfeitures	5,118	7,600	7,600	7,600
Sale of Documents/Mdse/Prop	2,220	0	0	0
Contributions/Premiums	6,962,544	5,887,180	6,123,641	7,894,615
BOI Investment Earning	1,450	0	0	0
Total Revenues	7,041,149	5,968,030	6,204,491	7,975,465
Expenditures				
Workforce Services Division	74,396	87,530	113,634	113,737
Commissioner's Office	6,348	154,801	8,346	8,356
Employment Relation Division	4,978,884	5,502,867	7,113,946	7,270,516
Technology Services Division	1,618,162	1,510,785	0	0
Workers' Compensation Court	632,178	675,623	739,691	738,738
Total Expenditures	7,309,968	7,931,606	7,975,617	8,131,347
Adjustments	(27,373)			
Ending Fund Balance	<u>\$4,799,010</u>	<u>\$2,835,434</u>	<u>\$1,064,308</u>	<u>\$908,426</u>

As shown, the projected revenues from the administrative assessment, shown as contributions/premiums, jumps significantly in FY 2017. The executive's revenue estimate assumes that LC 533, a bill to increase the assessment from 3% to 5% and create a separate assessment to fund the functions of the Safety and Health Bureau within the Employment Relations Bureau, will be passed by the 2015 Legislature.

Without passage of the bill the fund would have a negative fund balance of almost \$1.0 million at the end of FY 2017. If the legislature chooses to fund the bureau from this source it may wish to consider making the funding in FY 2017 contingent on the passage and approval of a bill that increases the amount of revenues to the fund.

Legislative Option

The legislature may wish to make the funding for the Safety and Health Bureau contingent on passage and approval of LC 533.

Proprietary Funds

The division oversees the subsequent injury fund, a proprietary account that assists disabled persons in becoming employed by offering a financial incentive to the employers who hire them. The fund rate is based on the total amount of paid losses reimbursed by the fund in the preceding calendar year.

Statutory Appropriations

Payments for indemnity and medical benefits for workers injured while working for a business that does not carry workers' compensation insurance are statutorily appropriated to the division. The costs of administering the program are included as part of HB 2 appropriations.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
	-----General Fund-----				-----Total Funds-----			
Budget Item	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,070,848	1,070,848	2,141,696	74.45 %	13,278,727	13,278,727	26,557,454	94.51 %
PL Adjustments	345,520	344,143	689,663	23.97 %	(852,805)	(693,368)	(1,546,173)	(5.50)%
New Proposals	22,652	22,652	45,304	1.57 %	1,544,167	1,545,282	3,089,449	10.99 %
Total Budget	\$1,439,020	\$1,437,643	\$2,876,663		\$13,970,089	\$14,130,641	\$28,100,730	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(1,027,851)	1,120,269	(40,892)	51,526	0.00	(1,020,667)	1,130,509	(46,489)	63,353
DP 99 - LEG. Present Law	0.00	1,373,371	(2,401,727)	124,025	(904,331)	0.00	1,364,810	(2,254,431)	132,900	(756,721)
Grand Total All Present Law Adjustments	0.00	\$345,520	(\$1,281,458)	\$83,133	(\$852,805)	0.00	\$344,143	(\$1,123,922)	\$86,411	(\$693,368)

DP 98 - LEG. Personal Services Present Law -

The following table outlines various components of the changes included in the PSPL adjustment.

Personal Services Present Law Adjustments					
	FY 2016				
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	118.06	\$6,499	\$47,589	\$3,289	\$57,377
Executive Implementation of 2015 Pay Increase		18,575	125,127	9,479	153,181
Fully Fund 2015 Legislatively Authorized FTE		-	137,149	-	137,149
Other					
Reorganization	0.00	(7,890)	(529,209)	(3,063)	(540,162)
Restore general fund for Human Rights Bureau	0.00	99,471	-	-	99,471
Remainder of Other	0.00	(1,144,506)	1,339,613	(50,597)	144,510
Total Other	0.00	(1,052,925)	810,404	(53,660)	(296,181)
Personal Services Present Law Adjustments	118.06	(\$1,027,851)	\$1,120,269	(\$40,892)	\$51,526
Personal Services Present Law Adjustments					
	FY 2017				
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	118.06	\$6,499	\$47,589	\$3,289	\$57,377
Executive Implementation of 2015 Pay Increase		18,472	125,125	9,584	153,181
Fully Fund 2015 Legislatively Authorized FTE		-	137,149	-	137,149
Other					
Reorganization	0.00	(7,890)	(529,209)	(3,603)	(540,702)
Restore general fund for Human Rights Bureau	0.00	99,471	-	-	99,471
Remainder of Other	0.00	(1,137,219)	1,349,855	(55,759)	156,877
Total Other	0.00	(1,045,638)	820,646	(59,362)	(284,354)
Personal Services Present Law Adjustments	118.06	(\$1,020,667)	\$1,130,509	(\$46,489)	\$63,353

To determine the funding that should be included as part of the personal services adjustment, changes to the funding were calculated using the funding ratios included in the executive’s adjustments to personal service costs. As shown in the table a funding shift from general fund and federal revenues to state special revenues is included in the adjustment as part of the other line of the table. This reflects the funding of the positions in FY 2014 that is carried forward into the 2017 biennium. As shown below the reduction is offset by changes included for the funding of other expenses such as operating costs.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, the executive proposes decreased funding for operating expenses when compared to the 2015 legislative base budget. The table below shows the components of the changes that occurred in FY 2014 and that are now proposed for the 2017 biennium. It should be noted that part of the proposal is to increase general fund support for the program. The net impact of the funding shifts contained in the two present law adjustments is an overall increase in general fund support for the program of \$345,500 while state special revenues supporting the program are decreased.

Legislative Present Law Adjustments				
	General	State	Federal	Total
	Fund	Special	Special	Funds
CP 99 Item				
HB 334 Generally Revise WC	\$0	\$51,200	\$0	\$51,200
Reorganization	(15,543)	(1,337,411)	(4,275)	(1,357,229)
Rent Adjustment	1,965	15,919	973	18,857
CAP Rate Adjustment	16,473	116,471	8,174	141,118
Other	1,370,476	(1,247,906)	119,153	241,723
Legislative Present Law Adjustments	\$1,373,371	(\$2,401,727)	\$124,025	(\$904,331)
	General	State	Federal	Total
	Fund	Special	Special	Funds
CP 99 Item				
HB 334 Generally Revise WC	\$0	\$51,200	\$0	\$51,200
Reorganization	(15,543)	(1,337,411)	(4,275)	(1,357,229)
Rent Adjustment	2,912	16,396	1,014	20,322
CAP Rate Adjustment	16,416	116,728	8,287	141,431
Other	1,361,025	(1,101,344)	127,874	387,555
Legislative Present Law Adjustments	\$1,364,810	(\$2,254,431)	\$132,900	(\$756,721)

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----				-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 404005 - TSD Funding Switch	0.00	22,652	1,497,673	23,842	1,544,167	0.00	22,652	1,498,788	23,842	1,545,282
DP 404006 - Coal Mine Safety Fund Switch	0.00	0	151,620	(151,620)	0	0.00	0	151,620	(151,620)	0
Total	0.00	\$22,652	\$1,649,293	(\$127,778)	\$1,544,167	0.00	\$22,652	\$1,650,408	(\$127,778)	\$1,545,282

DP 404005 - TSD Funding Switch -

The Employment Relations Division proposes \$1,544,167 in FY 2016 and \$1,545,282 in FY 2017 for operating expenses related the reorganization of the Technology Services Division. These costs are the estimated amount the Employment Relations Division will be assessed through Technology Services Division rates. This decision package is related to DP6001 of Technology Services Division.

DP 404006 - Coal Mine Safety Fund Switch -

The Employment Relations Division is requesting a federal fund switch of \$151,620 in both years of the biennium. The Mine Safety and Health Administration (MSHA) has notified the division that Montana will not be receiving any additional federal mining funds. However, this will not change the current level services for the Safety Bureau of the Montana Department of Labor and Industry. With the lack of federal funding, the Workers' Compensation Fund will have to support the current mine consultation services provided by the Safety Bureau, that was previously paid for using federal MSHA funds.

Other Issues -

Proprietary Rates

Subsequent Injury Trust Fund - 06040

Proprietary Program Description

The Subsequent Injury Fund was established in 1973 to assist disabled persons in becoming employed by offering a financial incentive to the employers who hire them. The incentive has a limit of 104 weeks of benefits paid by their Workers' Compensation carrier in the event of an on-the-job injury to the certified employee, thus minimizing workers' compensation expenses. Beginning July 1, 1999, the fund is maintained by annual assessment of all Montana Workers' Compensation insurers, including self-insured employers, private insurers, and the State Fund. The asset balance is maintained at approximately \$700,000 to provide an operating balance for payment of benefits and administrative costs (39-71-901-920, MCA).

The 2017 Biennium Report on Internal Service and Enterprise Funds is presented on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds							
Fund	Fund Name	Agency #	Program Name				
6040	Subsequent Injury Fund	66020	Employment Relations Division				
				Actual	Budgeted	Budgeted	Budgeted
				FY14	FY15	FY16	FY17
Operating Revenues							
Fees and Charges							
Fee Revenue A	Subsequent Injury Fund Assessment (and Surch		1,018,105	1,500,000	1,500,000	1,500,000	1,500,000
Other Operating Revenues							
Revenue A	Investment Earnings		53	1,000	1,000	1,000	1,000
Revenue B	Securities Lending Income		-				
Revenue C	Other Operating Revenues		302	600	600	600	600
Total Operating Revenues			1,018,460	1,501,600	1,501,600	1,501,600	1,501,600
Expenses							
Personal Services							
Other Operating Expense							
Expense A	Benefits and Claims		689,262	1,000,000	1,250,000	1,250,000	1,250,000
Total Operating Expense			689,262	1,000,000	1,250,000	1,250,000	1,250,000
Operating Income (Loss)			329,198	501,600	251,600	251,600	251,600
Income (Loss) Before Contributions and Transfers			329,198	501,600	251,600	251,600	251,600
Transfers Out			(37,843)	(32,500)	(33,966)	(34,363)	(34,363)
Change in Net Position			291,355	469,100	217,634	217,237	217,237
Beginning Net Position - July 1			(3,484,166)	(3,192,811)	(2,723,711)	(2,506,077)	(2,506,077)
Prior Period Adjustments							
Change in Net Position			291,355	469,100	217,634	217,237	217,237
Ending Net Position - June 30			(3,192,811)	(2,723,711)	(2,506,077)	(2,288,840)	(2,288,840)

It should be noted that the negative fund balance is related to liabilities established for long-term claims payable of \$2.0 million. By statute, insurers are assessed the costs of the benefits, claims, and administration from the preceding year. So in FY 2015 the insurers would be expected to pay \$689,262.

Proprietary Rates

This program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund. The estimate rates for the program are shown on the following page.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Admin Assessment and Surcharge				
Plan I - Insureds (Admin cots & benefits paid to certified claimants)	127,827	216,815	216,815	216,815
Plan II - Insureds (Admin cots & benefits paid to certified claimants)	365,563	574,592	574,592	574,592
Plan III - Old Insureds (Admin cots & benefits paid to certified claimants)	17,557	25,595	25,595	25,595
Plan III - New Insureds (Admin cots & benefits paid to certified claimants)	430,675	682,998	682,998	682,998
The rates are based on the four Workers' Compensation (WC) insurance plans' share of the WC market as compared to the net outlay of the Subsequent Injury Fund (SIF) in a calendar year. Please see 39-71-915, MCA, for particular details.				

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	145.03	145.03	139.88	139.88	145.03	139.88	(5.15)	(3.55)%
Personal Services	8,518,646	9,171,791	9,896,181	9,901,286	17,690,437	19,797,467	2,107,030	11.91 %
Operating Expenses	5,456,672	5,132,838	9,538,611	9,535,786	10,589,510	19,074,397	8,484,887	80.13 %
Equipment & Intangible Assets	326,605	298,967	288,725	288,725	625,572	577,450	(48,122)	(7.69)%
Grants	5,000	8,582	5,000	5,000	13,582	10,000	(3,582)	(26.37)%
Transfers	34,869	33,157	34,869	34,869	68,026	69,738	1,712	2.52 %
Debt Service	21,063	20,944	33,167	42,081	42,007	75,248	33,241	79.13 %
Total Costs	\$14,362,855	\$14,666,279	\$19,796,553	\$19,807,747	\$29,029,134	\$39,604,300	\$10,575,166	36.43 %
State/Other Special Rev. Funds	14,358,965	14,666,279	19,792,040	19,803,223	29,025,244	39,595,263	10,570,019	36.42 %
Federal Spec. Rev. Funds	3,890	0	4,513	4,524	3,890	9,037	5,147	132.31 %
Proprietary Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$14,362,855	\$14,666,279	\$19,796,553	\$19,807,747	\$29,029,134	\$39,604,300	\$10,575,166	36.43 %

Program Description

The Business Standards Division consists of five bureaus: Building Codes Bureau, Weights & Measures Bureau, Board Management Bureau, Licensing Bureau, and Operations Bureau. The Building Codes Bureau establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator, and boiler codes. The bureau also provides support for five licensing programs. The Weights & Measures Bureau is responsible for licensing, inspecting, testing, and certifying all weighing and measuring devices used in making commercial transactions in Montana and enforces laws and regulations pertaining to the quantity control of prepackaged goods, petroleum products, and is responsible for operating the State Metrology Laboratory. The Licensing Bureau and Board Management Bureau provide support for 33 licensing boards, two programs, and the Prescription Drug Registry. The Licensing and Board Management Bureaus include 208 board members and eight advisory council members appointed by the Governor. The Operations Bureau has three units within the Business Standards Division that provide support to the other bureaus and the division.

Program Highlights

Business Standards Division Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes to increase budget by 36.4% between the 2015 and 2017 biennia • Operating expenses increases include: <ul style="list-style-type: none"> ◦ Contracting for Impairment Program and other services ◦ Contingency fund to offset unanticipated board costs ◦ Information Technology contracts ◦ IT maintenance with City of Missoula ◦ Legal cost adjustments for Office of Legal Services within the Commissioner's Office • Business Standards Division transferred 9.00 FTE and \$1.4 million in appropriation authority to the Technology Services Division
Major LFD Issues
<ul style="list-style-type: none"> • Ongoing vacancies within the division indicate the legislature may wish to reduce personal services • Legislature may wish to consider reductions in appropriation authority for accounts with negative fund balances • License fess not commensurate with the costs of operating the program and exceed statutory limits

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the executive’s implementation of FY 2015 appropriations as shown in the program budget comparison table compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Labor & Industry - Business Standards Division FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	\$9,907,957	\$0	\$0	(\$19,128)	\$0	(\$717,038)	\$9,171,791
Operations	5,846,468	-	-	(1,518)	(1,728)	(710,384)	5,132,838
Equipment	298,967	-	-	-	-	-	298,967
Grants	8,582	-	-	-	-	-	8,582
Tranfers	33,455	-	-	(298)	-	-	33,157
Debt Service	-	-	-	20,944	-	-	20,944
Program Total	\$16,095,429	\$0	\$0	\$0	(\$1,728)	(\$1,427,422)	\$14,666,279

The Business Standards Division transferred 9.00 FTE, \$0.7 million in personal services authority, and \$0.7 million in operating expenses to TSD as part of the reorganization. BSD also transferred \$20,944 from other categories to debt service.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$1.7 million below the FY 2015 legislative appropriation. The primary reasons for the differences are:

- Reorganization that occurred in FY 2014 that transferred \$1.4 million in authority to the new TSD
- High number of vacancies, especially in building code inspectors, in FY 2014, which impacts personal services

Executive Request

The program budget comparison table shows the impacts of the budget after the transfers of appropriation authority are taken into account. As shown the Employment Relations Division personal services for the 2017 biennium increase \$1.4 million each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Market and proficiency agreement progression increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 9.7% in FY 2014 compared to a budgeted rate of 6.00%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Reclassification of 19 positions between biennia
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions

LFD ISSUE

Ongoing Vacancies in Business Standards Division

As discussed in the LFD Issue on vacancies in the Agency Discussion, the Business Standards Division experienced a high number of vacancies during FY 2014. This is part of the reason for the increase of \$1.4 million in personal services each year of the 2017 biennium as shown in the program budget comparison table. As part of its compliance with the HB 2 boilerplate language the bureau has already reduced 5.15 FTE. Of the 9.00 FTE identified as vacant for all of FY 2014, 2.00 FTE are within the Business Standards Division including:

- 1.00 FTE compliance specialist
- 1.00 FTE administrative assistant

The executive proposes to fund these positions at a biennial cost of \$221,982. In addition, 8.00 FTE at a biennial cost of \$1.1 million were filled less than 50% of FY 2014. Of these, 6.00 FTE were building inspectors with 5.00 FTE filled only 6% of the time during FY 2014. These 5.00 FTE were located in western Montana, Lewis and Clark, and Sweetgrass counties. Of the 19 positions that were reclassified between biennia, five were budgeted as building code inspectors in the 2015 biennium. It therefore appears the number of building code inspectors currently budgeted may be above the needs of the division.

Legislative Option

If the legislature wishes to more closely align spending on personal services with estimated costs for the 2017 biennium it can reduce funding by \$221,982 over the biennium for personal services supporting the 2.0 FTE that were vacant all of FY 2014. The legislature may wish to further discuss the need for 5.00 FTE building code inspectors based on the low percentage of time these positions were filled in FY 2014.

