

Agency Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Agency Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	6,983,414	8,106,514	1,123,100	16.08 %
Operating Expenses	9,552,957	10,873,673	1,320,716	13.83 %
Local Assistance	82,000	92,000	10,000	12.20 %
Grants	38,267,002	44,268,138	6,001,136	15.68 %
Benefits & Claims	697,842	0	(697,842)	(100.00)%
Transfers	1,810,000	1,200,000	(610,000)	(33.70)%
Total Expenditures	\$57,393,215	\$64,540,325	\$7,147,110	12.45 %
General Fund	6,840,108	11,550,719	4,710,611	68.87 %
State/Other Special Rev. Funds	14,371,527	10,824,984	(3,546,543)	(24.68)%
Federal Spec. Rev. Funds	36,181,580	42,164,622	5,983,042	16.54 %
Total Funds	\$57,393,215	\$64,540,325	\$7,147,110	12.45 %
Total Ongoing	\$53,243,215	\$64,440,325	\$11,197,110	21.03 %
Total OTO	\$4,150,000	\$100,000	(\$4,050,000)	(97.59)%

Mission Statement

The Department of 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.

For additional information, please refer to the agency profile found at: <https://leg.mt.gov/lfd/publications/>.

Agency Highlights

**Department of Commerce
Major Budget Highlights**

- The Department of Commerce's 2021 biennium budget request is approximately \$7.1 million or 12.5% higher than the 2019 biennium budget. Significant changes include:
 - Proposed ongoing general fund appropriations for several programs that were funded with one-time-only appropriations for several biennia. These programs include:
 - Primary Sector Workforce Training Grant Program
 - Indian Country Economic Development Program
 - Native Language Preservation Program
 - Proposed one-time-only, biennial general fund appropriations for marketing related to the 2020 Decennial Census
 - Proposed elimination of HB 2 state special revenue funding for the Food and Agriculture Development Centers, Office of Outdoor Recreation, and grants that address employment barriers
 - Proposed increases in federal special revenue for the National Housing Trust Fund Program (HTF)

Agency Actuals and Budget Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	47.05	47.05	49.05	49.05
Personal Services	2,974,166	3,357,579	3,625,835	4,053,436	4,053,078
Operating Expenses	2,909,641	4,499,256	5,053,701	5,489,210	5,384,463
Local Assistance	0	36,000	46,000	46,000	46,000
Grants	6,193,931	19,368,903	18,898,099	22,109,069	22,159,069
Benefits & Claims	141,183	348,921	348,921	0	0
Transfers	905,000	905,000	905,000	600,000	600,000
Total Expenditures	\$13,123,921	\$28,515,659	\$28,877,556	\$32,297,715	\$32,242,610
General Fund	3,196,578	3,264,192	3,575,916	5,822,582	5,728,137
State/Other Special Rev. Funds	4,529,395	7,178,125	7,193,402	5,422,138	5,402,846
Federal Spec. Rev. Funds	5,397,948	18,073,342	18,108,238	21,052,995	21,111,627
Total Funds	\$13,123,921	\$28,515,659	\$28,877,556	\$32,297,715	\$32,242,610
Total Ongoing	\$11,112,621	\$26,440,659	\$26,802,556	\$32,197,715	\$32,242,610
Total OTO	\$2,011,300	\$2,075,000	\$2,075,000	\$100,000	\$0

Agency Discussion

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Department of Commerce's HB 2 modified budget of \$28.5 million was 46.0% expended as of the end of FY 2018. The primary reason for the low percentage expended is due to grant activity. Grants totaling \$19.4 million are 32.0% expended. The low percentage expended is primarily due to the timing of accruing valid obligations, timing related to grant disbursements, and fluctuation in the amount of federal funds received.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are small differences between the FY 2018 appropriation and FY 2019 appropriation primarily in personal services, operating expenses, and grants in the Department of Commerce. Personal services, operating expenses, and grants are impacted by executive modifications in FY 2018. Additionally, differences in personal services appropriations are due to state share contribution reductions in FY 2018 and the pay plan in FY 2019. Operating expenses are also impacted by SB 9 restorations. Additional details on the differences in appropriations are provided at the program level.

Executive Request

The Department of Commerce requests an increase above the FY 2019 base in general fund and federal special revenue appropriations of approximately \$5.2 million in FY 2020 and \$5.2 million FY 2021. The proposed increase in general fund is primarily due to the Department of Commerce requesting funding for the Primary Business Sector Training Program, Indian Country Economic Development Program, and the Native Language Preservation Program.

The proposed increase in federal special revenue is primarily due to a new proposal related to the Housing Trust Fund Program.

These requests will be discussed in further detail at the program level.

Legislative Audit Findings

LFD COMMENT

The Legislative Audit Division conducted a financial compliance audit of the Department of Commerce in March 2018. The audit found:

1. The department did not follow state procurement policies as required by federal regulations
2. The department did not have internal controls in place to ensure transfers-in amounts were accurate for fiscal year 2016
3. The department does not have internal controls in place over its Director's grants
4. The department's internal service fund fees were not commensurate with costs during the audit period

The Legislative Auditor recommends the Department of Commerce:

1. Implement internal controls to ensure sole source justification for its Section 8 Housing Choice Vouchers field service contracts is documented and approved in order to comply with federal procurement requirements
2. Ensure its transfers-in are accurate and complete as recorded on the accounting records
3. Implement monitoring control procedures to ensure Director's grants are supported in accordance with state policy
4. Comply with state law and maintain a reasonable fund equity balance and ensure fees are commensurate with costs in its investments internal service fund

Additional information on the audit can be found at: <https://leg.mt.gov/content/Publications/Audit/Report/17-16.pdf>

Comparison of FY 2019 Legislative Budget to FY 2019 Base

Figure 1 illustrates the beginning FY 2019 budget as adopted by the 2017 Legislature compared to the finalized 2019 Base Budget, which includes modifications done by the executive (as authorized in statute) during the interim. The 2019 Base Budget was agreed upon by the executive and legislative branches to be the point from which any changes would be recorded for the 2021 biennium budgeting process.