Operating expenses increase by \$3.9 million annually when compared to FY 2014 actual spending. The executive proposes the following annual increases:

- \$1.6 million for TSD services
- \$0.5 million for authority for a contingency fund to offset unanticipated board costs such as licensee investigations or board legal expenses
- \$0.5 million to implement an impairment program for boards involved in licensing medical professionals

- \$0.3 million for additional legal services for the various boards
- \$0.3 million to provide enhancements to the licensing database
- \$0.2 million for adjustments in cost due to increased volume of applications, renewals, and adjustments to fees

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 05-Business Standards Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02024 Blaster Licensing	29,329	0	0	29,329	0.07 %	
02078 Occupational Therapists	178,867	0	0	178,867	0.45 %	
02079 Fire Protection & Permitting	107,964	0	0	107,964	0.27 %	
02080 Prescription Drug Registry	494,123	0	0	494,123	1.25 %	
02082 Real Estate Recovery Account	0	0	126	126	0.00 %	
02109 Board Of Outfitters	1,137,389	0	0	1,137,389	2.87 %	
02155 BoilerBlasterCrane Licensing	1,339,876	0	0	1,339,876	3.38 %	
02160 Legal Contingency Fund	1,000,000	0	0	1,000,000	2.53 %	
02207 Crane Licensing	232,065	0	0	232,065	0.59 %	
02359 Chemical Dependency Counselors	324,731	0	0	324,731	0.82 %	
02446 Board Of Psychologist Exam	346,662	0	0	346,662	0.88 %	
02448 Building Codes State Spec Rev	8,626,978	0	0	8,626,978	21.79 %	
02580 Bd of Athletic Trainers	45,893	0	0	45,893	0.12 %	
02679 Massage Therapists	462,420	0	0	462,420	1.17 %	
02764 Bd of Adolescent Res. Or Outdr Pgms	170,865	0	0	170,865	0.43 %	
02767 Elevators	979,303	0	0	979,303	2.47 %	
02805 Weights & Measures Bureau	2,741,041	0	0	2,741,041	6.92 %	
02808 Board Of Landscape Architects	53,486	0	0	53,486	0.14 %	
02809 Board Of Speech Pathologists	210,750	0	0	210,750	0.53 %	
02810 Bd Of Radiologic Technologists	222,660	0	0	222,660	0.56 %	
02811 Clinical Lab Science Pract.	161,699	0	0	161,699	0.41 %	
02812 Physical Therapists	273,821	0	0	273,821	0.69 %	
02813 Bd Of Nursing Home Admin	112,715	0	0	112,715	0.28 %	
02814 Bd Of Hearing Aid Dispensers	94,343	0	0	94,343	0.24 %	
02815 Board Of Public Accountants	853,952	0	0	853,952	2.16 %	
02816 Board Of Sanitarians	70,650	0	0	70,650	0.18 %	
02818 Electrical Board	970,688	0	0	970,688	2.45 %	
02819 Board of Realty Regulations	2,226,702	0	0	2,226,702	5.62 %	
02820 Board Of Architects	244,492	0	0	244,492	0.62 %	
02821 Board Of Funeral Service	377,575	0	0	377,575	0.95 %	
02822 Board Of Chiropractors	337,541	0	0	337,541	0.85 %	
02823 Professional Engineers	1,035,711	0	0	1,035,711	2.62 %	
02824 Board Of Medical Examiners	3,423,433	0	0	3,423,433	8.65 %	
02826 Cosmetology Board	1,358,715	0	0	1,358,715	3.43 %	
02828 Board Of Plumbers	710,092	0	0	710,092	1.79 %	
02829 Private Investigator	425,098	0	0	425,098	1.07 %	
02830 Board Of Dentistry	649,673	0	0	649,673	1.64 %	
02831 Board Of Optometrists	111,704	0	0	111,704	0.28 %	
02832 Board Of Pharmacy	2,275,379	0	0	2,275,379	5.75 %	
02833 Board Of Nursing	2,826,950	0	0	2,826,950	7.14 %	
02834 Board Of Veterinarians	385,945	0	0	385,945	0.97 %	
02840 Board Of Social Workers	636,570	0	0	636,570	1.61 %	
02841 Board Of Athletics	39,419	0	0	39,419	0.10 %	
02852 Bd. Of Alternative Health Care	196,456	0	0	196,456	0.50 %	
02854 Bd. Of Real Estate Appraisers	999,716	0	0	999,716	2.52 %	
02855 Bd Of Respiratory Care	91,822	0	0	91,822	0.23 %	
State Special Total	\$39,595,263	\$0	\$126	\$39,595,389	99.98 %	
03293 Country of Origin Labeling	9,037	0	0	9,037	100.00 %	
03509 Prescrip Drug Registry Grant	0	0	0	0	0.00 %	
Federal Special Total	\$9,037	\$0	\$0	\$9,037	0.02 %	
06574 BSD Hearings	0	0	0	0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$39,604,300	\$0	\$126	\$39,604,426		

HB 2 Funding

State special revenue accounts are maintained for each type of licensee and professional board. Charges and fees paid by licensees are deposited to the accounts and administrative and operational expenses of the division are charged directly to the funds.

**LFD
ISSUE**

Legislature May Wish to Consider Reducing Appropriations Authority for Accounts with Negative Fund Balances

A review of the fund balances of the licensing boards shows that a number of the accounts are projected to have a negative fund balance at FYE 2017. The figure below shows the accounts that are estimated to be negative along with the estimated revenues and expenditures. In addition, two other funds are presented that may be negative if the projected revenues are not received.

Department of Labor and Industry Business Standards Division				
Fund Description	Beginning Fund Balance	Biennial Revenues	Biennial Expenditures	Ending Fund Balance
Negative Fund Balances				
Blaster Licensing	(\$12,269)	\$25,840	\$29,329	(\$15,758)
Elevators	(441,867)	1,479,524	979,303	(192,813)
Board of Speech Pathologists	93	209,020	210,750	(1,637)
Weights and Measures	41,246	2,430,000	2,740,891	(269,645)
Professional Engineers	123,446	794,500	1,035,711	(117,765)
Potentially Negative				
Board of Adolescent Residential or Outdoor Programs*	32,429	151,320	170,865	12,864
Board of Athletics**	(5,099)	67,200	39,419	22,682
* Revenues Forecasted to Increase 23% over FY 2014 actuals				
** Revenues Forecasted to Increase 649% over FY 2014 actuals				

Statute requires the division to:

- Provide notice to the board and to the appropriate legislative interim committee when a board cannot operate in a cost effective manner
- Suspend all duties under this title related to the board except for services related to renewal of licenses
- Review the need for a board and make recommendations to the legislative interim committee with monitoring responsibilities for the boards for legislation revising the board’s operations to achieve financial solvency
- Recover the costs by one-time charges against all licensees of the board after providing notice and meeting the requirements under the Montana Administrative Procedures Act

DOLI reported financial concerns to the Economic Affairs Interim Committee (EAIC) for the following boards:

- Board of Hearing Aid Dispensers
- Board of Athletics
- Board of Adolescent Residential or Outdoor Programs
- Board of Funeral Services

While EAIC discussed the various boards it did not adopt a committee bill to make any changes in the boards’ operations to achieve financial solvency. The division did not notify EAIC of concerns with any of the boards showing negative fund balances on the chart above.

As shown on the program budget comparison table, the costs for the 2017 biennium are 35% higher than those of the 2015 biennium. The legislature may wish to discuss the impacts of the increased costs with each of the boards in terms of their anticipated revenues. To ensure the boards will be able to operate within the license fee revenues over the next biennium and address the negative fund balances in the accounts the legislature may wish to discuss cost cutting measures and/or revenue enhancements that will be implemented.

To address their financial situation the boards can:

- Reduce operational costs to ensure the board's costs are within revenues collected, including a discussion of fixed costs assessed on boards for overhead such as division administration costs
- Increase revenues by increasing the costs to the licensees
- Develop a plan that incorporates both components to address their financial situations

If these measures fail to address the issues statute allows the division to suspend all duties for the affected boards except for license renewals and assess a one-time charge against all licensees of the board to recover costs.

The Elevator Licensing Program, Blaster Licensing Program, and Weights and Measures Bureau do not have an associated board and thus are not included as entities under the statute that outlines how to address financial solvency issues. The Elevator Licensing Program has had a negative fund balance since FY 2009. The ending fund balance for this account was (\$381,306) in FY 2014. Given that half of the programs with projected financial solvency issues do not have boards, the legislature may wish to consider revising statute to include programs without boards in the notification and monitoring of fiscal solvency issues.

Legislative Option

The legislature may wish to:

- Discuss with the affected boards a plan to reduce costs and related appropriation authority and/or increase revenues for those accounts that have a negative fund balance projected in the 2017 biennium to ensure the programs operate within their revenues
- Request a bill draft to include licensing programs without boards under the statute addressing financial solvency of licensing boards

LFD ISSUE

License Fees Not Commensurate with Costs of Operating the Program

Statute requires that each board set the license fees to be commensurate with the costs of operating the licensing program. Statute further requires that the division ensure that fund balances not exceed twice the annual appropriations of the licensing program. The Office of Budget and Program Planning reported to the Legislative Finance Committee that a number of the licensing boards had exceeded their statutory limits. The figure below shows the funds, excess cash amounts, and plans to reduce the excess cash in FY 2015. It should be noted that this is the second biennium in a row that the fire protection and permitting account has had excess cash above the statutory limits.

Department of Labor and Industry Business Standards Division Fund Balance Above the Statutory Limit				
Board	Budgeted Authority	Statutory Limit	Excess Cash	Explanation of how excess will be used
Fire Protection & Permitting	\$138,311	\$176,248	\$37,937	Staff allocations have been revised and a vacant position will be filled in FY 2015.
Board of Athletic Trainers	51,954	55,610	3,656	In FY 2015, the board will be investing in training for board members.
Board of Landscape Architects	66,882	72,663	2,813	Board member development and increased personal services expenditures will return cash to a more normal level.
Board of Nursing Home Administrators	64,988	71,341	6,353	Board member development and increased personal services expenditures will return cash to a more normal level.
Board of Pharmacy	1,682,880	2,115,240	432,360	The board plans to abate fees in FY 2015 in order to spend down cash.
Total	\$2,005,015	\$2,491,102	\$483,119	

Legislative Option

The legislature may wish to review the fund balances when it convenes in January to determine if the planned uses of the excess funds are reducing the balances sufficiently to meet statutory requirements.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	16,095,429	16,095,429	32,190,858	0.00 %
PL Adjustments	0	0	0	0.00 %	1,481,949	1,478,176	2,960,125	0.00 %
New Proposals	0	0	0	0.00 %	2,219,175	2,234,142	4,453,317	0.00 %
Total Budget	\$0	\$0	\$0		\$19,796,553	\$19,807,747	\$39,604,300	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	(12,821)	1,045	(11,776)	0.00	0	(8,340)	1,669	(6,671)
DP 99 - LEG. Present Law	0.00	0	1,490,257	3,468	1,493,725	0.00	0	1,481,992	2,855	1,484,847
Grand Total All Present Law Adjustments	0.00	\$0	\$1,477,436	\$4,513	\$1,481,949	0.00	\$0	\$1,473,652	\$4,524	\$1,478,176

DP 98 - LEG. Personal Services Present Law -

The following table outlines various components of the changes included in the PSPL adjustment.

Personal Services Present Law Adjustments					
CP 98 PSPL Item	FY 2016				
	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	139.88	\$0	\$67,953	\$28	\$67,982
Executive Implementation of 2015 Pay Increase	-	-	166,245	68	166,313
Fully Fund 2015 Legislatively Authorized FTE	-	-	186,175	-	186,175
Other					
Reorganization	0.00	-	(717,038)	-	(717,038)
Remainder of Other	0.00	-	283,844	949	284,793
Total Other	0.00	-	(433,194)	949	(432,245)
Personal Services Present Law Adjustments	139.88	\$0	(\$12,821)	\$1,045	(\$11,775)
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	139.88	\$0	\$67,953	\$28	\$67,982
Executive Implementation of 2015 Pay Increase	-	-	166,243	69	166,313
Fully Fund 2015 Legislatively Authorized FTE	-	-	186,175	-	186,175
Other					
Reorganization	0.00	-	(717,038)	-	(717,038)
Remainder of Other	0.00	-	288,326	1,571	289,897
Total Other	0.00	-	(428,712)	1,571	(427,141)
Personal Services Present Law Adjustments	139.88	\$0	(\$8,340)	\$1,669	(\$6,671)

Increases included on the line remainder of other provide for changes in employee classification, market, and proficiency agreement progressions, and employee attainment of longevity milestones in the 2017 biennium.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, the executive proposes increased funding for operating expenses when compared to the 2015 legislative base budget. The table below shows the components of the changes proposed for the 2017 biennium.

Legislative Present Law Adjustments				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Impairment Program and Other Consulting	\$0	\$528,537	\$0	\$528,537
IT Consulting Services	-	331,550	-	331,550
Montana Interactive Online Service Fees	-	34,959	-	34,959
Operating & Equipment Adjustments	-	399,147	-	399,147
IT Maintenance with City of Missoula	-	110,000	-	110,000
Moter Vehicle for Boards	-	6,704	-	6,704
CAP Rate Adjustment	-	117,262	-	117,262
Legal Cost Adjustment	-	340,500	-	340,500
Other	-	(378,402)	3,468	(374,934)
Legislative Present Law Adjustments	\$0	\$1,490,257	\$3,468	\$1,493,725
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
Impairment Program and Other Consulting	\$0	\$518,537	\$0	\$518,537
IT Consulting Services	-	333,000	-	333,000
Montana Interactive Online Service Fees	-	90,791	-	90,791
Operating & Equipment Adjustments	-	343,432	-	343,432
IT Maintenance with City of Missoula	-	110,000	-	110,000
Moter Vehicle for Boards	-	6,704	-	6,704
CAP Rate Adjustment	-	117,865	-	117,865
Legal Cost Adjustment	-	340,500	-	340,500
Other	-	(378,837)	2,855	(375,982)
Legislative Present Law Adjustments	\$0	\$1,481,992	\$2,855	\$1,484,847

The executive proposes a number of increases for the Business Standards Division as reflected in the table above. The Governor proposes to increase the Business Standards Division by \$7.4 million compared to double the 2015 legislative base budget. Present law increases of \$3.00 million include proposals to:

- Re-establish a contract to provide an impairment program for medical professionals and new contracts for training, license examinations, and database enhancements
- Information technology consulting services, maintenance costs, and online service fees
- Operating and equipment adjustments including anticipated increases for travel, printing, phones, dues, and gasoline. These costs are partially offset by a reduction in vehicle maintenance fees due to the purchase of new vehicles
- Aligning legal fees to actual spending incurred in FY 2014

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 505012 - Contingency for BSD (BIEN/RST)	0.00	0	500,000	0	500,000	0.00	0	500,000	0	500,000
DP 505013 - TSD Funding Switch	0.00	0	1,578,175	0	1,578,175	0.00	0	1,593,142	0	1,593,142
DP 505014 - Prescription Drug Registry	0.00	0	141,000	0	141,000	0.00	0	141,000	0	141,000
Total	0.00	\$0	\$2,219,175	\$0	\$2,219,175	0.00	\$0	\$2,234,142	\$0	\$2,234,142

DP 505014 - Prescription Drug Registry -

This request is for authority to administer the prescription drug registry program in the Business Standards Division. It is dependent on passage of LC 526 amending funding of the prescription drug registry and amending 37-7-1511, MCA.

DP 505012 - Contingency for BSD (BIEN/RST) -

Business Standards Division is requesting \$500,000 in state special revenue authority as restricted and one-time only each year of the biennium to establish a contingency fund to be used by the boards when experiencing an unexpected increase in expenses. This appropriation would be restricted to expenses that related to investigation, compliance, or legal activity of the boards. The boards would be required to spend their existing cash when utilizing the appropriation.

LFD ISSUE	<u>Appropriation for Contingency Not Restricted or One-time-only</u>
	While the executive proposes to provide the contingency as restricted and one-time-only HB 2 as proposed by the Governor does not include a line-item for the funds with either designation. Nor does the bill include language restricting the funding.
	Legislative Option
	If the legislature approves the inclusion of a contingency it may wish to line item the funding, restrict it uses to funding for unexpected increases in expenses and designate the funds as one-time-only.

DP 505013 - TSD Funding Switch -

The Business Standards Division requests \$1,578,175 in FY 2016 and \$1,593,142 in FY 2017 for operating expenses related to the reorganization of the Technology Services Division. These costs are the estimated amount the Business Standards Division will be assessed through Technology Services Division rates. This decision package is related to DP6001 of Technology Services Division.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	33.00	33.00	0.00	0.00	33.00	0.00	(33.00)	(100.00)%
Personal Services	2,032,307	2,530,255	0	0	4,562,562	0	(4,562,562)	(100.00)%
Operating Expenses	5,811,595	4,431,291	0	0	10,242,886	0	(10,242,886)	(100.00)%
Debt Service	1,011	870	0	0	1,881	0	(1,881)	(100.00)%
Total Costs	\$7,844,913	\$6,962,416	\$0	\$0	\$14,807,329	\$0	(\$14,807,329)	(100.00)%
General Fund	31,465	30,172	0	0	61,637	0	(61,637)	(100.00)%
State/Other Special Rev. Funds	4,412,484	4,411,031	0	0	8,823,515	0	(8,823,515)	(100.00)%
Federal Spec. Rev. Funds	3,400,964	2,521,213	0	0	5,922,177	0	(5,922,177)	(100.00)%
Proprietary Funds	0	0	0	0	0	0	0	0.00%
Total Funds	\$7,844,913	\$6,962,416	\$0	\$0	\$14,807,329	\$0	(\$14,807,329)	(100.00)%

Program Description

The Technology Services Division (TSD) provides information technology services and support for the department including IT project management, application development, and network services.

Program Highlights

Technology Services Division Major Budget Highlights
<ul style="list-style-type: none"> • DOLI created the Technology Services Division in FY 2014 transferring 33.00 FTE and \$6.9 million in appropriation authority from other divisions • Executive proposes to create a proprietary rate to support the IT services within DOLI and eliminate funding and FTE from HB 2

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

As discussed elsewhere and shown in the following table, as part of the executive's implementation of FY 2015 appropriations DOLI created the Technology Services Division. The reorganization in FY 2014 provided 33.00 FTE, \$2.5 million in personal services, and \$4.4 million in operating expenses to the newly created division.

Department of Labor & Industry - Technology Services Division							
FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	\$0	\$0	\$0	\$0	\$0	\$2,530,255	\$2,530,255
Operations	-	-	-	(870)	-	4,432,161	4,431,291
Debt Service	-	-	-	870	-	-	870
Program Total	\$0	\$0	\$0	\$0	\$0	\$6,962,416	\$6,962,416

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$7.8 million above the FY 2015 legislative appropriation as the legislature did not contemplate the creation of TSD.

Executive Request

The executive proposes to remove this function from HB 2 by establishing a proprietary rate for the services provided by TSD. This proposal is discussed further in the "Proprietary Rate" section of the narrative.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 06-Technology Services Division						
Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	0	0	0	0	0.00 %	
02024 Blaster Licensing	0	0	0	0	0.00 %	
02078 Occupational Therapists	0	0	0	0	0.00 %	
02079 Fire Protection & Permitting	0	0	0	0	0.00 %	
02080 Prescription Drug Registry	0	0	0	0	0.00 %	
02109 Board Of Outfitters	0	0	0	0	0.00 %	
02155 BoilerBlasterCrane Licensing	0	0	0	0	0.00 %	
02207 Crane Licensing	0	0	0	0	0.00 %	
02233 BSD Hearings	0	0	0	0	0.00 %	
02258 Employment Security Account	0	0	0	0	0.00 %	
02263 Subsequent Injury Admin	0	0	0	0	0.00 %	
02315 DLI Info Exchange/Rental	0	0	0	0	0.00 %	
02346 Contractor Registration	0	0	0	0	0.00 %	
02359 Chemical Dependency Counselors	0	0	0	0	0.00 %	
02446 Board Of Psychologist Exam	0	0	0	0	0.00 %	
02448 Building Codes State Spec Rev	0	0	0	0	0.00 %	
02455 Workers Comp Regulation	0	0	0	0	0.00 %	
02580 Bd of Athletice Trainers	0	0	0	0	0.00 %	
02679 Massage Therapists	0	0	0	0	0.00 %	
02764 Bd of Adolescent Res. Or Outdr Pgms	0	0	0	0	0.00 %	
02767 Elevators	0	0	0	0	0.00 %	
02805 Weights & Measures Bureau	0	0	0	0	0.00 %	
02808 Board Of Landscape Architects	0	0	0	0	0.00 %	
02809 Board Of Speech Pathologists	0	0	0	0	0.00 %	
02810 Bd Of Radiologic Technologists	0	0	0	0	0.00 %	
02811 Clinical Lab Science Pract.	0	0	0	0	0.00 %	
02812 Physical Therapists	0	0	0	0	0.00 %	
02813 Bd Of Nursing Home Admin	0	0	0	0	0.00 %	
02814 Bd Of Hearing Aid Dispensers	0	0	0	0	0.00 %	
02815 Board Of Public Accountants	0	0	0	0	0.00 %	
02816 Board Of Sanitarians	0	0	0	0	0.00 %	
02818 Electrical Board	0	0	0	0	0.00 %	
02819 Board of Realty Regulations	0	0	0	0	0.00 %	
02820 Board Of Architects	0	0	0	0	0.00 %	
02821 Board Of Funeral Service	0	0	0	0	0.00 %	
02822 Board Of Chiropractors	0	0	0	0	0.00 %	
02823 Professional Engineers	0	0	0	0	0.00 %	
02824 Board Of Medical Examiners	0	0	0	0	0.00 %	
02826 Cosmetology Board	0	0	0	0	0.00 %	
02828 Board Of Plumbers	0	0	0	0	0.00 %	
02829 Private Investigator	0	0	0	0	0.00 %	
02830 Board Of Dentistry	0	0	0	0	0.00 %	
02831 Board Of Optometrists	0	0	0	0	0.00 %	
02832 Board Of Pharmacy	0	0	0	0	0.00 %	
02833 Board Of Nursing	0	0	0	0	0.00 %	
02834 Board Of Veterinarians	0	0	0	0	0.00 %	
02840 Board Of Social Workers	0	0	0	0	0.00 %	
02841 Board Of Athletics	0	0	0	0	0.00 %	
02852 Bd. Of Alternative Health Care	0	0	0	0	0.00 %	
02854 Bd. Of Real Estate Appraisers	0	0	0	0	0.00 %	
02855 Bd Of Respiratory Care	0	0	0	0	0.00 %	
02941 Uninsured Employer Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03122 EEOC	0	0	0	0	0.00 %	
03124 Employment Trng Grants	0	0	0	0	0.00 %	
03128 L & I Federal Funding	0	0	0	0	0.00 %	
03130 Coal Mine Safety	0	0	0	0	0.00 %	
03131 OSHA Stat Prgm Fed.St Sdy	0	0	0	0	0.00 %	
03194 Research/Analysis CRN	0	0	0	0	0.00 %	
03195 On-Site Consultation	0	0	0	0	0.00 %	
03278 UI PENALTY & INTEREST	0	0	0	0	0.00 %	
03297 Labor And Industry Veteran Gra	0	0	0	0	0.00 %	
03322 MT Community Service FSR	0	0	0	0	0.00 %	
03682 Wagner Peyser	0	0	0	0	0.00 %	
03692 Alien Labor Certification(ALC)	0	0	0	0	0.00 %	
03693 Wrk Opportunities Tx Crdt/WOTC	0	0	0	0	0.00 %	
03694 Trade Adjustment Assist/NAFTA	0	0	0	0	0.00 %	
03954 UI Administrative Grants	0	0	0	0	0.00 %	

Federal Special Total	\$0	\$0	\$0	\$0	0.00 %
06546 Commissioners Office/CSD	0	0	0	0	0.00 %
06552 Admin Services	0	0	0	0	0.00 %
06568 Technical Services	0	21,343,141	0	21,343,141	100.00 %
Proprietary Total	\$0	\$21,343,141	\$0	\$21,343,141	100.00 %
Total All Funds	\$0	\$21,343,141	\$0	\$21,343,141	

HB 2

The executive proposes to eliminate over \$8.0 million in HB 2 funding annually for this program and shift the funding to a proprietary rate.

Proprietary Rates

The executive proposes to establish a proprietary rate for this function. This proposal is discussed further in the "Proprietary Rate" section of the narrative.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	42,941	43,653	86,594	0.00 %	8,186,735	8,226,177	16,412,912	0.00 %
New Proposals	(42,941)	(43,653)	(86,594)	0.00 %	(8,186,735)	(8,226,177)	(16,412,912)	0.00 %
Total Budget	\$0	\$0	\$0		\$0	\$0	\$0	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	14,357	1,618,104	1,170,336	2,802,797	0.00	14,533	1,620,789	1,167,945	2,803,267
DP 99 - LEG. Present Law	0.00	28,584	3,107,658	2,247,696	5,383,938	0.00	29,120	3,134,836	2,258,954	5,422,910
Grand Total All Present Law Adjustments	0.00	\$42,941	\$4,725,762	\$3,418,032	\$8,186,735	0.00	\$43,653	\$4,755,625	\$3,426,899	\$8,226,177

DP 98 - LEG. Personal Services Present Law -

Present law adjustments for personal services are related to the transfer of 33.00 FTE and related personal services appropriation authority. This was done in order to create the Technology Services Division.

DP 99 - LEG. Present Law -

Present law adjustments for operating costs are for the transfer of appropriation authority from other divisions to the Technology Services Division.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 606001 - TSD Funding Switch	(33.00)	(42,941)	(4,725,762)	(3,418,032)	(8,186,735)	(33.00)	(43,653)	(4,755,625)	(3,426,899)	(8,226,177)
Total	(33.00)	(\$42,941)	(\$4,725,762)	(\$3,418,032)	(\$8,186,735)	(33.00)	(\$43,653)	(\$4,755,625)	(\$3,426,899)	(\$8,226,177)

DP 606001 - TSD Funding Switch -

This decision package is related to the department TSD funding switch. The executive proposes to utilize proprietary funding for this function within the agency.

Other Issues -

Technical Services - 06568

Program Description

The division provides technical services, network services, help desk, project management, and application services including computer programming and database management.

Expenses

The costs of the program were included in HB 2. The figure below shows the actual costs for FY 2014 and proposed costs for FY 2016 and FY 2017.

Department of Labor and Industry Information Services Division							
Fund Sources	Actual FY 2014	Present Law Adjustments	Proposed FY 2016	% Change	Present Law Adjustments	Proposed FY 2017	% Change
HB 2							
Personal Services	\$2,032,037	\$770,490	\$0	100.00%	\$770,960	0	100.00%
Operating Expenses	5,811,595	(428,668)	0	100.00%	(389,696)	0	100.00%
Debt Service	<u>1,011</u>	<u>0</u>	<u>0</u>	<u>100.00%</u>	<u>0</u>	<u>0</u>	<u>100.00%</u>
Total HB 2	7,844,643	341,822	0	100.00%	381,264	0	100.00%
Proprietary Funds							
Technology Services							
Personal Services	1,566,437	255,443	1,821,880	16.31%	258,151	1,824,588	16.48%
Operating Expenses	585,829	49,212	635,041	8.40%	51,817	637,646	8.85%
Debt Service	<u>5,537</u>	<u>0</u>	<u>5,537</u>	<u>0.00%</u>	<u>0</u>	<u>5,537</u>	<u>0.00%</u>
Total Technology Services	2,157,803	304,655	2,462,458	14.12%	309,968	2,467,771	14.36%
Application Services*							
Personal Services	0	2,802,797	2,802,797	37.93%	2,803,267	2,803,267	37.95%
Operating Expenses	0	5,382,927	5,382,927	-7.38%	5,421,899	5,421,899	-6.71%
Debt Service	<u>0</u>	<u>1,011</u>	<u>1,011</u>	<u>0.00%</u>	<u>1,011</u>	<u>1,011</u>	<u>0.00%</u>
Total Application Services	0	8,186,735	8,186,735	4.36%	8,226,177	8,226,177	4.86%
Total Proprietary Funds**							
Personal Services	1,566,437	3,058,240	4,624,677	28.52%	3,061,418	4,627,855	28.61%
Operating Expenses	585,829	5,432,139	6,017,968	-5.93%	5,473,716	6,059,545	-5.28%
Debt Service	<u>5,537</u>	<u>1,011</u>	<u>6,548</u>	<u>0.00%</u>	<u>1,011</u>	<u>6,548</u>	<u>0.00%</u>
Total Application Services	<u>\$2,157,803</u>	<u>\$8,491,390</u>	<u>\$10,649,193</u>	<u>6.47%</u>	<u>\$8,536,145</u>	<u>\$10,693,948</u>	<u>6.91%</u>
* % Change measured from FY 2014 actuals in HB 2							
** % Change includes FY 2014 actuals in HB 2							

Personal services increase about 28.5% each year between FY 2014 actual spending and the 2017 biennium. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Proficiency agreement progression and negotiated pay schedule increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 21.2% in FY 2014 compared to a budgeted rate of 4.0%; the executive proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Reclassification of 30 positions or 54.5% of the total FTE for the program between biennia
- Employee attainment of longevity milestones in FY 2015
- Changes in employer retirement passed by the 2013 Legislature

Operating expenses decrease when compared to FY 2014 actual spending mainly due to reductions for SITSD services.

Revenues

The 2017 Biennium Report on Internal Services and Enterprise Funds is shown in the figure on the following page.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor & Industry		Program Name: Technology Services Division				
	Fund	Fund Name					
	06568	Technical Services					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues:							
Fee and Charges							
Fee Revenue A		2,120,247	1,743,663	2,070,990	2,070,990	11,251,813	11,293,960
Total Operating Revenues		2,120,247	1,743,663	2,070,990	2,070,990	11,251,813	11,293,960
Expenses:							
Personal Services		1,506,989	1,460,046	1,560,023	1,467,599	4,624,549	4,627,866
Other Operating Expenses		380,594	456,980	586,140	579,604	6,429,264	6,468,094
Total Operating Expenses		1,887,583	1,917,026	2,146,163	2,047,203	11,053,813	11,095,960
Operating Income (Loss)		232,664	(173,363)	(75,173)	23,787	198,000	198,000
Nonoperating Revenues:							
Nonoperating Expenses:							
Other Expense A		(58,560)	(66,298)	(71,067)	(77,815)	(84,069)	(90,322)
Total Nonoperating Revenues (Expenses)		(58,560)	(66,298)	(71,067)	(77,815)	(84,069)	(90,322)
Income (Loss) Before Contributions and Transfers		174,104	(239,661)	(146,240)	(54,028)	113,931	107,678
Change in Net Position		174,104	(239,661)	(146,240)	(54,028)	113,931	107,678
Beginning Net Position - July 1		8,748	182,852	(56,809)	(203,049)	(257,077)	(143,146)
Change in Net Position		174,104	(239,661)	(146,240)	(54,028)	113,931	107,678
Ending Net Position - June 30		182,852	(56,809)	(203,049)	(257,077)	(143,146)	(35,468)
Net Position (Fund Balance) Analysis							

Revenue for this fund is collected via four separate indirect cost rates. The rates include the following:

- The Technical Services Rate is an indirect cost rate, assessed monthly on department FTE. It is calculated by dividing the total anticipated expenses of the program by the total FTE per month, resulting in a per FTE cost. When calculating the rate, the numerator (total anticipated expenses of the program) can be increased or decreased to account for over or under collections in previous years.
- The Application Services Rate is an indirect cost rate, assessed monthly on direct regular hours charged by application services staff. It is calculated by dividing the total anticipated expenses of the program by the total anticipated annual hours resulting in a per hour cost.
- The Enterprise Services Rate is calculated on specific SITSD services that benefit the department as a whole. The total budgeted SITSD rate for a portion of Asset Broker, Enterprise Services, Equipment hosting, Operational Support, Server, and Storage hosting services are allocated back to divisions based on FTE percentages.
- The Direct Services Rate is calculated on all other SITSD services and department contracted services and allocated back to the benefiting division based on actual expenditures. This is the only rate not federally negotiated as it is a pass through of actual expenses. The rates charged must be approved each fiscal year by the USDOL Federal Cost Negotiator. The actual rate charged can differ from the requested rate due to the fact that estimates can be more accurate the closer we get to the year in question. Historically, the rate actually charged has been less than the legislatively approved rate.

Proprietary Rates

TSD proposes to assess the following charges to the divisions within DOLI.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:				
Requested Direct Rate			84	84
Requested Indirect Rate	192	192	256	256
Requested Enterprise Rate			964,715	968,791
Requested Direct Actuals			\$ 4,102,160	\$ 4,107,207

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

LFD COMMENT	The proposed rate above does not include funding for proposed work included in the Business Services Division budget for enhancements to the database. The legislature may wish to discuss the impacts on the requested direct actuals rate if it approves the proposals included in the Business Services Division budget.
--------------------	---

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00 %
Personal Services	233,301	363,059	289,705	289,169	596,360	578,874	(17,486)	(2.93)%
Operating Expenses	151,057	210,141	169,048	169,067	361,198	338,115	(23,083)	(6.39)%
Grants	2,420,936	2,923,426	2,660,000	2,660,000	5,344,362	5,320,000	(24,362)	(0.46)%
Transfers	110,621	150,000	232,000	232,000	260,621	464,000	203,379	78.04 %
Total Costs	\$2,915,915	\$3,646,626	\$3,350,753	\$3,350,236	\$6,562,541	\$6,700,989	\$138,448	2.11 %
General Fund	125,207	128,855	148,245	148,088	254,062	296,333	42,271	16.64 %
State/Other Special Rev. Funds	12,965	77,232	12,965	12,965	90,197	25,930	(64,267)	(71.25)%
Federal Spec. Rev. Funds	2,777,743	3,440,539	3,189,543	3,189,183	6,218,282	6,378,726	160,444	2.58 %
Total Funds	\$2,915,915	\$3,646,626	\$3,350,753	\$3,350,236	\$6,562,541	\$6,700,989	\$138,448	2.11 %

Program Description

The Governor’s Office of Community Service (OCS) was created by the 1993 Legislature, at the request of the Governor, with the mission to renew the ethic of civic responsibility in the state, to engage citizens in service, and support volunteer opportunities focused on critical community needs. The OCS provides administration for the Corporation for National and Community Service’ AmeriCorps state programs and creates opportunities for individuals to engage in their community. OCS also administers the ReadyMontana initiative, a statewide effort to encourage individual disaster preparedness.

Program Highlights

Office of Community Services Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes to increase Office of Community Services by 2.1% between 2015 and 2017 biennia • Federal funds for special projects provide for the majority of the increase

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Labor and Industry Office of Community Services FY 2015 Appropriation Transactions				
Category	Legislative Appropriation	Category Adjustments	Reorganization	Total Executive Implementation
Personal Services	\$313,059	\$0	\$0	\$313,059
Operating Expenses	215,000	0	(4,859)	210,141
Grants	3,073,426	(150,000)	0	2,923,426
Transfers	0	150,000	0	150,000
Total Costs	<u>\$3,601,485</u>	<u>\$0</u>	<u>(\$4,859)</u>	<u>\$3,596,626</u>

The total executive implementation shown in the figure above does not tie to the FY 2015 appropriation shown on the program budget comparison table because the executive included \$50,000 of general fund provided in SB 410. The main change in the FY 2015 legislative appropriations was a category adjustment that moved \$150,000 of grants authority to transfers. The remaining change was due to the reorganization.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$0.7 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Personal services were below anticipated levels due to a 6.2% vacancy savings rate
- Operating expenses were about \$60,000 less than anticipated in several categories including:
 - \$17,000 in other services mainly in temporary services and printing
 - \$11,000 in communications for television advertising
 - \$36,000 in other expenses mainly in scholarships and fellowships, and educational grants
- Grants for special projects were \$0.5 million below anticipated levels due to not receiving \$750,000 of federal funding to support the Montana Campus Corps, Program Training, and Disability Inclusion Efforts.

Executive Request

The program budget comparison table shows the impacts to the budget after the transfers of appropriation authority are taken into account. Overall, the executive's request is \$0.5 million higher than FY 2014 actual spending. Personal services increase about \$56,000 each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Proficiency agreement progression, and strategic pay increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 6.2% in FY 2014 compared to a budgeted rate of 6.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions

When compared to FY 2014 actual spending, operating costs increase by about \$68,000 each year of the biennium. About \$7,500 is due to the proposal to implement proprietary rates for the Technology Service Division. As shown in the table above, the division transferred \$4,859 in operating expenses to TSD in FY 2015. The remaining increases are due to fixed costs paid to other state agencies and the Commissioner's Office/CSD.

Grants for special projects related to AmeriCorps grants to local communities increases \$239,000 when compared to FY 2014 actual spending.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 07-Office of Community Services Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	296,333	0	0	296,333	4.42 %	
02190 OCS CBI Training	25,930	0	0	25,930	100.00 %	
02252 DoLI Operations Acct	0	0	0	0	0.00 %	
State Special Total	\$25,930	\$0	\$0	\$25,930	0.39 %	
03322 MT Community Service FSR	6,378,726	0	0	6,378,726	100.00 %	
03339 Office of Community Svcs SSR	0	0	0	0	0.00 %	
Federal Special Total	\$6,378,726	\$0	\$0	\$6,378,726	95.19 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$6,700,989	\$0	\$0	\$6,700,989		

The majority of the funding for the program is provided through federal AmeriCorp grants. General fund and state special revenue fund most of the administrative expenses for the program, with federal revenue providing the remainder, including the funding for grants and special projects administered by the program.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	130,979	130,979	261,958	88.40 %	3,601,485	3,601,485	7,202,970	107.49 %
PL Adjustments	13,762	13,605	27,367	9.24 %	(258,298)	(258,815)	(517,113)	(7.72)%
New Proposals	3,504	3,504	7,008	2.36 %	7,566	7,566	15,132	0.23 %
Total Budget	\$148,245	\$148,088	\$296,333		\$3,350,753	\$3,350,236	\$6,700,989	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	1,244	(1,290)	(23,308)	(23,354)	0.00	1,256	(1,317)	(23,829)	(23,890)
DP 99 - LEG. Present Law	0.00	12,518	(12,977)	(234,485)	(234,944)	0.00	12,349	(12,950)	(234,324)	(234,925)
Grand Total All Present Law Adjustments	0.00	\$13,762	(\$14,267)	(\$257,793)	(\$258,298)	0.00	\$13,605	(\$14,267)	(\$258,153)	(\$258,815)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	4.00	\$603	\$0	\$1,341	\$1,944
Executive Implementation of 2015 Pay Increase		1,532	-	3,410	4,943
Fully Fund 2015 Legislatively Authorized FTE		-	40	-	40
Other		(891)	(1,330)	(28,060)	(30,281)
Personal Services Present Law Adjustments	4.00	\$1,244	(\$1,290)	(\$23,308)	(\$23,354)
FY 2017					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	4.00	\$603	\$0	\$1,341	\$1,944
Executive Implementation of 2015 Pay Increase		1,532	-	3,410	4,943
Fully Fund 2015 Legislatively Authorized FTE		-	40	-	40
Other		(879)	(1,357)	(28,580)	(30,817)
Personal Services Present Law Adjustments	4.00	\$1,256	(\$1,317)	(\$23,829)	(\$23,890)

DP 99 - LEG. Present Law -

As shown in the present law table, the executive is proposing a reduction in federal funding from the 2015 legislative base budget. As previously discussed, these reductions are mainly due to changes in federal support for grant programs.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 707002 - TSD Funding Switch	0.00	3,504	0	4,062	7,566	0.00	3,504	0	4,062	7,566
Total	0.00	\$3,504	\$0	\$4,062	\$7,566	0.00	\$3,504	\$0	\$4,062	\$7,566

DP 707002 - TSD Funding Switch -

The Office of Community Services requests \$7,566 in FY 2016 and \$7,566 in FY 2017 for operating expenses related the reorganization of the Technology Services Division. These costs are the estimated amount the Office of Community Services will be assessed through Technology Services Division rates. This decision package is related to DP6001 of Technology Services Division.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	7.00	7.00	7.00	7.00	7.00	7.00	0.00	0.00 %
Personal Services	494,589	535,263	580,378	579,450	1,029,852	1,159,828	129,976	12.62 %
Operating Expenses	137,589	140,360	156,998	156,973	277,949	313,971	36,022	12.96 %
Debt Service	0	0	2,315	2,315	0	4,630	4,630	0.00 %
Total Costs	\$632,178	\$675,623	\$739,691	\$738,738	\$1,307,801	\$1,478,429	\$170,628	13.05 %
State/Other Special Rev. Funds	632,178	675,623	739,691	738,738	1,307,801	1,478,429	170,628	13.05 %
Total Funds	\$632,178	\$675,623	\$739,691	\$738,738	\$1,307,801	\$1,478,429	\$170,628	13.05 %

Program Description

The Workers' Compensation Court, created on July 1, 1975, provides a forum for Montana employees, employers, and the insurance industry to resolve disputes arising from work-related injuries and occupational diseases. The court is attached to the department for administrative purposes only.