Figure 1

FY 2019 Legislative Appropriations - Department of Commerce				
	Legislative Action	Executive Modifications per Statutory Authority	Executive Base	% Change from Legislative Action
51 Mt Office Of Tourism & Bus Dev				
61000 Personal Services	1,696,384	44,521	1,740,905	2.6%
62000 Operating Expenses	2,627,398	309,669	2,937,067	11.8%
65000 Local Assistance	120,000	(74,000)	46,000	-61.7%
66000 Grants	1,093,028	(330,190)	762,838	-30.2%
68000 Transfers-out	105,000	-	105,000	0.0%
Program Total	5,641,810	(50,000)	5,591,810	-0.9%
60 Community Development Division				
61000 Personal Services	1,776,770	-	1,776,770	0.0%
62000 Operating Expenses	1,799,041	-	1,799,041	0.0%
66000 Grants	16,502,789	-	16,502,789	0.0%
Program Total	20,078,600	-	20,078,600	0.0%
74 Housing Division				
61000 Personal Services	1,346	(1,346)	-	-100.0%
62000 Operating Expenses	73,654	11,346	85,000	15.4%
67000 Benefits & Claims	358,921	(10,000)	348,921	-2.8%
Program Total	433,921	-	433,921	0.0%
78 Board Of Horse Racing				
61000 Personal Services	16,895	-	16,895	0.0%
62000 Operating Expenses	181,330	-	181,330	0.0%
Program Total	198,225	-	198,225	0.0%
81 Directors Office				
66000 Grants	500,000	-	500,000	0.0%
Program Total	500,000	-	500,000	0.0%
Grand Total	26,852,556	(50,000)	26,802,556	-0.2%

The legislative action budget includes the FY 2019 budget as adopted during the November 2017 Special Session, specific other house and senate bills, and SB 9 restorations. The Department of Commerce did not have any other house and senate bills included in the base budget. SB 9 restored general fund appropriations of approximately \$363,000 to the FY 2019 budget.

The Department of Commerce had several executive modifications to the legislative budget. The most significant modifications occurred in the Montana Office of Tourism and Business Development and include:

- The transfer of \$74,000 from local assistance to operating expenses. These funds are used for activities in the Indian tourism region and are overseen by the State Tribal Economic Development Commission
- The transfer of \$50,000 general fund from FY 2019 to FY 2018 for Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) grants because the demand for grants in FY 2018 was higher than anticipated
- The correction to reductions that resulted from the November 2017 Special Session. This correction moved reductions of approximately \$280,000 from operating expenses to grants

5.0% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5.0%. The Department of Commerce has provided a plan for a reduction of approximately \$142,000 general fund and \$48,000 state special revenue funds. The plan includes reductions in funds available for business and community development activities. The agency submitted plan is in the appendix.

Agency Personal Services

In order to explain the factors influencing personal services changes, the proposed statewide personal services present law adjustment (DP 1) has been broken down into four categories, as follows:

1. Formula Based

Formula based changes are calculated independent of agency choices, such as: annualize personal services costs including FY 2019 statewide pay plan adjustments, changes to benefit rates, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot, plus rate changes for workers' compensation and unemployment insurance.

A detailed illustration of this methodology is included in the Budget Analysis Appendix.

2. Personal Services Management Decisions

Any agency management decisions that adjusted employee pay or transferred personal services authority between programs. This includes raises or position changes that may increase or reduce a budget, such as hiring FTE at a lower rate to replace retired senior staff or moving FTE and funding between programs.

3. Proposed Reinstatement of Personal Services Base Budget Reductions

Most agencies requested reinstatement of personal services budget reductions taken last session. The single largest reinstatement is due to the lower vacancy savings rate requested by the executive. The FY 2019 personal services base included approximately 6.0% vacancy savings reduction as part of the funding adopted in HB 2. Generally, the executive requested a 2.0% vacancy savings reduction for 2021 biennium.

Agencies funded with general fund may have additional personal services reductions such as those reduced from the triggers in SB 261 from last session.

In some instances, the lower personal services budgets caused agencies to make management decisions that lowered the ongoing cost of personal services. When this occurred, the LFD reflected the lower reinstatement requested rather than the total of all personal services reductions made by the previous legislature.

4. Budget Modifications

This category includes modifications to the FY 2019 personal services budget such as transfer of personal services authority to operating expenses that occurred during the interim. These transfers may impact the overall size of the personal services present law adjustment (DP 1).

The Figure shows the analysis of the proposed changes.

Figure 2

Personal Services Present Law DP 1 - FY 2020					
Program	Formula Based	Management Decisions	Proposed Reinstatement of PS	Budget Modifications	DP1 SWPL
51 OFFICE OF TOURISM & BUS DEVELOPMENT	17,610	82,132	(45,080)	(44,521)	10,141
60 COMMUNITY DEVELOPMENT DIVISION	15,345	(85,573)	355,797	-	285,569
78 BOARD OF HORSE RACING	1,702	3,441	103,141	-	108,284
Agency Total	\$34,657	\$0	\$413,858	(\$44,521)	\$403,994

Personal services were \$3.6 million or 12.6% of total FY 2019 HB 2 appropriations. The executive proposes an increase of approximately \$404,000 in FY 2020 and \$401,000 in FY 2021. The proposed reinstatement of personal services base budget reductions is primarily contributing to the statewide present law adjustment for personal services.

Details of significant factors included in the statewide present law adjustment for personal services will be discussed at the program level.

Funding

The following table shows proposed agency funding by source of authority.

Total Department of Commerce Funding by Source of Authority 2021 Biennium Budget Request - Department of Commerce						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	11,450,719	100,000	0	3,600,000	15,150,719	5.28 %
State Special Total	10,824,984	0	0	72,923,821	83,748,805	29.16 %
Federal Special Total	42,164,622	0	0	2,092,391	44,257,013	15.41 %
Proprietary Total	0	0	137,751,324	6,268,509	144,019,833	50.15 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$64,440,325	\$100,000	\$137,751,324	\$84,884,721	\$287,176,370	
Percent - Total All Sources	22.44 %	0.03 %	47.97 %	29.56 %		

Over 75.0% of the overall funding in the Department of Commerce is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as statutory appropriations. HB 2 appropriations of general fund, state special revenue, and federal special revenues comprise the remaining funding for the Department of Commerce and will be discussed in further detail at the program level.

Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	3,200,916	3,200,916	6,401,832	55.42 %	26,802,556	26,802,556	53,605,112	83.06 %
SWPL Adjustments	107,998	100,070	208,068	1.80 %	495,235	432,044	927,279	1.44 %
PL Adjustments	188,668	202,151	390,819	3.38 %	(1,952)	106,340	104,388	0.16 %
New Proposals	2,325,000	2,225,000	4,550,000	39.39 %	5,001,876	4,901,670	9,903,546	15.34 %
Total Budget	\$5,822,582	\$5,728,137	\$11,550,719		\$32,297,715	\$32,242,610	\$64,540,325	

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	3,493,898	3,628,087	134,189	3.84 %
Operating Expenses	5,490,364	6,293,495	803,131	14.63 %
Local Assistance	82,000	92,000	10,000	12.20 %
Grants	4,268,956	4,586,296	317,340	7.43 %
Transfers	1,810,000	1,200,000	(610,000)	(33.70)%
Total Expenditures	\$15,145,218	\$15,799,878	\$654,660	4.32 %
General Fund	5,283,719	9,685,275	4,401,556	83.30 %
State/Other Special Rev. Funds	8,265,422	4,423,498	(3,841,924)	(46.48)%
Federal Spec. Rev. Funds	1,596,077	1,691,105	95,028	5.95 %
Total Funds	\$15,145,218	\$15,799,878	\$654,660	4.32 %
Total Ongoing	\$10,995,218	\$15,699,878	\$4,704,660	42.79 %
Total OTO	\$4,150,000	\$100,000	(\$4,050,000)	(97.59)%

Program Description

The Montana Office of Tourism and Business Development (MOTBD) markets Montana's spectacular unspoiled nature, vibrant and charming small towns, breathtaking experiences, relaxing hospitality, and competitive business climate to promote the state as a place to visit and do business. Its goal is to sustain and enhance the quality of life for all Montanans and their communities by strengthening the economy through job creation and business development. In conjunction with other divisions of the Montana Department of Commerce and partners around the state, MOTBD's programs aim to support businesses through technical assistance, research, and access to grants and loans, while inspiring visitation to maximize the economic impact of tourism, encourage private sector investment, and ensure that Montana is a great place to live, work, and play today and for future generations.

The Office of Tourism and Business Development Division responsibilities are mandated primarily in Title 15, Chapter 35, Section 108; Title 15, Chapter 65, Sections 121-122, Title 17, Chapter 6, Part 4; Title 39, Chapter 11; Title 90, Chapters 1 and 3, Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

Program Highlights

Montana Office of Tourism and Business Development Major Budget Highlights
<ul style="list-style-type: none"> • The Montana Office of Tourism and Business Development's 2021 biennium budget request is approximately \$655,000 or 4.3% higher than the 2019 biennium budget. • The executive is proposing ongoing general fund appropriations for the Primary Sector Workforce Training Grant Program, Indian Country Economic Development Program, and Native Language Preservation Program. These programs have been funded with one-time-only funds for the last several biennia. The executive is proposing to not include the one-time-only designation which results in the appropriation being part of the base budget in the next biennia • The executive is proposing one-time-only, biennial general fund appropriations for marketing related to the 2020 Decennial Census • The executive is proposing eliminating HB 2 state special revenue funding for the Food and Agriculture Development Centers, Office of Outdoor Recreation, and grants that address employment barriers

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	20.35	20.35	22.35	22.35
Personal Services	1,570,198	1,661,728	1,832,170	1,815,258	1,812,829
Operating Expenses	1,975,968	2,502,034	2,988,330	3,205,008	3,088,487
Local Assistance	0	36,000	46,000	46,000	46,000
Grants	2,183,253	2,373,646	1,895,310	2,293,148	2,293,148
Transfers	905,000	905,000	905,000	600,000	600,000
Total Expenditures	\$6,634,419	\$7,478,408	\$7,666,810	\$7,959,414	\$7,840,464
General Fund	2,468,316	2,534,360	2,749,359	4,890,626	4,794,649
State/Other Special Rev. Funds	3,498,438	4,147,893	4,117,529	2,229,090	2,194,408
Federal Spec. Rev. Funds	667,665	796,155	799,922	839,698	851,407
Total Funds	\$6,634,419	\$7,478,408	\$7,666,810	\$7,959,414	\$7,840,464
Total Ongoing	\$4,623,119	\$5,403,408	\$5,591,810	\$7,859,414	\$7,840,464
Total OTO	\$2,011,300	\$2,075,000	\$2,075,000	\$100,000	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Montana Office of Tourism and Business Development expended 88.7% of its \$7.5 million HB 2 modified budget as of the end of FY 2018. Personal services were 94.5% expended, operating expenses were 79.0% expended, and grants

were 92.0% expended. The lower percentage expended for operating expenses was primarily due to the microbusiness loan account, which was 0.0% expended because all funds had already been dispersed.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between FY 2018 and FY 2019 appropriations, which are primarily in personal services, operating expenses and grants. Significant differences include:

- Personal Services
 - There was a decrease in the FY 2018 appropriation of approximately \$36,000 resulting from legislative action. This reduction was to the state share contribution
 - There was a decrease in the FY 2018 appropriation resulting from an executive modification. This change decreased personal services appropriations by approximately \$80,000 and was due to operating expenses being greater than anticipated
- Operating expenses
 - There was a net decrease in the FY 2018 appropriation resulting from an executive modification. This change decreased the appropriation for operating expenses by approximately \$275,000 and was primarily due to a transfer of authority from operating expenses to grants to allow for the accrual of outstanding primary business sector workforce training grants
 - There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$280,000 were applied to operating expenses
- Grants
 - There was an increase in the FY 2018 appropriation resulting from an executive modification. This change increased appropriations for grants by \$355,000 to allow for the accrual of outstanding primary business sector workforce training grants

Executive Request

The Montana Office of Tourism and Business Development is requesting an increase above the FY 2019 base in ongoing appropriations of approximately \$2.3 million in FY 2020 and \$2.2 million in FY 2021. General fund appropriations are proposed to increase while state special revenue appropriations are proposed to decrease.

The 2017 Legislature approved a one-time-only fund switch from general fund to the big sky economic development state special revenue fund for several economic development programs. The executive is proposing to switch the Primary Business Sector Workforce Training Grant Program and Indian Country Economic Development Program back to general fund appropriations in the 2021 biennium. The executive is also proposing to eliminate HB 2 state special revenue appropriations for Food and Agricultural Development Centers, the Office of Outdoor Recreation, and grants that address employment barriers.

Additionally, the executive is proposing general fund appropriations for marketing related to the 2020 Decennial Census and the Native Language Preservation Program.

Program Personal Services Narrative

The following figure shows the analysis of the proposed statewide present law adjustment for personal services in FY 2020 and FY 2021.