Program Highlights

Workers' Compensation Court Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes to increase budget for Workers' Compensation Court by 13% in 2017 biennium when compared to the 2015 biennium • Personal services increases are due to annualized pay and longevity

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The only change made by the agency in relation to the FY 2015 legislative appropriation was to transfer \$5,625 to the newly created Technology Services Division.

Department of Labor & Industry - Work Comp Court FY 2015 Appropriation Transactions							
Program	Legislative Approps	Legislative App OTO	House Adjustment	Operating Plan	Program Transfers	Reorgs	Total Exec. Implement
Personal Services	\$535,263	\$0	\$0	\$0	\$0	\$0	\$535,263
Operations	145,985	-	-	-	-	(5,625)	140,360
Program Total	\$681,248	\$0	\$0	\$0	\$0	(\$5,625)	\$675,623

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$49,070 below the FY 2015 legislative appropriation. Primary reasons for the difference are the transfer of operating expense authority discussed above and a vacancy rate of 10.9% due to the appointment of Judge Shea to the Supreme Court.

Executive Request

The program budget comparison table shows the impacts of the budget after the transfers of appropriation authority are taken into account. Overall, the executive’s request includes an increase of \$0.1 million from FY 2014 actual spending. Personal services increase about \$86,000 each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Proficiency agreement progression and strategic pay increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 11.1% in FY 2014 compared to a budgeted rate of 6.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions

Operating expenses increase about \$19,000 each year of the biennium. About \$7,500 is due to the proposal to implement proprietary rates for the Technology Service Division. As shown in the table on the previous page, the division transferred \$4,859 in operating expenses to TSD in FY 2015. The remaining increases are due to higher rates paid to the Commissioner’s Office/Centralized Services Division and estimates of increased costs for video conferencing, reference materials, and travel.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Labor & Industry, 09-Workers Compensation Court Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02455 Workers Comp Regulation	1,478,429	0	0	1,478,429	100.00 %	
State Special Total	\$1,478,429	\$0	\$0	\$1,478,429	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$1,478,429	\$0	\$0	\$1,478,429		

The court is entirely funded with state special revenue derived from a fee charged to workers compensation carriers in Montana. The fee is passed on to Montana business when their workers’ compensation premiums are determined by the carriers.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	681,248	681,248	1,362,496	0.00 %	
PL Adjustments	0	0	0	0.00 %	47,434	46,481	93,915	0.00 %	
New Proposals	0	0	0	0.00 %	11,009	11,009	22,018	0.00 %	
Total Budget	\$0	\$0	\$0		\$739,691	\$738,738	\$1,478,429		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	45,115	0	45,115	0.00	0	44,187	0	44,187
DP 99 - LEG. Present Law	0.00	0	2,319	0	2,319	0.00	0	2,294	0	2,294
Grand Total All Present Law Adjustments	0.00	\$0	\$47,434	\$0	\$47,434	0.00	\$0	\$46,481	\$0	\$46,481

DP 98 - LEG. Personal Services Present Law -

The following table outlines various components of the changes included in the PSPL adjustment.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	7.00	\$0	\$3,402	\$0	\$3,402
Executive Implementation of 2015 Pay Increase	-	-	10,117	-	10,117
Fully Fund 2015 Legislatively Authorized FTE	-	-	10,067	-	10,067
Other	-	-	21,529	-	21,529
Personal Services Present Law Adjustments	7.00	\$0	\$45,115	\$0	\$45,115
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	7.00	\$0	\$3,402	\$0	\$3,402
Executive Implementation of 2015 Pay Increase	-	-	10,117	-	10,117
Fully Fund 2015 Legislatively Authorized FTE	-	-	10,067	-	10,067
Other	-	-	20,601	-	20,601
Personal Services Present Law Adjustments	7.00	\$0	\$44,187	\$0	\$44,187

Increases reflected in the other line of the table include strategic pay adjustments and proficiency agreement progression that were not included in the 2015 legislative base, projected longevity milestone attainment in the 2017 biennium, and full funding of positions in the 2017 biennium.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table above, the executive proposes increased operating expenses when compared to the 2015 legislative base budget.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 909003 - TSD Funding Switch	0.00	0	11,009	0	11,009	0.00	0	11,009	0	11,009
Total	0.00	\$0	\$11,009	\$0	\$11,009	0.00	\$0	\$11,009	\$0	\$11,009

DP 909003 - TSD Funding Switch -

The Worker's Compensation Court requests \$11,009 in FY 2016 and \$11,009 in FY 2017 for operating expenses related the reorganization of the Technology Services Division. These costs are the estimated amount the Worker's Compensation Court will be assessed through Technology Services Division rates. This decision package is related to DP6001 of Technology Services Division.

The Legislative Fiscal Division Presents an Agency Profile of:

The Department of Military Affairs

Contact: Kris Wilkinson, Senior Fiscal Analyst
Rm. 131, State Capitol Building
Phone: (406) 444-2722
E-mail: kwilkinson@mt.gov

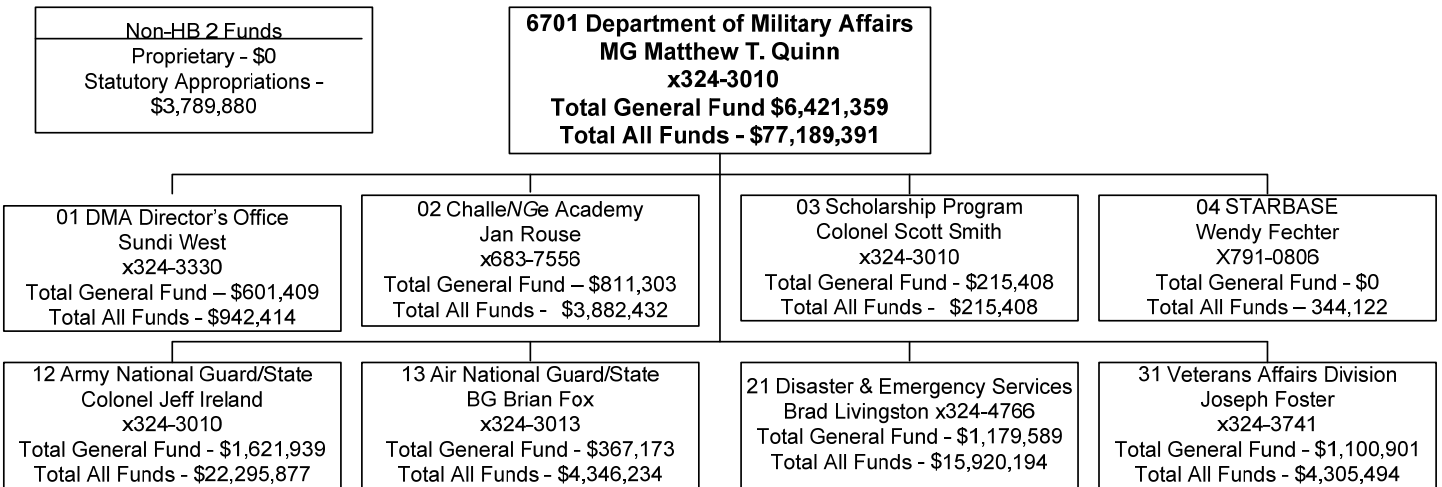
Updated August 2014

Agency Description

Definition of Terms

The Department of Military Affairs (DMA), administered by the Adjutant General, oversees activities of the Air and Army National Guard, Disaster and Emergency Services, and the National Guard Youth ChalleNGe program. The Montana Board of Veterans' Affairs is administratively attached to the department. The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty.

The Disaster and Emergency Services Division plans for and coordinates state responses in disaster and emergency situations (all-hazards emergency management). The Board of Veterans' Affairs manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families and is responsible for the three state veterans' cemeteries. The National Guard Youth ChalleNGe Program is focused on at-risk youth, 16-18 years of age, who are no longer enrolled in high school or are considering withdrawing from school. The ChalleNGe program provides values, skills, education, and self-discipline in a quasi-military modeled training environment.



How Services are Provided

The Department of Military Affairs consists of eight divisions/programs with the following functions:

- Army National Guard (ARNG) provides trained and equipped military units for use in the event of state or federal mobilization, maintains numerous military facilities in Montana, plans and contracts for construction of military facilities and training areas, and provides statewide communication services, security contracts, and leases for buildings and land used by ARNG.
- Air National Guard under dual state/federal mandates provides trained and equipped military air units for use in event of state or federal mobilization, including wildfire support.
- Youth Challenge Program operates an education program for “at risk” youth ages 16 to 18 who have dropped out of high school. The program teaches both life skills and academics (leading to GED completion) in a military-modeled training program.
- Department of Defense’s STARBASE Program hosts 5th grade students at Fort Harrison and Gore Hill (Great Falls) for a week long “hands on” “minds on” experience. The program curriculum provides inquiry based instruction in Science, Technology, Engineering, and Math (STEM) and STEM career fields.
- Disaster and Emergency Services (DES) is responsible for statewide disaster planning and preparedness activities and coordination of federal, state, and volunteer assistance to communities, local and tribal governments in the event of an incident, emergency, or disaster.
- Veterans Affairs Program assists discharged veterans and their families regarding veteran benefits and administers three veteran cemeteries located in Montana. The Board of Veterans’ Affairs is administratively attached to the Department of Military Affairs.
- Centralized Services Division provides comprehensive administrative support for all department divisions, programs, and functions.
- Montana National Guard Scholarship Program provides scholarship awards to enlisted Montana National Guard troops enrolled as full-time undergraduate students in colleges, universities, or training programs.

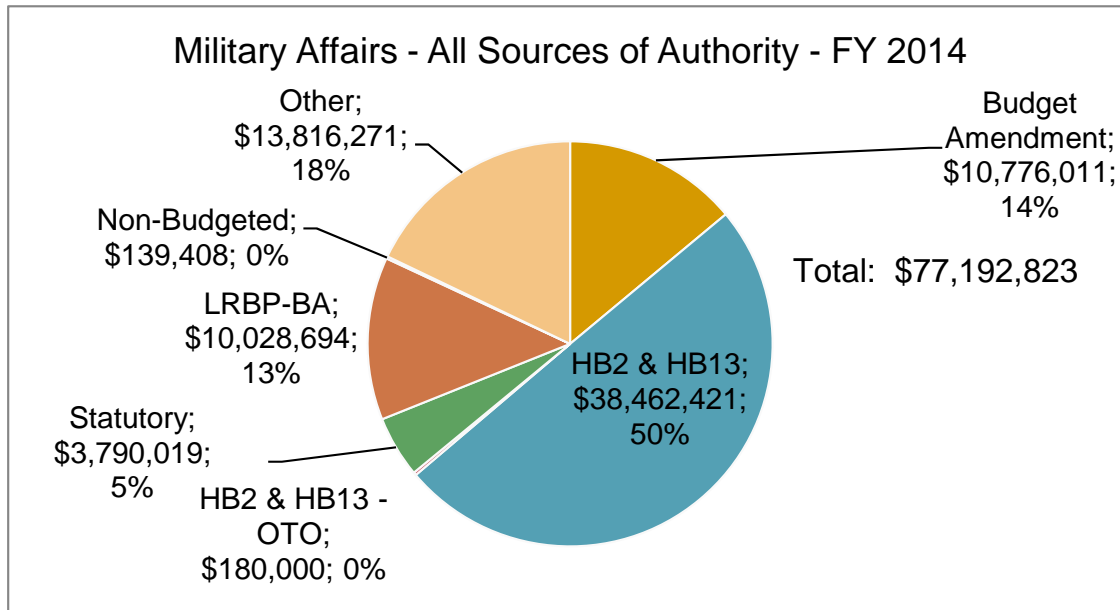
The Department of Military Affairs provides services and functions through the employment of state FTE who recruit and train Guard troops, provide education for youth, staff the statewide disaster preparedness system, provide assistance coordination services to veterans and families, and respond to local emergencies.

Sources of Spending Authority

The chart on the next page shows the sources of appropriation authority for the Department of Military Affairs. For a more detailed description of accounting terminology, please refer to the definition of terms.

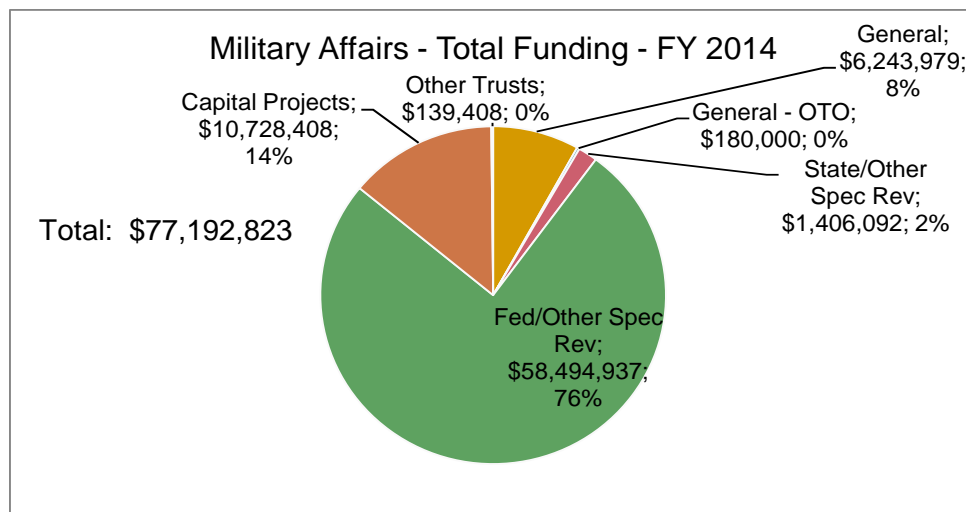
The operations of the Department of Military Affairs authorized through HB 2 are funded through federal and state funds. Statutory appropriations are provided to support the three veterans cemeteries with funding generated through cemetery plot allowances and donations. Long range building funds transferred from the Architecture and Engineering Division mainly supported construction on the Miles City Readiness Center. Budget amendments include federal grants, \$2.8 million for disaster and emergency readiness at the state and county level and \$7.9 million supporting Army National Guard’s Unexploded Ordnance (UXO) program and operations and maintenance projects at Fort Wm. H. Harrison. Other authority includes appropriation transfers from the Architecture and Engineering Program for \$8.8 million in federal funds for the Miles City Readiness Center and \$2.54 million for facilities improvements in the Military Capital Construction Program and the Veteran’s Cemetery Program.

Sources of Spending Authority, cont.

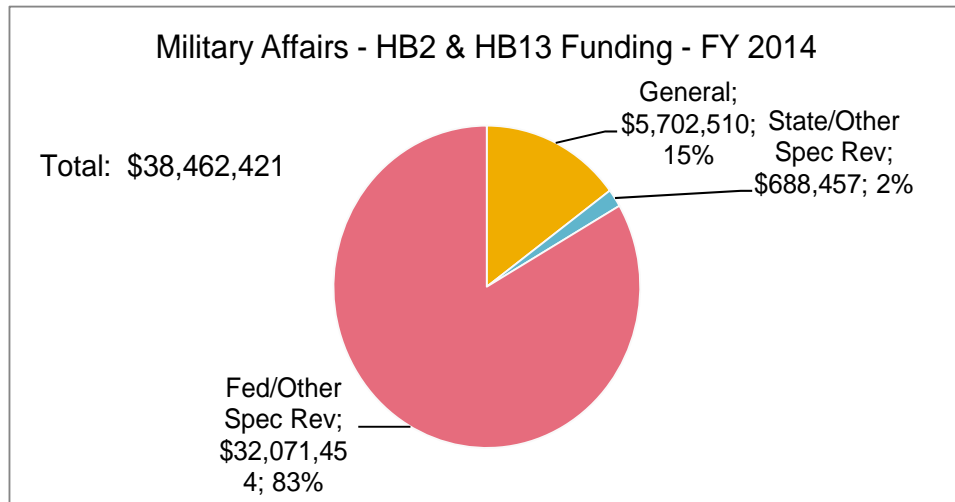


Funding

The following charts show the agency's total funding by fund type expended in FY 2014. As shown in the chart below over 75% of the funding supporting DMA is provided through federal grants. \$0.9 million in state special revenues from vehicle registration fees and cemetery plot allowances support the Veterans Affairs Program while another \$0.4 million from the fire suppression fund supported National Guard members called to fight forest fires. Capital projects funds were mainly used for construction of the Miles City Readiness Center.