Figure 3

Department of Commerce Montana Office of Tourism and Business Development Statewide Present Law Adjustment (SWPL) for Personal Services		
	FY 2020	FY 2021
Formula Based	\$ 17,610	\$ 15,531
Management Decisions	82,132	82,247
Proposed Reinstatement of Personal Services	(45,080)	(45,117)
Budget Modifications	<u>(44,521)</u>	<u>(44,521)</u>
SWPL - Personal Services	<u>\$ 10,141</u>	<u>\$ 8,140</u>

Personal services were \$1.8 million or 23.9% of total FY 2019 appropriations. The executive proposes an increase of approximately \$10,000 in FY 2020 and \$8,000 in FY 2021. There are primarily three categories impacting the statewide present law adjustment for personal services, which include:

- **Management Decisions** – The Department of Commerce transferred 1.00 FTE from the Community Development Division to the Montana Office of Tourism and Business Development for a position in the Office of Outdoor Recreation
- **Proposed Reinstatement of Personal Services Base Budget Reductions** - The reinstatement of personal services base budget reductions related to SB 261 reductions and vacancy savings totaled approximately \$80,000. This reinstatement is more than offset by personal services funding in SB 95 that did not have a corresponding increase in FTE. Because this personal services funding did not have FTE associated with it, the proposed reinstatement is reduced by \$125,000. However, it is important to note that because the department moved 1.00 FTE (discussed in the bullet above), personal services funding related to SB 95 is restored through the statewide present law adjustment.
- **Budget Modifications** – The Montana Office of Tourism and Business Development transferred approximately \$45,000 from operating expenses to personal services, which resulted in a lower statewide present law adjustment for personal services

Funding

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

Department of Commerce, 51-Office of Tourism & Business Development						
Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	9,585,275	100,000	0	3,600,000	13,285,275	14.67 %
02090 Business Asst-Private	190,000	0	0	0	190,000	0.26 %
02100 Distressed Wood Products RLF	0	0	0	1,153,394	1,153,394	1.57 %
02116 Accommodation Tax Account	41,314	0	0	41,283,920	41,325,234	56.22 %
02154 MT Promotion-Private	570,000	0	0	0	570,000	0.78 %
02210 Microbusiness Admin Acct	353,746	0	0	0	353,746	0.48 %
02212 Microbusiness Loan Acct	999,708	0	0	0	999,708	1.36 %
02229 MT SBCI Servicing Fees	68,750	0	0	0	68,750	0.09 %
02254 Regional Accommodation Tax	0	0	0	17,499,704	17,499,704	23.80 %
02271 L&C Bicentennial Plate Fund	0	0	0	30,400	30,400	0.04 %
02444 BEAR Program	18,000	0	0	0	18,000	0.02 %
02557 Research & Commercialization	0	0	0	1,000,000	1,000,000	1.36 %
02671 Trade Growth thru AG	0	0	0	0	0	0.00 %
02771 Big Sky Economic Dev Program	0	0	0	8,121,764	8,121,764	11.05 %
02848 SBDC PRIVATE REVENUE NONFED	95,000	0	0	0	95,000	0.13 %
02939 State-Tribal Economic Devel	364,509	0	0	0	364,509	0.50 %
02344 Primary Sector Training	1,357,215	0	0	0	1,357,215	1.85 %
02672 GAP Financing Program	365,256	0	0	0	365,256	0.50 %
State Special Total	\$4,423,498	\$0	\$0	\$69,089,182	\$73,512,680	81.16 %
03092 Distressed Woods Federal	0	0	0	2,092,391	2,092,391	55.30 %
03207 Small Business Dev. Centers	1,691,105	0	0	0	1,691,105	44.70 %
03331 OIT STEP	0	0	0	0	0	0.00 %
03671 SBA FAST Grant	0	0	0	0	0	0.00 %
03609 Distressed Wood Sequestered	0	0	0	0	0	0.00 %
Federal Special Total	\$1,691,105	\$0	\$0	\$2,092,391	\$3,783,496	4.18 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$15,699,878	\$100,000	\$0	\$74,781,573	\$90,581,451	

HB 2 Funding

General fund appropriations comprise approximately 61.1% of proposed HB 2 appropriations. The figure below provides additional information regarding the programs funded with general fund.

Figure 4

Department of Commerce Montana Office of Tourism and Business Development Proposed HB 2 General Fund Appropriations		
	FY 2020	FY 2021
Small Business Innovaton Research/ Small Business Technology Transfer (SBIR/STTR)	\$ 341,203	\$ 341,203
Montana Manufacturing Extension Center (MMEC)	100,000	100,000
Research & Information Services	998,973	1,000,865
Made in Montana Program	166,571	166,886
Small Business Development Center (SBDC)	388,647	389,383
State Tribal Economic Development	468,879	469,767
International Trade Export	22,034	22,076
Commerce Loan Fund	79,319	79,469
NP 5101 - Primary Business Sector Training	600,000	600,000
NP 5102 - Indian Country Economic Development	875,000	875,000
NP 5103 - Census 2020 Marketing	100,000	-
NP 5104 - Montana Indian Language Preservation	<u>750,000</u>	<u>750,000</u>
Total	<u>\$ 4,890,626</u>	<u>\$ 4,794,649</u>

State special revenue appropriations comprise 28.2% of proposed HB 2 appropriations. These appropriations include authority for microbusiness loans, primary business sector training, private contributions for joint private/state targeted tourism advertising campaigns, and the State-Tribal Economic Development Program.

LFD COMMENT

The big sky economic development (BSED) trust fund is established by statute and requires 25.0% of the coal severance tax available to the coal severance tax permanent trust be segregated into the BSED trust fund. The income from the BSED trust is deposited into the BSED income fund and is available for transfer to the BSED state special revenue fund.

The purpose, as defined in statute, of the Big Sky Economic Development Program 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 the 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
- Encourage workforce development, including workforce training and job creation, in high-poverty counties by providing targeted assistance

The BSED state special revenue account further defined the uses of the fund. Except for money used for administrative expenses:

- 75.0% must be allocated for distribution to local governments and tribal governments to be used for job creation efforts
- 25.0% must be allocated 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

The 2017 Legislature approved a one-time-only fund switch from general fund to the big sky economic development state special revenue fund for several economic development programs. The executive is proposing to switch the Primary Business Sector Workforce Training Grant Program and Indian Country Economic Development Program back to general fund appropriations in the 2021 biennium. The executive is also proposing to eliminate HB 2 state special revenue appropriations for Food and Agricultural Development Centers, the Office of Outdoor Recreation, and grants that address employment barriers. Statutory appropriations for the Big Sky Economic Development Program will comprise all expenditures from the state special revenue fund. The estimated ending fund balance at the end of FY 2021 between the BSED Trust Income Fund and the BSED state special revenue fund will be approximately \$559,000 with proposed expenditures. The figure below provides information on the fund balance for the three BSED funds.

Department of Commerce Big Sky Economic Development Funds				
	Actual FY 2018	Estimated FY 2019*	Proposed FY 2020	Proposed FY 2021
Big Sky Economic Development Trust Fund - 09051				
Beginning Fund Balance	\$95,612,687	\$102,857,780	\$109,710,645	\$116,680,199
Revenues (Transfers In)**	7,361,625	6,962,865	7,079,554	7,116,278
Transfers Out	(116,532)	(110,000)	(110,000)	(110,000)
Ending Fund Balance	<u>\$102,857,780</u>	<u>\$109,710,645</u>	<u>\$116,680,199</u>	<u>\$123,686,477</u>
Big Sky Economic Development Trust Income Fund - 09052				
Beginning Fund Balance	\$10,644,105	\$6,331,096	\$6,218,857	\$5,978,039
Revenues**	3,386,991	3,589,761	3,860,182	4,091,000
Transfers Out	(7,700,000)	(3,702,000)	(4,101,000)	(4,418,000)
Ending Fund Balance	<u>\$6,331,096</u>	<u>\$6,218,857</u>	<u>\$5,978,039</u>	<u>\$5,651,039</u>
Big Sky Economic Development State Special Revenue - 02771				
Beginning Fund Balance	(\$3,452,847)	(\$4,039,879)	(\$5,489,293)	(\$5,426,777)
Revenues	7,700,133	3,702,000	4,101,000	4,418,000
Expenditures				
Personal Services	(421,303)	(470,767)	(241,459)	(241,315)
Operating Expenses	(211,458)	(214,515)	(89,836)	(91,965)
Grants	(3,839,404)	(3,361,133)	(3,707,189)	(3,750,000)
Transfers Out	(3,815,000)	(1,105,000)	0	0
Total Expenditures	(8,287,165)	(5,151,415)	(4,038,484)	(4,083,280)
Other Adjustments				
Ending Fund Balance	<u>(\$4,039,879)</u>	<u>(\$5,489,293)</u>	<u>(\$5,426,777)</u>	<u>(\$5,092,057)</u>
*FY 2019 statutory appropriation grants are estimated using historical data				
**Updated with preliminary revenue estimate as of November 2018 (excludes unrealized investment gains and losses)				

Federal special revenue appropriations comprise 10.8% of total proposed HB 2 appropriations and are for small business development centers.

Statutory Appropriations

The majority of statutory appropriations are from lodging and facility taxes and are used to support tourism and film promotion in the state. Statutory appropriations also include funding for the Distressed Wood Products Program, Research and Commercialization, and the Big Sky Economic Development Program. Statutorily appropriated general fund is used for business and economic development programs.

LFD COMMENT

The Department of Commerce receives two statutory appropriations related to the interest income of the coal severance tax (15-35-108(11)(b), MCA). These statutory appropriations currently sunset at the end of the 2019 biennium.

The two statutory appropriations include:

- The research and commercialization state special revenue fund, which receives \$1.275 million prior to the interest income of the coal severance tax being deposited into the general fund
- The Department of Commerce receives the following general fund appropriations once the interest income of the coal severance tax is deposited into the general fund:
 - \$125,000 for a small business development center
 - \$50,000 for a small business innovative research program
 - \$425,000 for certified regional development corporations
 - \$200,000 for the Montana Manufacturing Extension Center at Montana State University – Bozeman
 - \$300,000 for export trade enhancement

The executive is proposing legislation that removes the sunset from the statutory appropriation. The executive is also proposing the following modifications to the amounts included in the statutory appropriation:

Figure 5

Department of Commerce Economic Development Statutory Appropriation (15-35-108(11)(b), MCA)			
	Current Annual Appropriation	Proposed Changes	Proposed Appropriation
Department of Commerce			
Small Business Development Center	\$125,000	\$200,000	\$325,000
Small Business Innovative Research Program	50,000	0	50,000
Certified Regional Development Corporations	425,000	200,000	625,000
Montana Manufacturing Extension Center	200,000	300,000	500,000
Export Trade Enhancement	300,000	0	300,000
Research and Commercialization	1,275,000	(775,000)	500,000
Total	\$2,375,000	(\$75,000)	\$2,300,000

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	2,374,359	2,374,359	4,748,718	49.03 %	5,591,810	5,591,810	11,183,620	70.78 %
SWPL Adjustments	14,063	9,993	24,056	0.25 %	71,722	22,594	94,316	0.60 %
PL Adjustments	177,204	185,297	362,501	3.74 %	294,006	324,390	618,396	3.91 %
New Proposals	2,325,000	2,225,000	4,550,000	46.98 %	2,001,876	1,901,670	3,903,546	24.71 %
Total Budget	\$4,890,626	\$4,794,649	\$9,685,275		\$7,959,414	\$7,840,464	\$15,799,878	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	4,169	5,636	336	10,141	0.00	3,347	4,524	269	8,140
DP 2 - Fixed Costs	0.00	8,866	48,271	3,416	60,553	0.00	5,370	5,657	2,151	13,178
DP 3 - Inflation Deflation	0.00	1,028	0	0	1,028	0.00	1,276	0	0	1,276
DP 5106 - OTBD Administrative Costs Adjustments	0.00	177,204	80,778	36,024	294,006	0.00	185,297	90,028	49,065	324,390
Grand Total All Present Law Adjustments	0.00	\$191,267	\$134,685	\$39,776	\$365,728	0.00	\$195,290	\$100,209	\$51,485	\$346,984

**"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Formula based changes
- Personal services management decisions
- Reinstatement of personal services previously reduced
- Modifications made to the personal services budget in the 2019 biennium

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 5106 - OTBD Administrative Costs Adjustments -

The executive requests an increase in general fund, state special revenue, and federal special revenue appropriations. This change package includes:

- An increase of state special revenue of approximately \$90,000 each fiscal year to match anticipated funds. The department anticipates receiving more funds as the result of increased public/private partnerships and enhancements to the Governor’s Conference on Tourism and Recreation, enhancements to the Made in Montana Tradeshow, and the Small Business Development Center (SBDC) conference
- An increase in state special revenue funds of approximately \$58,000 in FY 2020 and \$67,000 in FY 2021 to match anticipated amounts received from the accommodation tax for the State Tribal Tourism program
- A decrease in state special revenue of approximately \$67,000 each fiscal year for the GAP Financing Program to match anticipated Native American collateral/gap financing loans
- An increase in federal special revenue of \$40,000 in FY 2020 and \$50,000 in FY 2021 to match anticipated federal authority for the SBDC
- An overall increase in funds for adjustments to a 5-year replacement schedule for computer hardware in FY 2020 and FY 2021 as well as an increase rent in FY 2021
- An overall decrease in funds for indirect costs paid to the Director’s Office

LFD COMMENT There will be a modification to this present law adjustment (DP 5106) in the December 15, 2018 submission of the Governor’s budget. This modification will reduce the general fund request by \$180,124 each fiscal year.