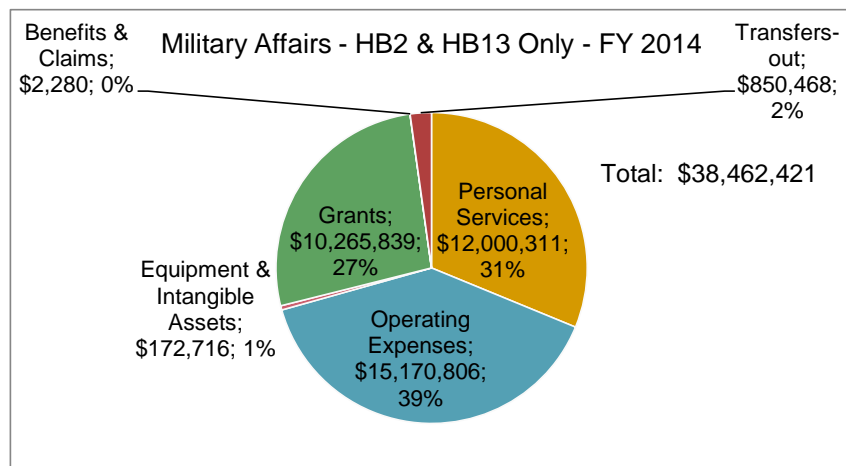
Funding, cont.



The Department of Military Affairs is funded primarily in HB 2 with federal special revenue that supports both personal service and operations costs of the Army and Air Guard programs. Federal funds also support DES and the Youth Challenge Program. Most of the federal programs require a state match, which is most of the general fund expenditures. General fund match is used in the Youth Challenge Program, DES, and Air National Guard Program, as well as in the operations formula for military facilities operations costs that are a federal/state split based upon facility ownership under the Army National Guard Program. General fund also supports administrative costs in Centralized Services and all funding for the Scholarship Program. State special revenue funds primarily support Veterans' Affairs, with revenue from cemetery plot allowances and sale of veteran license plates.

Expenditures

This chart explains how the HB 2 appropriation is spent. Personal service expenditures account for 31% of department costs, and operations account for 39%, grants make up 27% of the expenditures. These are mainly to local governments. The percentage for operating expenses is primarily a reflection of maintaining the various military facilities across the state, which includes utilities, repairs, and contracted services. Costs of facility operations are split between the federal and state government, based upon ownership of each specific facility. This chart matches the agency base expenditure found in the 2017 Budget Analysis.



How the 2015 Legislature Can Effect Change

In order to change expenditure levels and/or Department of Military Affairs activity, the legislature must address one or more of the following basic elements that drive costs.

- Number of military facilities in Montana – each military facility located in Montana creates ongoing and future costs for operations and maintenance. While the federal government typically pays 100% of the capital construction costs, operations and maintenance are split using a federal/state expenditure formula. Therefore, addressing the number of military facilities located in the state may change expenditure and activity levels of the department.
- Level of disaster and emergency preparedness - Montana's disaster and emergency preparedness is directly dependent on general fund support. Emergency management, response, and recovery costs are shared 50/50 by the Department of Homeland Security's Federal Emergency Management Agency (FEMA). Department of Military Affairs identifies that when state funding is not adequate, sufficient resource are not available to plan, organize, equip, train, and exercise robust emergency management program.
- Participation in Youth ChalleNGe Program – The ChalleNGe Program is funded with general fund and federal special revenues at a 25/75 state to federal funding ratio for most costs. Department activity can be changed by determining if and at what level Montana will participate in this optional program.
- Participation in STARBASE—STARBASE Program is funded entirely with federal special revenues. Department activity can be changed by determining if and at what level Montana will participate in this optional program.

Major Cost Drivers

Federal mobilization of Montana National Guard troops – In 2014 more than 190 Montana National Guard troops were mobilized or serving overseas in Afghanistan including:

- 120 Airlift Wing
- 143rd Military Police Company
- 260th Engineers
- 219 RED HORSE (Rapid Engineer Deployable Heavy Operational Repair Squadron, Engineer)

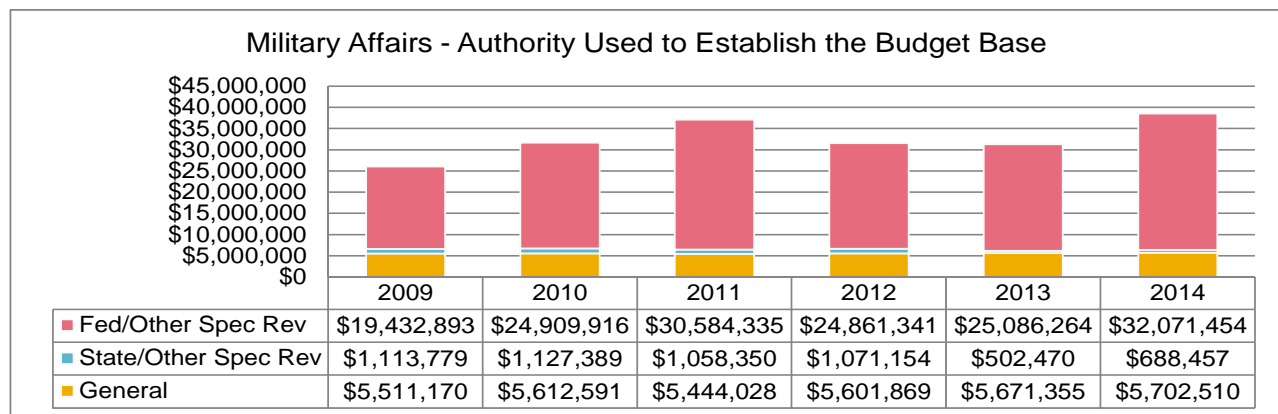
Veteran population – Montana has the 2nd largest population of veterans per capita in the country, recently estimated at 105,838. With a large number of young adults enlisting, Montana also has a record number of Montana troops who were previously engaged in combat operations in the Middle East and Afghanistan. The veteran population services include employment, housing, and medical and mental health care. Department expenditures and activities may be changed by looking at service eligibility criteria for a myriad of human services (mental health, drug abuse, homelessness, etc.), as there is historical evidence that veteran populations compose a sizeable percentage of consumers of these services, in particular, combat veterans.

Major Cost Drivers, cont.

Element	2008	2012	2014	Significance Data
Number of military facilities in Montana	257	270	281	Indicates operations costs
Number of disaster declarations	7	12	14	Reflects demand for DES services
Number of scholarship awards	388	175		Reflects demand for scholarship funds
Number of Youth ChalleNGe enrollees	169	190	250	Reflects the demand for youth who required a non-traditional setting for education and life coping skills
Number of Youth ChalleNGe graduates	113	131	200	Measures an essential component of the program including short & long term success
Veterans benefits acquired for Montana veterans	\$114 million	\$160 million	\$163 million	Actual receipt of VA monetary benefits resultant of agency services
Number of veterans assisted with benefit claims	4,317	3,354	2,317	Reflects need for professional claim product services
STARBASE Helena participants - cumulative	130	4,503	6,081	Indicates number served by the education program
STARBASE Great Falls participants - cumulative	N/A	1,062	2,656	Indicates number served by the education program

Funding/Expenditure History, Authority Used to Establish the Budget Base

The table below shows historical changes to the agency's base budget authority.



The main change in funding levels is due to increases in federal grants supporting the Disaster and Emergency Services Division in FY 2011 and increased grants in the Army National Guard Program for unexploded ordnance and maintenance projects at Fort Wm. H. Harrison in FY 2014. State special revenues decreased in FY 2013 for two reasons; 1) Search and rescue funds from off road vehicles declined by \$150,000, and 2) Vehicle license plate supporting Veteran's Affairs declined by \$400,000.

Major Legislative Changes in the Last Ten Years

Veterans' Cemeteries

The 2003 Legislature authorized the Department to perform pre-application requirements provided in the federal Department of Veterans Affairs National Cemetery Administration's state cemetery grants program.

The 2007 Legislature authorized counties to construct and maintain a veterans' cemetery, and allowed the county to fund the cemetery via imposition of a property tax levy and acceptance of gifts, grants, or donations.

The 2013 Legislature increased the percentage of vehicle license fees allocated to the Veteran's Affairs Division. The increases are allocated to two separate accounts:

- State Veterans' Cemetery Account, which is statutorily appropriated
- Veterans' Services Account, which is included in HB 2

Search and Rescue Funding - The 2003 Legislature increased fees on certain licenses and created a state special revenue fund for the transfer of funding to entities involved in the search and rescue function.

The 2007 Legislature made the money in the Fish, Wildlife, and Parks (FWP) special revenue account for search and rescue remain available for reimbursement of search and rescue missions and provided matching funds to reimburse counties for search and rescue training and equipment costs.

The 2009 Legislature increased the maximum amount available for transfer to local sheriff's offices for search and rescue operations from \$3,000 to \$6,000 per rescue operation and increased the maximum amount available to match local funds for the purchase of search and rescue equipment from \$2,000 to \$6,000.

Board of Military Affairs - The 2003 Legislature revised the duties and membership of the Board of Veterans' Affairs and, in addition, created a state special revenue fund for the purpose of supporting Veterans' Affairs operations. The new fund receives revenue from: 1) a \$15 surcharge on a generic license plate sponsored by the Department of Military Affairs; and 2) an additional \$0.50 added to the registration fees for most vehicle types.

Active Military - The 2005 Legislature allowed members of the Montana National Guard on active duty for a contingency operation to be reimbursed for group life insurance. HB 761 also allows the reimbursement of premiums for the group life insurance to be exempt from state taxation. The legislature appropriated \$300,000 of general fund each year for reimbursement of group life insurance premiums.

The 2007 Legislature transferred \$1.0 million of general fund to a state special revenue fund, established for the purpose of creating a Montana military family relief fund. All money transferred to the fund by the legislature, all monetary contributions, gifts, grants, etc., must be deposited to the state special revenue account and is statutorily appropriated to the Department of Military Affairs for relief grants to National Guard and Reserve members or family members.

ChalleNGe Program -The 2007 Legislature provided the state statutory authorization for the Montana National Guard Youth ChalleNGe Program.

Armories and Other Military Facilities -The 2009 Legislature provided \$1.3 million in federal special revenue for the National Guard Bureau approved projects to improve, repair and modernize facilities through the American Recovery and Reinvestment Act. In addition, the legislature provided general fund appropriations of \$250,000 for a military museum and \$750,000 for Improvised Explosive Device (IED) training.

The 2009 Legislature created a Montana National Guard land purchase account in the state special revenue fund and required that if the state sells an armory, the money from the sale must be deposited in the account. It also created a statutory appropriation from the account for the preparations to purchase or for the purchase of land necessary for the Montana National Guard's mission upon the authorization of the Governor.

For further information, you may wish to contact the agency at: Department of Military Affairs
1956 Mt Main St., P.O. Box 4789
Fort Harrison, MT 59636-4789
Phone: (406) 324-3000 Webpage: <http://montanama.org>

Agency Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	199.21	199.21	200.21	200.21	199.21	200.21	1.00	0.50 %
Personal Services	12,000,310	12,710,168	13,882,512	13,888,266	24,710,478	27,770,778	3,060,300	12.38 %
Operating Expenses	15,170,899	15,841,721	19,684,424	19,702,710	31,012,620	39,387,134	8,374,514	27.00 %
Equipment & Intangible Assets	172,716	552,065	172,716	172,716	724,781	345,432	(379,349)	(52.34)%
Grants	10,265,846	11,915,443	12,875,846	12,875,846	22,181,289	25,751,692	3,570,403	16.10 %
Benefits & Claims	2,280	2,280	2,280	2,280	4,560	4,560	0	0.00 %
Transfers	850,470	2,532,674	2,050,470	2,050,470	3,383,144	4,100,940	717,796	21.22 %
Total Costs	\$38,462,521	\$43,554,351	\$48,668,248	\$48,692,288	\$82,016,872	\$97,360,536	\$15,343,664	18.71 %
General Fund	5,702,544	6,266,758	6,456,430	6,475,132	11,969,302	12,931,562	962,260	8.04 %
State/Other Special Rev. Funds	688,467	1,063,657	760,699	758,491	1,752,124	1,519,190	(232,934)	(13.29)%
Federal Spec. Rev. Funds	32,071,510	36,223,936	41,451,119	41,458,665	68,295,446	82,909,784	14,614,338	21.40 %
Total Funds	\$38,462,521	\$43,554,351	\$48,668,248	\$48,692,288	\$82,016,872	\$97,360,536	\$15,343,664	18.71 %

Mission Statement

Agency Mission: To provide for safety and well-being for citizens of Montana through mission-ready forces, for federal and state activations, emergency services as directed by the Governor, and services to Montana veterans.

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Department of Military Affairs Major Budget Highlights
<ul style="list-style-type: none"> • The Governor's proposed budget increases due to a proposal to establish an Unexploded Ordnance Remediation Program to remediate National Guard sites statewide supported by \$8.0 million in federal funds <ul style="list-style-type: none"> ◦ Reductions in federal grant support for the STARBASE Program are also proposed • Other proposed increases include 5.50 FTE throughout the agency including <ul style="list-style-type: none"> ◦ 2.00 FTE veteran service officers within the Veterans' Affairs Program ◦ 2.00 FTE for the ChalleNGe Program including a program recruiter and a counselor ◦ 1.00 FTE environmental science specialist for the Air National Guard Program ◦ 0.50 FTE administrative assistant within the Director's Office
Legislative Action Issues
<ul style="list-style-type: none"> • Overtime funding for the ChalleNGe Program can be reduced as it is requested twice • State special revenues provided to the Veterans' Affairs Program are available to reduce general fund

Agency Discussion*Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation*

Actual FY 2014 expenditures are \$4.9 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Vacancies, especially within the Veteran's Affairs Program and the Challenge Program, reduced the amount of spending on personal services
- Operating expenses for minor equipment including computers, janitorial services, communications, and travel were less than anticipated in the legislative appropriation
- Grants to local governments for emergency preparedness associated with homeland security grants were less than anticipated in the budget
- Transfers for the homeland security grant program related to interoperable communications and fusion center operations were lower than anticipated in the budget

Agency Personal Services

Only a small percentage of the overall costs of the Montana National Guard personnel are included in HB 2. The majority of the guard members receive their salary through the federal paymaster. The personal services budget shown in the agency budget comparison reflects funding for those positions funded under joint state and federal partnerships.

In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Market increases provided in all programs and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 9.5% in FY 2014 compared to a budgeted rate of 4.0%; the executive proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2017 biennium
- Reclassification of 22 positions between biennia
- Changes in employer retirement contributions

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base, by program.

FY 2015 Appropriation Transactions - Department of Military Affairs				
Program	Legislative Appropriation	Legislative Approps OTO	House Adjustment	Total Executive Implementation
01 CENTRALIZED SERVICES DIV	\$1,108,921		-	\$1,108,921
Personal Services	986,222		-	986,222
Operating Expenses	120,419		-	120,419
Bnfts&Clms	2,280		-	2,280
02 CHALLENGE PROGRAM	3,837,542			3,837,542
Personal Services	2,564,420			2,564,420
Operating Expenses	1,273,122			1,273,122
03 SCHOLARSHIP PROGRAM	209,409			209,409
Operating Expenses	209,409		209,409	
04 STARBASE	679,863			679,863
Personal Services	272,909			272,909
Operating Expenses	406,954			406,954
12 ARMY NATIONAL GUARD PGM	14,620,067			14,620,067
Personal Services	3,110,429			3,110,429
Operating Expenses	10,957,573			10,957,573
Equipment & Intangible Assets	552,065			552,065
13 AIR NATIONAL GUARD PGM	4,752,181			4,752,181
Personal Services	2,907,320			2,907,320
Operating Expenses	1,844,861			1,844,861
21 DISASTER & EMER SVCS	16,386,305		-	16,386,305
Pers Svcs	1,433,061		-	1,433,061
Op Exp	685,127		(\$35,000)	650,127
Equip/As			35,000	35,000
Grants	11,735,443		-	11,735,443
Tranfers	2,532,674		-	2,532,674
31 VETERANS AFFAIRS PROGRAM	1,759,797	\$180,000		1,939,797
Pers Svcs	1,415,541			1,415,541
Op Exp	344,256			344,256
Grants		180,000		180,000
Agency Total	\$43,354,085	\$180,000-		\$43,534,085

As reflected in the figure above, the Department of Military Affairs (DMA) did not make changes to the appropriations granted by the legislature at the program level. Transfers of appropriation authority between expenditures categories within programs are discussed in the narratives for the applicable programs.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department of Military Affairs Funding by Source of Authority 2017 Biennium Budget - Department of Military Affairs						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	12,931,562	0	0	12,931,562	13.19 %	
State Special Total	1,519,190	0	674,656	2,193,846	2.24 %	
Federal Special Total	82,909,784	0	0	82,909,784	84.57 %	
Proprietary Total	0	0	0	0	0.00 %	
Other Total	0	0	0	0	0.00 %	
Total All Funds	\$97,360,536	\$0	\$674,656	\$98,035,192		
Percent - Total All Sources	99.31 %	0.00 %	0.69 %			

HB 2

The Department of Military Affairs is dominated by federal government initiatives, programs, and objectives. As such the agency's primary funding source is federal funds. General fund supports a portion of most of the programs in the department and 100 percent of the cost of the National Guard Scholarship program.

State special revenue funds the Disaster and Emergency Services Division and Veterans Affairs Program. The Veterans Affairs Division accounts for 71.8 % of the state special revenue funding with revenues generated through vehicle registrations, specialty license plates, and donations.

Federal special revenues account for the majority of the total agency funding. The most significant impact to the total funding increase is for federal Homeland Security Program Grants that remain unspent from previous fiscal years.

Statutory Appropriations

The Department of Military Affairs has two statutory appropriations that are currently estimated to be expended in the 2015 biennium and several others that are either transferred from other agencies or are not currently estimated to be needed in the next biennium.

The Montana Military Family Relief (MMFRF) Program receives a statutory appropriation to provide monetary grants to families of Montana National Guard and Reserve Component members who on or after April 28, 2007 are on active duty for federal service in a contingency operation. MMFRF grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses that become difficult to afford when a wage-earner has temporarily left civilian employment to be placed on active military duty. FY 2014 costs for the program were \$28,250, which is the amount of funding established for each year of the 2017 biennium. The program was originally funded by a transfer of \$1.0 million in general fund. Ongoing revenues include interest on a declining fund balance and donations of about \$40,000 a year.

The Veterans' Affairs Division has a statutory appropriation for operation of the Montana Veterans' Cemetery Program. The state special revenue funds are generated from cemetery plot allowances and donations. Statutory appropriations that are not currently estimated to be needed for the 2017 biennium include:

- National guard death benefits paid by the general fund
- Local incidence responses for emergency and disasters
- Contingencies to address environmental problems

The Governor is also provided a number of statutory appropriations in the event of a declared emergency or disaster. The most notable of these is the authority to authorize up to \$16.0 million for disaster relief. These expenditures are authorized through executive orders. In FY 2014, the Governor authorized disaster relief expenditures from the general fund totaling \$381,579.

In addition, the legislature created a fire suppression fund which includes statutorily appropriated funds that can be used for fire suppression costs. In FY 2014 DMA received \$368,690 to support National Guard members called out for fire suppression duties.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	6,086,758	6,086,758	12,173,516	94.14 %	43,354,085	43,354,085	86,708,170	89.06 %
PL Adjustments	187,059	187,086	374,145	2.89 %	856,826	805,208	1,662,034	1.71 %
New Proposals	182,613	201,288	383,901	2.97 %	4,457,337	4,532,995	8,990,332	9.23 %
Total Budget	\$6,456,430	\$6,475,132	\$12,931,562		\$48,668,248	\$48,692,288	\$97,360,536	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	11.76	11.76	11.76	11.76	11.76	11.76	0.00	0.00 %
Personal Services	809,971	986,222	972,918	970,415	1,796,193	1,943,333	147,140	8.19 %
Operating Expenses	96,834	120,419	99,256	88,872	217,253	188,128	(29,125)	(13.41)%
Benefits & Claims	2,280	2,280	2,280	2,280	4,560	4,560	0	0.00 %
Total Costs	\$909,085	\$1,108,921	\$1,074,454	\$1,061,567	\$2,018,006	\$2,136,021	\$118,015	5.85 %
General Fund	598,208	764,861	708,300	698,263	1,363,069	1,406,563	43,494	3.19 %
Federal Spec. Rev. Funds	310,877	344,060	366,154	363,304	654,937	729,458	74,521	11.38 %
Total Funds	\$909,085	\$1,108,921	\$1,074,454	\$1,061,567	\$2,018,006	\$2,136,021	\$118,015	5.85 %

Program Description

The Director's Office provides departmental administration through the Office of the Adjutant General and department-wide support for accounting, fiscal management, personnel, labor relations, and purchasing and property management oversight. The program operates in accordance with Title 2, Chapter 15, part 12 and Title 10, MCA.

Program Highlights

Director's Office Major Budget Highlights
<ul style="list-style-type: none"> • General fund support for the Director's Office decreases by 8.1% from the 2015 legislative base budget doubled due to fewer FTE supported by general fund in the 2017 biennium. The amount of federal revenue support increases as a result

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Director's Office did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$200,00 below the FY 2015 legislative appropriation. The majority of the differences are included in personal services. The primary reasons for the difference is vacancies experienced throughout the fiscal year that resulted in actual spending for personal services being lower than projected, and because FY 2015 is higher due to annualization of the pay plan enacted by the 2013 Legislature in HB 13.

Executive Request

General fund support for the program decreases by 8.1% from the 2015 legislative base budget doubled due to fewer FTE supported by general fund in the 2017 biennium. The amount of federal revenue support increases as a result.

When compared to FY 2014 actual spending personal services increase by about \$135,000 each year of the biennium. Personal services changes, in addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, include:

- Market adjustments throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 8.5% in FY 2014 compared to a budgeted rate of 4.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in FY 2015
- Changes in employer retirement contributions

As proposed, operating expenses decrease when compared to double the FY 2014 actual spending. Reductions are due to changes for fixed costs provided by the Departments of Administration and Transportation including:

- Human resource information system services
- SABHRS administrative costs

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 01-Director's Office Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,406,563	0	0	1,406,563	65.85 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03132 National Guard	476,744	0	0	476,744	65.36 %	
03134 Disaster & Emergency Services	117,866	0	0	117,866	16.16 %	
03453 Air National Guard	134,848	0	0	134,848	18.49 %	
Federal Special Total	\$729,458	\$0	\$0	\$729,458	34.15 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$2,136,021	\$0	\$0	\$2,136,021		

Federal fund support is provided by federal-state agreements. Costs of positions and activities that provide support to federally funded operations are applicable for federal funding. General fund supports the majority of the program in accordance with state-federal agreements.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	764,861	764,861	1,529,722	108.76 %	1,108,921	1,108,921	2,217,842	103.83 %
PL Adjustments	(84,316)	(94,302)	(178,618)	(12.70)%	(62,222)	(75,058)	(137,280)	(6.43)%
New Proposals	27,755	27,704	55,459	3.94 %	27,755	27,704	55,459	2.60 %
Total Budget	\$708,300	\$698,263	\$1,406,563		\$1,074,454	\$1,061,567	\$2,136,021	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(55,639)	0	14,580	(41,059)	0.00	(54,666)	0	11,155	(43,511)
DP 99 - LEG. Present Law	0.00	(28,677)	0	7,514	(21,163)	0.00	(39,636)	0	8,089	(31,547)
Grand Total All Present Law Adjustments	0.00	(\$84,316)	\$0	\$22,094	(\$62,222)	0.00	(\$94,302)	\$0	\$19,244	(\$75,058)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	11.26	\$4,093	\$0	\$1,379	\$5,472
Executive Implementation of 2015 Pay Increase		12,387	-	4,175	16,562
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		(72,119)	-	9,026	(63,093)
Personal Services Present Law Adjustments	11.26	(\$55,639)	\$0	\$14,580	(\$41,059)
FY 2017					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	11.26	\$4,093	\$0	\$1,379	\$5,472
Executive Implementation of 2015 Pay Increase		12,553	-	4,008	16,562
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		(71,312)	-	5,768	(65,545)
Personal Services Present Law Adjustments	11.26	(\$54,666)	\$0	\$11,155	(\$43,511)

Reductions included in the "other" category reflect the agency's compliance with the boilerplate language contained in the 2013 Legislature's HB 2.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table above, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative budget. Funding is relatively stable between FY 2015 and FY 2016. Decreases in general fund are offset by a slight increases in federal funds.

As previously discussed, FY 2014 actual spending was lower than budgeted for a number of operating costs such as State Information Technology Services Division fixed costs, rewards, and minor equipment purchases for computers. The LGPL captures these reductions as the executive included them in the 2017 biennium.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 100101 - Admin Assistant FTE	0.50	27,755	0	0	27,755	0.50	27,704	0	0	27,704
Total	0.50	\$27,755	\$0	\$0	\$27,755	0.50	\$27,704	\$0	\$0	\$27,704

DP 100101 - Admin Assistant FTE -

This request is for \$27,772 of general fund dollars in FY 2016 and \$27,704 in FY 2017 to support an additional 0.50 FTE Administrative Assistant. This position will assist with various duties relating to state specific functions that are not reimbursable under federal guidelines.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	51.15	51.15	53.15	53.15	51.15	53.15	2.00	3.91 %
Personal Services	2,461,478	2,564,420	3,034,579	3,032,790	5,025,898	6,067,369	1,041,471	20.72 %
Operating Expenses	1,169,548	1,273,122	1,185,324	1,178,054	2,442,670	2,363,378	(79,292)	(3.25)%
Total Costs	\$3,631,026	\$3,837,542	\$4,219,903	\$4,210,844	\$7,468,568	\$8,430,747	\$962,179	12.88 %
General Fund	812,158	909,040	1,056,358	1,054,998	1,721,198	2,111,356	390,158	22.67 %
Federal Spec. Rev. Funds	2,818,868	2,928,502	3,163,545	3,155,846	5,747,370	6,319,391	572,021	9.95 %
Total Funds	\$3,631,026	\$3,837,542	\$4,219,903	\$4,210,844	\$7,468,568	\$8,430,747	\$962,179	12.88 %

Program Description

The Montana National Guard Youth ChalleNGe Program is a volunteer program for youth ages 16 to 18 who have stopped attending secondary school before graduating. ChalleNGe is a 17-month, voluntary, two-phased military modeled training program targeting unemployed, drug-free, and crime-free high school dropouts. The program provides an opportunity for high school "at risk" youth to enhance their life skills, and increase their educational levels and employment potential. Phase I of the program is a 22 week residential stay on the campus of Western Montana College of the University of Montana in Dillon focusing on physical training, classroom instruction, personal development, and life skills. Phase II is a year-long mentoring relationship with a specially-trained member of the community where the youth resides to provide a positive role model and to assist the student in gaining employment or enrolling in post-secondary schooling.

Program Highlights

Montana National Guard Youth ChalleNGe Program Major Budget Highlights
<ul style="list-style-type: none"> • The Governor’s proposed budget for the program increases 9.8% when compared to the 2015 legislative base doubled • Proposals for two additional staff and increases to personal service costs for existing program staff drive the increase
Major LFD Issues
<ul style="list-style-type: none"> • Overtime funding for the ChalleNGe Program can be reduced as it is requested twice

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The ChalleNGe Program did not change the FY 2015 legislative appropriations. The numbers shown in the budget comparison table above reflect the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$206,500 below the FY 2015 legislative appropriation. The majority of the differences are included in personal services. The primary reason for the difference is vacancies experienced throughout the fiscal year

that resulted in actual spending for personal services being lower than projected. The program had difficulty filling drill instructors and secondary teachers.

Executive Request

Personal services increase by about \$570,000 each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Market adjustments granted throughout FY 2014 that are annualized for the 2017 biennium
- Overtime compensation for operation of the ChalleNGe Program 24 hours a day, seven days a week
- Differential pay
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 02-Challenge Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	2,111,356	0	0	2,111,356	25.04 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03132 National Guard	6,319,391	0	0	6,319,391	100.00 %	
Federal Special Total	\$6,319,391	\$0	\$0	\$6,319,391	74.96 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$8,430,747	\$0	\$0	\$8,430,747		

The Youth ChalleNGe Program is funded with general fund and federal special revenue at a 25/75 state to federal funding ratio for most costs. Some travel and special projects required by the federal/state cooperative agreement are funded 100 percent from federal funds.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	909,040	909,040	1,818,080	86.11 %	3,837,542	3,837,542	7,675,084	91.04 %
PL Adjustments	132,875	131,550	264,425	12.52 %	324,588	315,670	640,258	7.59 %
New Proposals	14,443	14,408	28,851	1.37 %	57,773	57,632	115,405	1.37 %
Total Budget	\$1,056,358	\$1,054,998	\$2,111,356		\$4,219,903	\$4,210,844	\$8,430,747	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	172,910	0	249,476	422,386	0.00	175,335	0	245,403	420,738
DP 99 - LEG. Present Law	0.00	(40,035)	0	(57,763)	(97,798)	0.00	(43,785)	0	(61,283)	(105,068)
Grand Total All Present Law Adjustments	0.00	\$132,875	\$0	\$191,713	\$324,588	0.00	\$131,550	\$0	\$184,120	\$315,670

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table on the following page includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	51.15	\$6,215	\$0	\$18,644	\$24,859
Executive Implementation of 2015 Pay Increase		11,109	-	33,326	44,435
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other					
Additional ChalleNGe Recruiter	1.00	15,360	-	46,080	61,440
Overtime	0.00	36,192	-	108,576	144,768
Differential Pay	0.00	3,848	-	11,545	15,393
Funding Shift	0.00	21,420	-	(21,420)	-
Remainder of Other	0.00	78,766	-	52,725	131,491
Total Other	1.00	155,586	-	197,506	353,093
Personal Services Present Law Adjustments	52.15	\$172,910	\$0	\$249,476	\$422,386
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	51.15	\$6,215	\$0	\$18,644	\$24,859
Executive Implementation of 2015 Pay Increase		11,109	-	33,326	44,434
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other					
Additional ChalleNGe Recruiter	1.00	15,349	-	46,047	61,396
Overtime	0.00	36,192	-	108,576	144,768
Differential Pay	0.00	3,848	-	11,545	15,393
Funding Shift	0.00	21,420	-	(21,420)	-
Remainder of Other	0.00	81,202	-	48,685	129,887
Total Other	1.00	158,011	-	193,433	351,444
Personal Services Present Law Adjustments	52.15	175,335	\$0	245,403	\$420,738

The executive is proposing to add an FTE for a recruiter to assist the Montana Youth ChalleNGe Academy in meeting federally established admission goals. In addition, the executive proposal includes increased funding for overtime and differential pay of \$119,000 each year of the biennium when compared to the 2015 legislative base.

LFD ISSUE	<p><u>Executive Proposal Contains Twice the Anticipated Amount for Overtime Pay</u></p> <p>The executive’s calculation of overtime was inadvertently doubled as part of the budgeting process. The funding each year of the biennium is \$18,096 in general fund and \$54,288 in federal funding.</p> <p>Legislative Option</p> <p>Reduce support for personal services by \$18,096 in general fund and \$54,288 in federal funds each year of the biennium.</p>
----------------------	--

Finally, as shown in the table above, the executive proposes a funding shift, from federal funds to general fund as part of the present law adjustment. The program is funded with 75% federal funds matched with 25% state general fund.

As shown in the present law adjustment table on the previous page, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative budget. As previously discussed, FY 2014 actual spending was lower than budgeted for a number of operating costs such as state information technology services division fixed costs, rewards, advertising and minor equipment purchases for computers. The LGPL captures these reductions, as the executive included them in the 2017 biennium.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 200204 - Additional ChalleNGe Counselor	1.00	14,443	0	43,330	57,773	1.00	14,408	0	43,224	57,632
Total	1.00	\$14,443	\$0	\$43,330	\$57,773	1.00	\$14,408	\$0	\$43,224	\$57,632

DP 200204 - Additional ChalleNGe Counselor -

This executive proposes support for an additional 1.00 FTE for a counselor position to assist with larger enrollments and ensure compliance with the staffing requirements outlined in the Federal/State Master Youth Programs Cooperative Agreement (MYPKA) dated July 2012. The agreement requires a ratio to counselors to cadets of 1:30.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
Operating Expenses	209,408	209,409	209,408	209,408	418,817	418,816	(1)	0.00 %
Total Costs	\$209,408	\$209,409	\$209,408	\$209,408	\$418,817	\$418,816	(\$1)	0.00 %
General Fund	209,408	209,409	209,408	209,408	418,817	418,816	(1)	0.00 %
Total Funds	\$209,408	\$209,409	\$209,408	\$209,408	\$418,817	\$418,816	(\$1)	0.00 %

Program Description

The Montana National Guard Scholarship Program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students in Montana colleges, universities, or training programs. The program assists Montana in recruiting and retaining personnel in both the Army and Air National Guard and in enhancing its operational readiness to assume both state and federal active duty missions. Scholarships also reward guard members for their service to the state by helping defray their educational costs at Montana post-secondary institutions.

Program Highlights

<p>Scholarship Program Major Budget Highlights</p>
<ul style="list-style-type: none"> • The executive proposed to fund the 2017 biennium budget at the FY 2015 legislative appropriation level with no adjustments

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Scholarship Program did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

The 1999 Legislature began this program and appropriated \$250,000 in general fund to provide scholarships of up to \$500 per semester to enlisted Montana National Guard personnel enrolled as full-time undergraduate students in colleges, universities, or training programs. The funding was to provide \$500 scholarships for 500 student-semesters; which is equivalent to 125 students attending two semesters in each of the two years of the biennium.

In FY 2014, 221 students were awarded scholarships of up to \$1,800 a year for college, universities, or other training programs. Funding for the program remains static for the 2017 biennium.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 03-Scholarship Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	418,816	0	0	418,816	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$418,816	\$0	\$0	\$418,816		

This program is funded entirely from the general fund.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	209,409	209,409	418,818	100.00 %	209,409	209,409	418,818	100.00 %
PL Adjustments	(1)	(1)	(2)	(0.00)%	(1)	(1)	(2)	(0.00)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$209,408	\$209,408	\$418,816		\$209,408	\$209,408	\$418,816	

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	3.00	3.00	2.00	2.00	3.00	2.00	(1.00)	(33.33)%
Personal Services	197,892	272,909	152,778	152,389	470,801	305,167	(165,634)	(35.18)%
Operating Expenses	146,194	406,954	147,259	145,814	553,148	293,073	(260,075)	(47.02)%
Total Costs	\$344,086	\$679,863	\$300,037	\$298,203	\$1,023,949	\$598,240	(\$425,709)	(41.58)%
Federal Spec. Rev. Funds	344,086	679,863	300,037	298,203	1,023,949	598,240	(425,709)	(41.58)%
Total Funds	\$344,086	\$679,863	\$300,037	\$298,203	\$1,023,949	\$598,240	(\$425,709)	(41.58)%

Program Description

The Montana STARBASE "Big Sky" Program is a program for elementary school aged children to raise the interest and improve the knowledge and skills of at-risk youth in math, science, and technology. It does this by exposing them and their teachers to real world applications of math and science through experimental learning, simulations, experiments in aviation and space-related fields as it deals with a technological environment and by utilizing the positive role models found on military bases and installations. The program also addresses drug use prevention, health, self-esteem, and life skills with a math and science based program.

Program Highlights

STARBASE Program Major Budget Highlights
<ul style="list-style-type: none"> The Governor proposes over a 50% reduction in funding for this program when compared to double the 2015 legislative base budget. STARBASE is completely supported by federal funds that have been subjected to reductions and payment delays at the federal level. The executive budget continues a lower level of funding into the 2017 biennium based on FY 2014 federal receipts for the program

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The STARBASE Program did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Overall expenditures for FY 2014 actuals were about half of the requested budget for FY 2015. In FY 2012, the Air National Guard received a second federal grant for a STARBASE program associated with the Malmstrom Air Force Base in Great Falls. Expenditures for the additional base were estimated using the costs associated with providing the program at Fort Harrison in Helena, or \$0.1 million for personal services and \$0.2 million for operating costs.

The budget included an estimate of \$146,529 for the cost of having substitute teachers working with the program as part of the operating expenses. According to agency staff the government shutdown and funding delays meant that the program was only able to operate for about half of the time compared to previous years. As a result the operating expenses for the program, especially for teachers, were about \$100,000 less than anticipated.