New Proposals

The “New Proposals” table shows new changes to spending.

New Proposals	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5101 - OTBD Primary Business Sector Training	1.00	600,000	81,876	0	681,876	1.00	600,000	81,670	0	681,670
DP 5102 - OTBD Indian Country Economic Development	1.00	875,000	0	0	875,000	1.00	875,000	0	0	875,000
DP 5103 - OTBD Census 2020 Marketing BIEN/OTO	0.00	100,000	0	0	100,000	0.00	0	0	0	0
DP 5104 - OTBD Montana Indian Language Preservation BIEN	0.00	750,000	0	0	750,000	0.00	750,000	0	0	750,000
DP 5105 - OTBD Eliminate Big Sky Trust Fund Appropriations	0.00	0	(405,000)	0	(405,000)	0.00	0	(405,000)	0	(405,000)
Total	2.00	\$2,325,000	(\$323,124)	\$0	\$2,001,876	2.00	\$2,225,000	(\$323,330)	\$0	\$1,901,670

***Total Funds** amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 5101 - OTBD Primary Business Sector Training -

The executive requests general fund and state special revenue in FY 2020 and FY 2021 for the Primary Sector Workforce Training Grant. This request includes funding for 1.00 FTE. The program provides grant funds to new and existing primary sector Montana businesses for training their employees in newly created full-time and part-time jobs.

LFD COMMENT The legislature has funded the Primary Business Sector Training Program with one-time-only funds for the last several biennia. In the 2019 biennium there was a one-time-only fund switch from general fund to the big sky economic development state special revenue fund. The executive is proposing to switch funding back to the general fund and not include the one-time-only designation which results in the appropriation being part of the base budget in the next biennia.

DP 5102 - OTBD Indian Country Economic Development -

The executive requests general fund in FY 2020 and FY 2021 for the Indian Country Economic Development (ICED) Program. This request includes funding for 1.00 FTE. This program provides small equity grants, business advisor host organization funds, and tribal government business planning resources. Funding is distributed to the eight tribal nations and tribal member businesses.

**LFD
COMMENT**

The legislature has funded the Indian Country Economic Development Program with one-time-only funds for the last several biennia. In the 2019 biennium there was a one-time-only fund switch from general fund to the big sky economic development state special revenue fund. The executive is proposing to switch funding back to the general fund and not include the one-time-only designation which results in the appropriation being part of the base budget in the next biennia.

DP 5103 - OTBD Census 2020 Marketing BIEN/OTO -

The executive requests one-time-only, biennial general fund appropriation for the 2020 Decennial Census. The 2020 count of Montana residents will be done by the Census Bureau with fewer employees and less funding than 2010, relying for the first time on internet responses and other technology. Proposed expenditures include promotions and printing, contracted services, workshops and meetings, travel, communications, and office supplies.

DP 5104 - OTBD Montana Indian Language Preservation BIEN -

The executive requests biennial general fund appropriation for the Montana Indian Language Preservation Program. Each tribal nation develops, and makes accessible, curricula, audio and video recordings, and reference materials to assist in preserving and perpetuating Indian languages.

**LFD
COMMENT**

The legislature has funded the Montana Indian Language Preservation Program with one-time-only funds for the last several biennia. The executive is proposing to not include the one-time-only designation which results in the appropriation being part of the base budget in the next biennia.

DP 5105 - OTBD Eliminate Big Sky Trust Fund Appropriations -

The executive requests reductions in state special revenue appropriations in FY 2020 and FY 2021 for programs funded with the big sky economic development fund during the 2019 biennium. These programs include:

- Food and Agriculture Development Centers which were appropriated \$105,000 each fiscal year
- Outdoor Recreation which was appropriated \$200,000 each fiscal year
- Grants that address employment barriers which was appropriated \$100,000 each fiscal year

**LFD
COMMENT**

In each fiscal year of the 2019 biennium, the Food and Agricultural Development Centers received \$105,000 of state special revenue funds in HB 2 as well as \$195,000 from a statutory appropriation. The executive is proposing legislation that would provide a total of \$375,000 in funding each fiscal year to the Food and Agricultural Development Centers as a statutory appropriation.

**LFD
COMMENT**

The Department of Commerce transferred 1.00 FTE from the Community Development Division to the Montana Office of Tourism and Business Development for a position in the Office of Outdoor Recreation. The department is proposing to eliminate the HB 2 appropriation for the Office of Outdoor Recreation but not the 1.00 FTE that was moved into the program. Funding for this FTE totals approximately \$96,000 each fiscal year.

**LFD
COMMENT**

The executive is requesting that the general fund appropriation for the SBIR/STTR Program be designated as a restricted/biennial appropriation. The executive is also requesting that the MMEC appropriation be designated as a restricted appropriation.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	3,461,366	4,442,065	980,699	28.33 %
Operating Expenses	3,525,333	4,067,871	542,538	15.39 %
Grants	32,998,046	38,531,842	5,533,796	16.77 %
Total Expenditures	\$39,984,745	\$47,041,778	\$7,057,033	17.65 %
General Fund	1,556,389	1,865,444	309,055	19.86 %
State/Other Special Rev. Funds	5,560,695	5,852,817	292,122	5.25 %
Federal Spec. Rev. Funds	32,867,661	39,323,517	6,455,856	19.64 %
Total Funds	\$39,984,745	\$47,041,778	\$7,057,033	17.65 %
Total Ongoing	\$39,984,745	\$47,041,778	\$7,057,033	17.65 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Community Development Division (CDD) strengthens Montana communities by supporting sustainable development of Montana towns. The CDD works on growth and development of communities to promote affordable housing, improve public infrastructure, economic resilience, and downtown revitalization through comprehensive planning and locally determined goals and objectives.