Executive Request

As shown in the program budget comparison table the executive proposes funding for the 2017 biennium that captures the reductions that were realized in FY 2014.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 04-Starbase Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03453 Air National Guard	598,240	0	0	598,240	100.00 %	
Federal Special Total	\$598,240	\$0	\$0	\$598,240	100.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$598,240	\$0	\$0	\$598,240		

This program is funded entirely with federal special revenues from the Air National Guard.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	679,863	679,863	1,359,726	0.00 %
PL Adjustments	0	0	0	0.00 %	(379,826)	(381,660)	(761,486)	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$300,037	\$298,203	\$598,240	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law	0.00	0	0	(120,131)	(120,131)	0.00	0	0	(120,520)	(120,520)
DP 99 - LEG. Present Law	0.00	0	0	(259,695)	(259,695)	0.00	0	0	(261,140)	(261,140)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	(\$379,826)	(\$379,826)	0.00	\$0	\$0	(\$381,660)	(\$381,660)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	2.00	\$0	\$0	\$972	\$972
Executive Implementation of 2015 Pay Increase		-	-	2,630	2,630
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		-	-	(123,733)	(123,733)
Personal Services Present Law Adjustments	2.00	\$0	\$0	(\$120,131)	(\$120,131)
FY 2017					
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	2.00	\$0	\$0	\$972	\$972
Executive Implementation of 2015 Pay Increase		-	-	2,630	2,630
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		-	-	(124,122)	(124,122)
Personal Services Present Law Adjustments	2.00	\$0	\$0	(\$120,520)	(\$120,520)

As part of its compliance with the boilerplate language contained in HB 2 from the 2013 Legislature, the program reduced FTE. The reductions shown in the other category in the table above reflect this change.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table above, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative budget. As previously discussed, FY 2014 actual spending was lower than budgeted due to delays in federal funding. The executive proposes to reduce spending for the program in line with the reductions in anticipation that they will continue.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	45.30	45.30	44.30	44.30	45.30	44.30	(1.00)	(2.21)%
Personal Services	2,980,668	3,110,429	3,273,531	3,275,927	6,091,097	6,549,458	458,361	7.53 %
Operating Expenses	11,269,075	10,957,573	15,372,597	15,424,492	22,226,648	30,797,089	8,570,441	38.56 %
Equipment & Intangible Assets	150,536	552,065	150,536	150,536	702,601	301,072	(401,529)	(57.15)%
Total Costs	\$14,400,279	\$14,620,067	\$18,796,664	\$18,850,955	\$29,020,346	\$37,647,619	\$8,627,273	29.73 %
General Fund	1,622,180	1,587,983	1,713,332	1,747,102	3,210,163	3,460,434	250,271	7.80 %
State/Other Special Rev. Funds	420	2,000	420	420	2,420	840	(1,580)	(65.29)%
Federal Spec. Rev. Funds	12,777,679	13,030,084	17,082,912	17,103,433	25,807,763	34,186,345	8,378,582	32.47 %
Total Funds	\$14,400,279	\$14,620,067	\$18,796,664	\$18,850,955	\$29,020,346	\$37,647,619	\$8,627,273	29.73 %

Program Description

The Army National Guard (ARNG), until federalized, is a state military organization that provides trained and equipped military units for use in the event of a state or national emergency. The federal/state cooperative agreement provides funding for facilities management, environmental, and communications support to the organization by: 1) providing professional and skilled personnel for the administration, planning, and execution of statewide repair and maintenance functions on facilities and training areas; 2) planning, programming, and contracting for construction; 3) ensuring all activities and facilities comply with environmental regulations; and 4) providing statewide communication services, security contracts, and leases for buildings and land used by the Army National Guard. The program is mandated by the U.S. and Montana Constitutions and Title 10, Chapters 1-3, MCA.

Program Highlights

Army National Guard Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive proposed budget increases by over \$4.0 million each year of the biennium due to a request to establish an Unexploded Ordnance Remediation Program • Additional operational support for the Miles City Readiness Center is requested

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Army National Guard Program did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$0.2 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- A vacancy rate for the program of 10.7% in FY 2014
- Implementation of HB 13 increases enacted by the 2013 Legislature in FY 2015

- Operating expenses that were \$0.3 million above the amount provided by the legislature in FY 2014. Costs for rent of non-Department of Administration buildings and buildings and grounds costs were \$548,000 higher than projected in the budget. This was partially offset by lower costs in other areas. The legislative appropriations for operating expenses provided in FY 2015 were similar to FY 2014

**LFD
COMMENT**

The 2013 Legislature provided the Army National Guard Program \$10,957,573 in appropriation authority in FY 2014. As shown in the program budget comparison table, expenditures for the base budget were \$11,269,075, \$311,502 or 2.8% higher than provided.

As discussed in the narrative, the program experienced higher costs for rent and buildings and grounds costs. Through the budget change process a program has the ability to transfer appropriation authority between expenditure categories.

A review of the budget change document (BCD) files maintained by the Office of Budget Program and Planning did not show any changes to the authority for this program in FY 2014. The Army National Guard Program could have transferred \$311,502 from equipment and intangible assets to the operating expenses as the agency had sufficient total authority for the higher costs. However, this transfer was not made.

As the accounting system should not allow the expenditures for operating expenses to exceed the legislative appropriations this issue has been referred to the Legislative Audit Division.

Executive Request

As shown in the program budget comparison table personal services increase about \$293,000 each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions
- Vacancy savings that were 10.7% in FY 2014 compared to a budgeted rate of 6.0%, the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014

Operating expenses increase by \$0.6 million mainly due to increases for professional and consulting services for the Unexploded Ordnance Program.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 12-Army National Guard Pgm Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	3,460,434	0	0	3,460,434	9.19 %	
02343 Armory Rental Funds	840	0	0	840	100.00 %	
State Special Total	\$840	\$0	\$0	\$840	0.00 %	
03132 National Guard	34,186,345	0	0	34,186,345	100.00 %	
03453 Air National Guard	0	0	0	0	0.00 %	
Federal Special Total	\$34,186,345	\$0	\$0	\$34,186,345	90.81 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$37,647,619	\$0	\$0	\$37,647,619		

The Army National Guard program is funded with a combination of general fund and federal funds. General fund accounts for about 9.2% of total funding. The funding ratio between general fund and federal funds depends on the nature of the activity, the use or location of the facility, and the goals of the operation. Possible scenarios include funding:

- Entirely with state funds
- Entirely with federal funds
- As a shared responsibility, with federal funds at 75% and general fund at 25% or 50% federal and 50% general fund

When a facility is owned by the state and located on state land, maintenance and utility costs are split evenly with the federal government. When a facility is state owned, but located on federal land, the maintenance and utility costs are funded 75% federal and 25% state general fund. When a facility is classified as a logistics facility, the funding is 100% federal funds for the entire facility. Federally owned facilities located on federal land and those that serve training missions are predominantly funded with 100% federal funds, except when the building is used as an armory. Armories constructed with federal funds and located on federal land are funded 75/25 federal/general fund for maintenance and utility costs. When armories are rented to groups, the state special revenue funds generated from rental fees are used to augment general fund support of the facilities.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,587,983	1,587,983	3,175,966	91.78 %	14,620,067	14,620,067	29,240,134	77.67 %
PL Adjustments	120,823	135,791	256,614	7.42 %	150,819	129,903	280,722	0.75 %
New Proposals	4,526	23,328	27,854	0.80 %	4,025,778	4,100,985	8,126,763	21.59 %
Total Budget	\$1,713,332	\$1,747,102	\$3,460,434		\$18,796,664	\$18,850,955	\$37,647,619	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law	0.00	18,869	5	144,228	163,102	0.00	19,341	5	146,152	165,498
DP 99 - LEG. Present Law	0.00	101,954	(1,585)	(112,652)	(12,283)	0.00	116,450	(1,585)	(150,460)	(35,595)
Grand Total All Present Law Adjustments	0.00	\$120,823	(\$1,580)	\$31,576	\$150,819	0.00	\$135,791	(\$1,580)	(\$4,308)	\$129,903

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	44.30	\$4,832	\$0	\$16,697	\$21,530
Executive Implementation of 2015 Pay Increase		12,593	-	43,511	56,104
Fully Fund 2015 Legislatively Authorized FTE		59,809	-	-	59,809
Other		(58,365)	5	84,019	25,659
Personal Services Present Law Adjustments	44.30	\$18,869	\$5	\$144,228	\$163,102
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	44.30	\$4,832	\$0	\$16,697	\$21,530
Executive Implementation of 2015 Pay Increase		12,374	-	43,730	56,104
Fully Fund 2015 Legislatively Authorized FTE		59,809	-	-	59,809
Other		(57,675)	5	85,725	28,055
Personal Services Present Law Adjustments	44.30	\$19,341	\$5	\$146,152	\$165,498

The majority of the increases are due to implementation of HB 13 or reinstatement of funding related to the 2% reduction of vacancy savings included by the 2013 Legislature. The reductions of general fund in the "other" category on the table are related to the executive's implementation of the boilerplate language contained in HB 2 from the 2013 Legislature.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table above, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative budget. Increases in costs including minor supplies, buildings and grounds, rent, and utilities are offset by reductions in areas such as training, office supplies, road oil, and phone charges.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1201201 - Operational Support for New ARNG Facilities	0.00	4,526	0	21,252	25,778	0.00	23,328	0	77,657	100,985
DP 1201202 - Unexploded Ordnance Remediation for MTARNG	0.00	0	0	4,000,000	4,000,000	0.00	0	0	4,000,000	4,000,000
Total	0.00	\$4,526	\$0	\$4,021,252	\$4,025,778	0.00	\$23,328	\$0	\$4,077,657	\$4,100,985

DP 1201201 - Operational Support for New ARNG Facilities -

The Facilities Management Office constructs, operates and maintains facilities which are used primarily by the Montana Army National Guard (MTARNG) statewide. This request is for additional funding to support the operating costs of buildings that will come on line after the base year. This funding would provide janitorial services, utilities, grounds maintenance, and required building inspections such as fire sprinkler, fire alarm, and kitchen hood inspections. The increased operating cost is for the Miles City Readiness Center that will be occupied in January of 2015, an addition to the Aviation Readiness Center in Helena to accommodate existing soldiers and equipment, and small additions to four buildings at Fort William H. Harrison.

DP 1201202 - Unexploded Ordnance Remediation for MTARNG -

The Facilities Management Office is responsible for management of the Unexploded Ordnance (UXO) Remediation Program for the Montana National Guard statewide. This request is to establish federal spending authority to operate the UXO program when federal funding is received from the National Guard Bureau.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	40.00	40.00	40.00	40.00	40.00	40.00	0.00	0.00 %
Personal Services	2,692,818	2,907,320	3,018,642	3,028,230	5,600,138	6,046,872	446,734	7.98 %
Operating Expenses	1,653,425	1,844,861	1,960,963	1,962,646	3,498,286	3,923,609	425,323	12.16 %
Total Costs	\$4,346,243	\$4,752,181	\$4,979,605	\$4,990,876	\$9,098,424	\$9,970,481	\$872,057	9.58 %
General Fund	367,179	410,180	398,664	398,232	777,359	796,896	19,537	2.51 %
Federal Spec. Rev. Funds	3,979,064	4,342,001	4,580,941	4,592,644	8,321,065	9,173,585	852,520	10.25 %
Total Funds	\$4,346,243	\$4,752,181	\$4,979,605	\$4,990,876	\$9,098,424	\$9,970,481	\$872,057	9.58 %

Program Description

The Air National Guard, until federalized, is a state military organization that provides trained and equipped military units for use in the event of a state or national emergency. The federal/state cooperative agreement provides for administrative, facilities maintenance, security, and fire protection support to the Air National Guard base at Gore Hill near Great Falls. The Air National Guard program operates under both federal and state mandates in accordance with its dual missions and is mandated by the United States and Montana Constitutions and Title 10, Chapter 1-3, MCA.

Program Highlights

Air National Guard Program Major Budget Highlights
<ul style="list-style-type: none"> • The Governor proposes 1.00 FTE environmental science specialist to address air and water quality management, monitoring and remediation as well as solid and hazardous waste disposal • An additional new proposal addresses funding to support maintenance of water and sewer lines • Other budget changes include small increases for personal services costs when compared to the 2015 legislative base and reductions in funding support for operating expenses

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Air National Guard Program did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$0.4 million less than the FY 2015 legislative appropriation. Primary reasons for the difference are:

- The Air National Guard Program had a vacancy rate of 18.9% in FY 2014 compared to a budgeted rate of 4% for the positions in FY 2014
- Operating expenses for electricity for the Air National Guard Program at Gore Hill were \$148,000 less than estimated in the budget. In addition, janitorial services were \$40,000 less than anticipated, natural gas costs were \$17,000 below budget estimates, and consulting and professional services were \$15,000 lower

Executive Request

As shown in the program budget comparison table personal services increase about \$331,000 each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions
- Vacancy savings that were 18.9% in FY 2014 compared to a budgeted rate of 4.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014

Operating expenses increase about \$300,000 each year of the 2017 biennium when compared to actual spending.

The majority of the increases are anticipated for two items:

- Security protection contract - \$146,200
- Water and sewage - \$132,600

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 13-Air National Guard Pgm Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	796,896	0	0	796,896	7.99 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
03453 Air National Guard	9,173,585	0	0	9,173,585	100.00 %	
Federal Special Total	\$9,173,585	\$0	\$0	\$9,173,585	92.01 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$9,970,481	\$0	\$0	\$9,970,481		

The Montana Air National Guard is predominately funded through federal funds. General fund, comprising about 8.0% of the total funding for the program, supports some building and grounds maintenance activities, a portion of administrative expenses, and a portion of the personal service costs for a quarter of the FTE.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	410,180	410,180	820,360	102.94 %	4,752,181	4,752,181	9,504,362	95.32 %
PL Adjustments	(37,363)	(38,024)	(75,387)	(9.46)%	(8,565)	1,793	(6,772)	(0.07)%
New Proposals	25,847	26,076	51,923	6.52 %	235,989	236,902	472,891	4.74 %
Total Budget	\$398,664	\$398,232	\$796,896		\$4,979,605	\$4,990,876	\$9,970,481	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	(19,020)	0	42,453	23,433	0.00	(19,444)	0	51,552	32,108
DP 99 - LEG. Present Law	0.00	(18,343)	0	(13,655)	(31,998)	0.00	(18,580)	0	(11,735)	(30,315)
Grand Total All Present Law Adjustments	0.00	(\$37,363)	\$0	\$28,798	(\$8,565)	0.00	(\$38,024)	\$0	\$39,817	\$1,793

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
	FY 2016				
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	39.00	\$519	\$0	\$18,435	\$18,954
Executive Implementation of 2015 Pay Increase		1,176	-	39,625	40,801
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		(20,715)	-	(15,607)	(36,322)
Personal Services Present Law Adjustments	39.00	(\$19,020)	\$0	\$42,453	\$23,433
	FY 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds
CP 98 PSPL Item					
State Share Health Insurance	39.00	\$519	\$0	\$18,435	\$18,954
Executive Implementation of 2015 Pay Increase		1,147	-	39,654	40,801
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		(21,110)	-	(6,537)	(27,647)
Personal Services Present Law Adjustments	39.00	(\$19,444)	\$0	\$51,552	\$32,108

Reductions in funding contained in the "other" category are due to DMA's implementation of boilerplate language contained in HB 2 from the 2013 Legislature. Increases are due to the implementation of HB 13.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table above, overall the executive is proposing reductions in costs and funding when compared to the FY 2015 legislative budget. The executive proposes reductions for utility costs, especially electricity, that offset increases in other operating expenses including security protection contracts for the base.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1301304 - New Air Guard Environmental Science Specialist	1.00	25,847	0	77,542	103,389	1.00	26,076	0	78,226	104,302
DP 1301305 - Funding for Water-Sewer Maintenance	0.00	0	0	132,600	132,600	0.00	0	0	132,600	132,600
Total	1.00	\$25,847	\$0	\$210,142	\$235,989	1.00	\$26,076	\$0	\$210,826	\$236,902

DP 1301304 - New Air Guard Environmental Science Specialist -

This request is for 1.00 FTE Environmental Science Specialist to meet the environmental compliance requirements of the Montana Air National Guard (MANG) in Great Falls. Approval of this FTE and operational support would create a fourth Air Guard Master Cooperative Agreement Appendix between the federal government (National Guard Bureau and United States Property and Fiscal Office) and the State of Montana (Adjutant General). The costs of the agreement are 25% state and 75% federal.

DP 1301305 - Funding for Water-Sewer Maintenance -

This request is for 100% federal spending authority to cover the annual water and sewer maintenance costs the Montana Air National Guard (MANG) would pay after privatization of water and sewer lines in FY 2016.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	24.00	24.00	23.00	23.00	24.00	23.00	(1.00)	(4.17)%
Personal Services	1,492,077	1,433,061	1,805,391	1,804,411	2,925,138	3,609,802	684,664	23.41 %
Operating Expenses	461,213	685,127	544,766	532,661	1,146,340	1,077,427	(68,913)	(6.01)%
Equipment & Intangible Assets	22,180	0	22,180	22,180	22,180	44,360	22,180	100.00 %
Grants	10,265,846	11,735,443	12,875,846	12,875,846	22,001,289	25,751,692	3,750,403	17.05 %
Transfers	850,470	2,532,674	2,050,470	2,050,470	3,383,144	4,100,940	717,796	21.22 %
Total Costs	\$13,091,786	\$16,386,305	\$17,298,653	\$17,285,568	\$29,478,091	\$34,584,221	\$5,106,130	17.32 %
General Fund	1,176,995	1,250,343	1,267,268	1,266,478	2,427,338	2,533,746	106,408	4.38 %
State/Other Special Rev. Funds	73,855	236,536	73,855	73,855	310,391	147,710	(162,681)	(52.41)%
Federal Spec. Rev. Funds	11,840,936	14,899,426	15,957,530	15,945,235	26,740,362	31,902,765	5,162,403	19.31 %
Total Funds	\$13,091,786	\$16,386,305	\$17,298,653	\$17,285,568	\$29,478,091	\$34,584,221	\$5,106,130	17.32 %

Program Description

The Disaster and Emergency Services Division (DES) duties and responsibilities are provided for under Title 10, Chapter 3, MCA. The division is responsible for the coordination, development and implementation of emergency management planning, mitigation, response, and recovery statewide. This responsibility includes the administration and disbursement of federal Homeland Security and Emergency Management funds to eligible political subdivisions and tribal nations across the state. The division maintains a 24 hour a day point of contact to coordinate the volunteer, state, and federal response for assistance to political subdivisions and tribal nations in the event of an incident, emergency, or disaster.

Program Highlights

Disaster and Emergency Services Division Major Budget Highlights
<ul style="list-style-type: none"> • The Governor proposes federal grant funding at about \$1.0 million a year above the 2015 legislative base budget • Personal service costs increases are due to additional homeland security grant funding, implementation of HB 13 pay plan increases and fully funding FTE authorized in the 2015 biennium

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following highlights the differences between the FY 2015 appropriations as shown in the program budget comparison table to the FY 2015 legislative appropriations used for purposes of the budget base.

FY 2015 Appropriation Transactions - Department of Military Affairs				
Program	Legislative Appropriation	Category Adjustment	Total Implementation	Executive
Personal Services	\$1,433,061	\$0	\$1,433,061	
Operating Expenses	685,127	(35,000)	650,127	
Equipment	0	35,000	35,000	
Grants	11,735,443	0	11,735,443	
Transfers	<u>2,532,674</u>	<u>0</u>	2,532,674	
Total Expenditures	<u>\$16,386,305</u>	<u>\$0</u>	<u>\$16,386,305</u>	
General Fund	\$1,250,343	\$0	\$1,250,343	
State Special Revenue	236,536	0	236,536	
Federal Special	<u>14,899,426</u>	<u>0</u>	<u>14,899,426</u>	
Total Funds	<u>\$16,386,305</u>	<u>\$0</u>	<u>\$16,386,305</u>	

The net impact of several adjustments to federal grant authority was that the Disaster and Emergency Services Division transferred \$35,000 for operating expenses to equipment.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$3.3 million below the FY 2015 legislative appropriation. Primary reasons for the difference are mainly due to a reduction in homeland security grant funds. In the 2013 biennium DES received an additional \$6.4 million in federal funding for the homeland security grant program. \$2.5 million of the increase received in FY 2012 was included in the budget estimate for FY 2014. In FY 2014 homeland security grant funding did not include these additional funds.