The mission of the Community Development Division is set forth in Title 90, Chapters 1 and 6, MCA. CDD is funded primarily through federal funds and state special revenue account grant programs, with additional direct appropriations provided in HB 2. CDD administers seven programs directly:

- Community Development Block Grant Program (CDBG)
- Community Technical Assistance Program (CTAP)
- HOME Investment Partnerships Program (HOME)
- Montana Main Street Program
- Housing Trust Fund
- Broadband for Montana Schools Program
- Treasure State Endowment Program (TSEP)

Two citizen boards, appointed by the Governor, are attached to CDD for administrative purposes. The division provides office facilities, staff, and administrative support for:

- Montana Coal Board
- Montana Hard Rock Mining Impact Board

Program Highlights

Community Development Division Major Budget Highlights
<ul style="list-style-type: none"> • The Community Development Division’s 2021 biennium budget request is approximately \$7.1 million or 17.7% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in federal special revenue for the National Housing Trust Fund Program (HTF)

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	25.45	25.45	25.45	25.45
Personal Services	1,392,775	1,684,596	1,776,770	2,219,964	2,222,101
Operating Expenses	744,304	1,726,292	1,799,041	2,028,044	2,039,827
Grants	3,510,678	16,495,257	16,502,789	19,265,921	19,265,921
Total Expenditures	\$5,647,757	\$19,906,145	\$20,078,600	\$23,513,929	\$23,527,849
General Fund	728,262	729,832	826,557	931,956	933,488
State/Other Special Rev. Funds	835,937	2,758,047	2,802,648	2,918,676	2,934,141
Federal Spec. Rev. Funds	4,083,558	16,418,266	16,449,395	19,663,297	19,660,220
Total Funds	\$5,647,757	\$19,906,145	\$20,078,600	\$23,513,929	\$23,527,849
Total Ongoing	\$5,647,757	\$19,906,145	\$20,078,600	\$23,513,929	\$23,527,849
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Community Development Division expended 28.4% of its HB 2 modified budget as of the end of FY 2018. The low percentage expended was primarily related to Coal Board grants, Community Development Block (CDBG) grants and Home Investment Partnership Program (HOME) grants.

The Coal Board expended 0.0% of its \$1.8 million appropriation for grants. The unexpended portion of the appropriation for grants is a biennial appropriation which can be used in FY 2019. CDBG grant appropriations of \$6.8 million and HOME grant appropriations of \$7.9 million were 23.8% expended. The division has awarded grants of approximately \$5.7 million in state FY 2018; however, startup conditions had not yet been met to be obligated through contract, which was needed to accrue the expenditures in FY 2018.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between FY 2018 and FY 2019 appropriations primarily in personal services and operating expenses. Significant differences include:

- Personal Services
 - There was a decrease in the FY 2018 appropriation of approximately \$74,000 resulting from legislative action. This decrease was due to the state share contribution reduction
 - There was an increase in the FY 2019 appropriation resulting from legislative action. This change increased personal services appropriations by approximately \$15,000 for the pay plan
- Operating Expenses
 - There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$83,000 were applied to operating expenses

Executive Request

The Community Development Division is requesting an overall increase above the FY 2019 base in appropriations of approximately \$3.4 million in both FY 2020 and FY 2021. The majority of this increase is federal special revenue related to the National Housing Trust Fund Program. This proposal will be discussed in further detail in the New Proposal section below.

Program Personal Services Narrative

Personal services were \$1.8 million or 8.8% of total FY 2019 appropriations. The executive proposes an increase of approximately \$286,000 in FY 2020 and \$285,000 in FY 2021. There are primarily two categories impacting the statewide present law adjustment for personal services, which include:

- **Management Decisions** – The Department of Commerce transferred 1.00 FTE from the Community Development Division to the Montana Office of Tourism and Business Development for a position in the Office of Outdoor Recreation
- **Proposed Reinstatement of Personal Services Base Budget Reductions** - The reinstatement of personal services base budget reductions is related to SB 261 reductions, vacancy savings, and 2017 Legislative Session reductions

LFD COMMENT

The 2017 Legislature approved the elimination of the Quality Schools Program in SB 307. This included the elimination of personal services funding totaling approximately \$334,000; however, while the personal services funding for the program was eliminated, the corresponding 4.00 FTE were not eliminated. This funding is being reinstated through the statewide present law adjustment for personal services.

The Department of Commerce transferred 1.00 FTE from the Community Development Division to the Montana Office of Tourism and Business Development for a position in the Office of Outdoor Recreation. The remaining 3.00 FTE were distributed among programs in the Community Development Division. According to the Department, 2.00 FTE will be used in the new proposal for the Housing Trust Fund Program. Additionally, 1.00 FTE was transferred to the Community Development Block Grant Program to address increased workload.

The Quality Schools Program positions were funded with state special revenue funds. Funding for the 2.00 FTE for the Housing Trust Fund Program new proposal switches funding to federal special revenue. Funding for the 1.00 FTE in the Community Development Block Grant Program will switch funding to 60.0% general fund and 40.0% federal special revenue.

Funding

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

Department of Commerce, 60-Community Development Division Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,865,444	0	0	0	1,865,444	3.93 %	
02049 Hard Rock Mining	498,251	0	0	368,736	866,987	13.94 %	
02063 Boulder Development Fund	0	0	0	0	0	0.00 %	
02218 School Facility & Tech Account	0	0	0	0	0	0.00 %	
02254 Regional Accommodation Tax	0	0	0	0	0	0.00 %	
02270 Treasure State Endowment	1,373,934	0	0	0	1,373,934	22.08 %	
02445 Coal Board	3,980,632	0	0	0	3,980,632	63.98 %	
State Special Total	\$5,852,817	\$0	\$0	\$368,736	\$6,221,553	13.12 %	
03037 EDA Sequestered Funds	0	0	0	0	0	0.00 %	
03059 Community Development Block	14,966,375	0	0	0	14,966,375	38.06 %	
03061 EDA Revolving Loan Fund	947,660	0	0	0	947,660	2.41 %	
03300 Home Grants	16,842,240	0	0	0	16,842,240	42.83 %	
03932 CDBG RLF	567,242	0	0	0	567,242	1.44 %	
03585 HTF	6,000,000	0	0	0	6,000,000	15.26 %	
Federal Special Total	\$39,323,517	\$0	\$0	\$0	\$39,323,517	82.94 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$47,041,778	\$0	\$0	\$368,736	\$47,410,514		

HB 2

General fund appropriations comprise approximately 4.0% of proposed HB 2 appropriations. General fund is used to provide matching funds for the Community Development Block Grant and support the Community Technical Assistance Program. Approximately 50.0% of the general fund appropriation is used to fund each program.