Executive Request

The program budget comparison table shows the impacts of the budget after the transfers of appropriation authority are taken into account. The program requests an additional \$4.0 million in federal appropriation authority above FY 2014 actual expenditures. Requests for additional program expenditures include:

- \$120,000 for increases in personal services
- \$70,000 related to projected increases for operating expenses
- \$3.8 million to pay for local, tribal and state projects to strengthen the state's ability to prevent and respond to any hazard events. The grant focus is interoperable communications, fusion center operations, and explosive ordnance disposal

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 21-Disaster & Emergency Services Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	2,533,746	0	0	2,533,746	7.33 %	
02156 SAR DES DFWP Fees	41,928	0	0	41,928	28.39 %	
02170 SAR DES Off Road Vehicles	96,096	0	0	96,096	65.06 %	
02180 EMERGENCY PREPAREDNESS SUMMIT	0	0	0	0	0.00 %	
02335 DES Training Conference	9,686	0	0	9,686	6.56 %	
02847 Fire Suppression Fund	0	0	0	0	0.00 %	
State Special Total	\$147,710	\$0	\$0	\$147,710	0.43 %	
03022 Federal Disaster Assistance	0	0	0	0	0.00 %	
03134 Disaster & Emergency Services	31,902,765	0	0	31,902,765	100.00 %	
Federal Special Total	\$31,902,765	\$0	\$0	\$31,902,765	92.25 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$34,584,221	\$0	\$0	\$34,584,221		

Funding for the Disaster and Emergency Services Division is broken down roughly into three functional areas:

- Administration and coordination
- Search and rescue
- Grant programs

Administrative and coordination functions are funded primarily through a 50/50 partnership between state general fund and federal revenues. Disaster coordination functions are usually funded 100% with federal funds.

Search and rescue activities are funded through state special revenue funds derived from surcharges on conservation licenses and off-road vehicle licenses.

Grant activities are dominated by federal funding. The amount of this funding budgeted in HB 2 varies greatly depending on the federal source and available amounts known at the time of the budget submission. This is reflected in the reduction in federal funding for the upcoming biennium from the current biennium.

The Governor is also provided a number of statutory appropriations in the event of a declared emergency or disaster. The most notable of these is the authority to authorize up to \$16 million for disaster relief. These expenditures are authorized through executive orders. In FY 2014, the Governor authorized disaster relief expenditures from the general fund totaling \$1.1 million.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	1,250,343	1,250,343	2,500,686	98.70 %	16,386,305	16,386,305	32,772,610	94.76 %
PL Adjustments	16,925	16,135	33,060	1.30 %	912,348	899,263	1,811,611	5.24 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,267,268	\$1,266,478	\$2,533,746		\$17,298,653	\$17,285,568	\$34,584,221	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	6,907	(66,390)	431,813	372,330	0.00	6,663	(67,179)	431,866	371,350
DP 99 - LEG. Present Law	0.00	10,018	(96,291)	626,291	540,018	0.00	9,472	(95,502)	613,943	527,913
Grand Total All Present Law Adjustments	0.00	\$16,925	(\$162,681)	\$1,058,104	\$912,348	0.00	\$16,135	(\$162,681)	\$1,045,809	\$899,263

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	23.00	\$5,799	\$0	\$5,379	\$11,178
Executive Implementation of 2015 Pay Increase		14,533	-	13,479	28,012
Fully Fund 2015 Legislatively Authorized FTE		-	14,214	157,978	172,192
Other		(13,425)	(80,604)	254,977	160,948
Personal Services Present Law Adjustments	23.00	\$6,907	(\$66,390)	\$431,813	\$372,330
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	23.00	\$5,799	\$0	\$5,379	\$11,178
Executive Implementation of 2015 Pay Increase		14,392	-	13,620	28,012
Fully Fund 2015 Legislatively Authorized FTE		-	14,214	157,978	172,192
Other		(13,528)	(81,393)	254,890	159,968
Personal Services Present Law Adjustments	23.00	\$6,663	(\$67,179)	\$431,866	\$371,350

Reductions in funding contained in the "other" category are due to DMA's implementation of boilerplate language contained in HB 2 enacted by the 2013 Legislature. Increases due to the implementation of HB 13 and reinstatement of personal services funding that was reduced by the legislature in the previous session are also reflected in the table above. Almost half of the increase in federal funding in the "other" category is related to the projected costs for the Homeland Security Grant Program.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases in costs and funding when compared to the FY 2015 legislative budget. Grants and transfers to local governments supported by federal homeland security grant funds drive the increases.

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	24.00	24.00	26.00	26.00	24.00	26.00	2.00	8.33 %
Personal Services	1,365,406	1,435,807	1,624,673	1,624,104	2,801,213	3,248,777	447,564	15.98 %
Operating Expenses	165,202	344,256	164,851	160,763	509,458	325,614	(183,844)	(36.09)%
Grants	0	180,000	0	0	180,000	0	(180,000)	(100.00)%
Total Costs	\$1,530,608	\$1,960,063	\$1,789,524	\$1,784,867	\$3,490,671	\$3,574,391	\$83,720	2.40 %
General Fund	916,416	1,134,942	1,103,100	1,100,651	2,051,358	2,203,751	152,393	7.43 %
State/Other Special Rev. Funds	614,192	825,121	686,424	684,216	1,439,313	1,370,640	(68,673)	(4.77)%
Total Funds	\$1,530,608	\$1,960,063	\$1,789,524	\$1,784,867	\$3,490,671	\$3,574,391	\$83,720	2.40 %

Program Description

The Veterans' Affairs Program assists discharged veterans and their families, cooperates with state and federal agencies, promotes the general welfare of veterans, and provides information on veterans' benefits. The program also administers the veterans' cemeteries located at Miles City, Fort Harrison in Helena, and Missoula. The Board of Veterans' Affairs is administratively attached to the Department of Military Affairs, and operates under a state mandate provided in Title 10, Chapter 2, MCA.

Program Highlights

Veterans' Affairs Program Major Budget Highlights
<ul style="list-style-type: none"> • The Governor proposes to 2.00 FTE veterans' service officers to assist Montana veterans • Additional increases for personal services support implementation of HB 13 enacted by the 2013 Legislature
Major LFD Issues
<ul style="list-style-type: none"> • State special revenues provided to the Veterans' Affairs Program are available to reduce general fund

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The Veterans' Affairs Program did not change the FY 2015 legislative appropriations. The FY 2015 column shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are about \$409,000 less than the FY 2015 legislative appropriation. Primary reasons for the difference are:

- Personal services were less in FY 2014 mainly due to vacancies within veterans services technicians and implementation of HB 13 increases in FY 2015

- Operating expenses supported by additional state special revenues generated through a higher portion of vehicle fees were not utilized as projected revenues from vehicle fees distributed to the veterans' services account were about \$146,000 less than anticipated
- \$180,000 in one-time-only authority for grants that is not reflect in FY 2014 actuals as it was not considered part of the base budget

Executive Request

As shown the Veterans' Affairs Program personal services increase \$259,000 each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13 other changes include:

- Requests for 2.00 FTE veteran service officers to provide additional services to veterans in Montana
- Market pay adjustments granted throughout FY 2014 that are annualized for the 2017 biennium
- Employee attainment of longevity milestones in FY 2015

**LFD
ISSUE**

State Special Revenue Available to Reduce General Fund

Statute requires state agencies to apply expenditures against appropriated non-general fund money whenever possible before using general fund appropriations. As shown in the program budget comparison table the Veterans Affairs Program is funded by two funds:

- General Fund
- State special revenues including the veterans' services account

The 2013 Legislature passed HB 626 to increase the percentage of vehicle fees allocated to the veteran's services account beginning in FY 2014 and provided additional spending authority for the additional revenues. The figure below shows the revenues, expenditure, and related fund balances for the account for the 2015 and 2017 biennium.

Department of Military Affairs Veterans' Affairs Program Veterans' Services Account				
	FY 2014	FY 2015*	FY 2016	FY 2017
Beginning Fund Balance	\$59,221	\$162,458	\$162,458	\$193,224
Revenues	617,042	617,042	617,042	617,042
Expenditures				
Personal Services	471,477	466,614	542,567	542,887
Operating Expenses	<u>42,762</u>	<u>150,428</u>	<u>43,709</u>	<u>41,376</u>
Total Expenditures	514,239	617,042	586,276	584,263
Adjustments	<u>434</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$162,458</u>	<u>\$162,458</u>	<u>\$193,224</u>	<u>\$226,003</u>

* Revenues based on FY 2014 actuals, expenditures adjusted for lower than projected revenues in FY 2015

As shown in the figure above, in FY 2014 the Veterans Affairs Program (program) had state special revenues from the veterans' services account that could have been used to offset general fund. In FY 2013 the beginning fund balance in the account was \$21,282. Using this amount as an estimated fund balance that should be maintained in the account for cash flow purposes, the program could have offset general fund expenditures by about \$141,200 in FY 2014. As of December 11, 2014 the fund balance in the account was \$232,476.

For the purposes of this discussion the Legislative Fiscal Division assumes that the program will utilize the revenues it receives in FY 2015 for program expenses. This results in the fund balance generated in FY 2014 carrying through to FY 2016. As shown in the table on the previous page, under this scenario the legislature could reduce general fund by about \$205,000 in the 2017 biennium.

Legislative Option

Reduce general fund support for the Veterans Affairs Program by \$205,000 in the 2017 biennium and offset the reduction with state special revenues available in the veterans services account.

The State Administration and Veteran's Affairs Interim Committee discussed veteran outreach needs for Montana veterans. The committee sent a letter to the House Appropriations Committee and the Joint Appropriations Subcommittee on General Government requesting that the committees prioritize funding for a veteran service office in Glasgow and additional outreach personnel in established offices throughout the state. The full letter is provided in the appendix for Military Affairs.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Military Affairs, 31-Veterans Affairs Program Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	2,203,751	0	0	2,203,751	52.56 %	
02214 Veterans Affairs Cemeteries	0	0	618,156	618,156	31.08 %	
02222 Patriotic License Plate Fees	200,107	0	0	200,107	10.06 %	
02548 Veterans Affairs SB401	1,170,533	0	0	1,170,533	58.86 %	
State Special Total	\$1,370,640	\$0	\$618,156	\$1,988,796	47.44 %	
03413 Veterans Cemetery	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$3,574,391	\$0	\$618,156	\$4,192,547		

The Veterans' Affairs program is funded with both general fund and state special revenue. General fund is used to support functions throughout the program.

The veterans' service account was created by the legislature during the 2003 regular session in SB 401, which allocated proceeds from the sale of veterans' specialty license plates. In addition to the revenue received from the sale of some specialty license plates, this account and the Veterans' Affairs Cemeteries receive a portion of all of the motor vehicle registration revenue that is deposited in the general fund each year. The 2013 Legislature increased the percentage of motor vehicle fees into this account from 0.64% to 0.81%.

The State Veterans' Cemeteries Program statutory funding includes revenue derived primarily from cemetery donations and plot allowances. Finally, the Patriotic License Plate Account receives revenue from a \$15 surcharge on original and renewal patriotic license plates issued in Montana.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	954,942	954,942	1,909,884	86.67 %	1,759,797	1,759,797	3,519,594	98.47 %
PL Adjustments	38,116	35,937	74,053	3.36 %	(80,315)	(84,702)	(165,017)	(4.62)%
New Proposals	110,042	109,772	219,814	9.97 %	110,042	109,772	219,814	6.15 %
Total Budget	\$1,103,100	\$1,100,651	\$2,203,751		\$1,789,524	\$1,784,867	\$3,574,391	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----				-----Fiscal 2017-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	49,545	49,545	0	99,090	0.00	49,395	49,396	0	98,791
DP 99 - LEG. Present Law	0.00	(11,429)	(167,976)	0	(179,405)	0.00	(13,458)	(170,035)	0	(183,493)
Grand Total All Present Law Adjustments	0.00	\$38,116	(\$118,431)	\$0	(\$80,315)	0.00	\$35,937	(\$120,639)	\$0	(\$84,702)

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table on the next page includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	24.00	\$5,832	\$5,832	\$0	\$11,664
Executive Implementation of 2015 Pay Increase		12,592	12,592	-	25,184
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		31,121	\$31,121	-	62,243
Personal Services Present Law Adjustments	24.00	\$49,545	\$49,545	\$0	\$99,090
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	24.00	\$5,832	\$5,832	\$0	\$11,664
Executive Implementation of 2015 Pay Increase		12,592	12,592	-	25,184
Fully Fund 2015 Legislatively Authorized FTE		-	-	-	-
Other		30,971	30,972	-	61,944
Personal Services Present Law Adjustments	24.00	\$49,395	\$49,396	\$0	\$98,791

In addition to implementation of adjustments for increases contained in HB 13, other adjustments as discussed in the executive request narrative include:

- Market pay adjustments granted throughout FY 2014 that are annualized for the 2017 biennium
- Employee attainment of longevity milestones in the 2017 biennium
- Changes in employer retirement contributions

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, the executive proposes reductions in funding for operating expenses. The largest single difference is for motor vehicle leases.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3103102 - Veterans Service Officers	2.00	110,042	0	0	110,042	2.00	109,772	0	0	109,772
Total	2.00	\$110,042	\$0	\$0	\$110,042	2.00	\$109,772	\$0	\$0	\$109,772

DP 3103102 - Veterans Service Officers -

The executive requests authorization of 2.00 FTE Veterans Service Officers to augment existing agency staff in the Veteran's Affairs (VA) Division to serve existing and future clients who are requesting federal VA veterans benefits. The service officers would provide support for expanded programs for the Veterans of Foreign Wars Veterans Service Program and filing of veterans benefits for the offspring of parents exposed to Agent Orange.

5% Base Budget Reduction Form
[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 67010 Department of Military Affairs

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 244,576	\$ 34,423
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Army National Guard Operations	\$ 81,046	\$ 21
2	Air National Guard Operations	\$ 18,334	
3	Director's Office	\$ 29,680	
4	Veterans Affairs Local Support and training	\$ 45,722	\$ 30,710
5	Disaster and Emergency Services	\$ 58,824	\$ 3,692
6	Challenge Operations	\$ 500	
7	National Guard Scholarships	\$ 10,470	
8			
9			
10			
11			
	TOTAL SAVINGS	\$ 244,576	\$ 34,423
	DIFFERENCE	0	0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The Army National Guard Program would have to reduce janitorial services; weed control; lawn mowing, and snow removal

#2 THE SAVINGS THAT ARE EXPECTED:

The ARNG program could save \$81,046 in general fund.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

National Guard grounds that are irrigated would not be maintained and become over grown. Cutting snow plowing would create a safety hazard.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

Employees would have to provide their own or go without janitorial services, lawn maintenance, and snow removal.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Air Guard Program 13

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Reduce Janitorial Services \$5,000; Eliminate \$13,334 in Building & Grounds and Maintenance Contracts at Air National Guard base

#2 THE SAVINGS THAT ARE EXPECTED:

\$18,334 in General Fund dollars, \$73,336 Total Budget dollars

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Common areas in buildings will not be professionally cleaned and the Easter Seals janitorial contract will be reduced. Inadequate funding for buildings, grounds, pavements, and necessary service contracts at the Air Guard will result in prioritizing which real property facilities can be properly maintained and which ones can't. Airfield maintenance must have mission priority at MTANG. Therefore, contractual reductions for safety inspections, fire protection services, and preventative maintenance for 41 buildings will be reduced or eliminated, causing potential safety hazards and liability.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

Unknown

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Yes. National Guard Regulation 5-1.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The Director's Office will reduce .25 FTE and overall operations to reach the 5% budget reduction target..

#2 THE SAVINGS THAT ARE EXPECTED:

A 5% reduction would be an annual general fund savings of \$29,680

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

A large portion of the division's operating budget pays fixed costs to other State Departments. All other costs such as supplies, travel, equipment, and military awards will be reduced or eliminated. Reducing travel to other programs in the state will exacerbate existing personnel management difficulties. Not providing awards and decorations to National Guard Soldiers for recognition of state service will conflict with requirements in military regulations.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

Unknown at this time,

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

Elimination of: veterans service's program's outreach program; books/reference materials, educational/training courses and conferences, grant program, and one in-person Board meeting per year.

#2 THE SAVINGS THAT ARE EXPECTED:

General Fund - \$45,722. Special Revenue - \$30,710

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Elimination of the division's veterans service outreach program, which currently reaches 53, typically rural, communities and state institutions, statewide (in addition to existing service office locales) will result in fewer/reduced services to veterans and veteran family members. The negative impacts are significant in scope, to include but not limited to: veteran financial well-being/stability and community economic impact, veteran medical services - as authorized by benefit claim products/processing, veteran emotional stability, and veteran physical well-being. Elimination of books/reference materials and educational training courses and conferences will negatively impact veterans service officer competency and networking resource bases. Elimination of grant program will eliminate veterans service organizations' receipt of funds for use in outreach efforts. Elimination of one in-person Board meeting per year will result in two Board meetings (per year) by telephone conference and one in-person, thus restricting Board member interaction and public involvement/participation in meetings.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

Cannot be mitigated, personal/on-site and consistent veterans services are fundamental to benefits service products and processes. Staff education/training needs will be impaired, resulting in probable decrease in product quality relating to benefit claims preparation and submission products/processes.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

Yes: MCA 10-2-102 (1) and (1)(c)

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The Disaster & Emergency Services Division would have to eliminate \$58,824 from the State Hazardous Materials Response Team pass through. The reduction would reduce the pass through amount from \$265,000 to \$206,176. The impact would be felt not only by the 6 regional hazmat teams, but will have a greater impact on the ability of the teams to train and exercise with other jurisdictions.

#2 THE SAVINGS THAT ARE EXPECTED:

A 5% reduction would be a savings of \$52,074 in general fund and state special revenue spending will be reduced \$3,692.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

The impact would be felt not only by the 6 regional hazmat teams, but will have a greater impact on the ability of the teams to train and exercise with other jurisdictions.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

The reductions will reduce the ability to keep the response equipment up to date which in turn will reduce the response capability of the 6 Regional Hazardous Materials Response Teams when responding to rural or frontier jurisdictions across the state with very limited or non-existent hazmat capabilities

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The program will reduce its expenditures by \$500.

#2 THE SAVINGS THAT ARE EXPECTED:

The program will save \$500 of general fund.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

Unknown.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The National Guard Scholarship program would have to reduce the number scholarships awarded each year.

#2 THE SAVINGS THAT ARE EXPECTED:

The program would save \$10,470 each year of the bienium.

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

The elimination of these scholarships could negatively impact recruiting and retention in both the Army and Air National Guard.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED

There is really no way to mitigate the impact as scholarship dollars for guard men and women would not be available to assist with tuition and school costs.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No

Form B