State special revenue appropriations comprise approximately 12.0% of total proposed HB 2 appropriations. These appropriations are primarily comprised of funding for the Coal Board and the Treasure State Endowment Program. The Coal Board provides grants to governmental units to assist them in providing governmental services or facilities that are needed as a direct consequence of an increase or decrease in coal development or in the consumption of coal by a coal-using energy complex. The Treasure State Endowment Program is funded with interest earnings from the treasure state endowment fund, a sub-fund of the coal tax trust. Revenue from the income account within the trust is transferred to the state special revenue fund for administrative costs (appropriated in HB 2) and grants (typically appropriated in HB 11).

Federal special revenues comprise the majority of HB 2 appropriations at approximately 84.0%. The majority of the federal funds are Community Development Block Grants and HOME Grants. The Department of Commerce has a proposal for federal funds for the Housing Trust Fund Program which will be discussed in further detail in the New Proposal Section below.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	826,557	826,557	1,653,114	88.62 %	20,078,600	20,078,600	40,157,200	85.36 %
SWPL Adjustments	93,935	90,077	184,012	9.86 %	315,229	301,513	616,742	1.31 %
PL Adjustments	11,464	16,854	28,318	1.52 %	120,100	147,736	267,836	0.57 %
New Proposals	0	0	0	0.00 %	3,000,000	3,000,000	6,000,000	12.75 %
Total Budget	\$931,956	\$933,488	\$1,865,444		\$23,513,929	\$23,527,849	\$47,041,778	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments	Fiscal 2020				Fiscal 2021					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	84,498	36,562	164,509	285,569	0.00	84,247	37,616	163,531	285,394
DP 2 - Fixed Costs	0.00	9,000	7,806	11,915	28,721	0.00	5,289	4,954	4,711	14,954
DP 3 - Inflation Deflation	0.00	437	256	246	939	0.00	541	318	306	1,165
DP 6002 - CDD Administrative Costs Adjustments	0.00	11,464	71,404	37,232	120,100	0.00	16,854	88,605	42,277	147,736
Grand Total All Present Law Adjustments	0.00	\$105,399	\$116,028	\$213,902	\$435,329	0.00	\$106,931	\$131,493	\$210,825	\$449,249

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Formula based changes
- Personal services management decisions
- Reinstatement of personal services previously reduced
- Modifications made to the personal services budget in the 2019 biennium

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 6002 - CDD Administrative Costs Adjustments -

The executive requests an increase in general fund, state special revenue, and federal special revenue appropriations. This change package includes:

- An increase of state special revenue of \$10,000 in FY 2021 to allow the Department of Commerce to hire consulting services to perform the designation study for the proper allocation of Coal Board grants
- An increase of state special revenue of approximately \$63,000 in each fiscal year to adjust coal board grants to match preliminary revenue estimates
- An increase of state special revenue of \$14,000 each fiscal year for costs associated with Hard Rock Mining Board meetings. Additional meetings are anticipated to address impacts related to a proposed copper mining project
- An increase in general fund of approximately \$6,800 each fiscal year to adjust printing and publication costs of Community Technical Assistance Program resources, books, and guides

- Increases of general fund, state special revenue, and federal special revenue among programs in the Community Development Division for adjustments to a 5-year replacement schedule for computer hardware in FY 2020 and FY 2021 as well as an increase rent in FY 2021
- Increases and decreases in general fund, state special revenue, and federal special revenue among programs in the Community Development Division for indirect costs paid to the Director's Office

LFD COMMENT The executive is requesting that appropriations for grants in the Coal Board be designated as a biennial appropriation. This designation allows the appropriation to be used in either fiscal year of 2021 biennium.

LFD COMMENT The executive is requesting that the \$100,000 state special revenue appropriation for the Hard Rock Mining Impact Account Reserve be a restricted appropriation. Section 90-6-304(2), MCA requires the Hard Rock Mining Board maintain a reserve not to exceed \$100,000.

New Proposals

The "New Proposals" table shows new changes to spending.

New Proposals	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6001 - CDD Federal Housing Trust Fund Appropriation	0.00	0	0	3,000,000	3,000,000	0.00	0	0	3,000,000	3,000,000
Total	0.00	\$0	\$0	\$3,000,000	\$3,000,000	0.00	\$0	\$0	\$3,000,000	\$3,000,000

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 6001 - CDD Federal Housing Trust Fund Appropriation -

The executive requests federal special revenue in FY 2020 and FY 2021 for the National Housing Trust Fund program (HTF). This is a formula-funded grant program of the U.S. Department of Housing and Urban Development (HUD). The state of Montana receives an annual allocation to award to local governments and nonprofit organizations to preserve or construct housing infrastructure. Families earning less than 30.0% of the area median income benefit from HTF housing units through access to housing units. As with other HUD funded programs, funds are available with the execution of the grant agreements.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	529,080	537,625	8,545	1.62 %
Operating Expenses	375,958	322,119	(53,839)	(14.32)%
Grants	120,000	660,000	540,000	450.00 %
Transfers	78,000	82,000	4,000	5.13 %
Total Expenditures	\$1,103,038	\$1,601,744	\$498,706	45.21 %
Proprietary Funds	1,103,038	1,601,744	498,706	45.21 %
Total Funds	\$1,103,038	\$1,601,744	\$498,706	45.21 %

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

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

Program Highlights

Facility Finance Authority Major Budget Highlights
<ul style="list-style-type: none"> • The Facility Finance Authority’s 2021 biennium budget proposal is approximately \$499,000 or 45.2% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases for a grant program that provides funds for energy efficiency audits of eligible facilities

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	3.00	3.00	3.00	3.00
Personal Services	209,553	239,977	289,103	268,488	269,137
Operating Expenses	172,520	217,184	158,774	169,139	152,980
Grants	45,000	60,000	60,000	330,000	330,000
Transfers	36,778	40,000	38,000	40,000	42,000
Total Expenditures	\$463,851	\$557,161	\$545,877	\$807,627	\$794,117
Proprietary Funds	463,851	557,161	545,877	807,627	794,117
Total Funds	\$463,851	\$557,161	\$545,877	\$807,627	\$794,117

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Facility Finance Authority expended 83.3% of its FY 2018 budget. Personal services were 87.3% expended, operating expenses were 79.4% expended, grants were 75.0% expended, and transfers-out were 91.9% expended. The Facility Finance Authority had 1.00 FTE vacant for a significant portion of FY 2018, which is contributing to the lower percentage expended in personal services. Excess personal services authority was primarily transferred to operating expenses to correct anticipated shortfalls and is contributing to the lower percentage expended in operating expenses.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between the FY 2018 and FY 2019 budget, which are primarily in personal services and operating expenses. These differences are mainly due to an executive modification in FY 2018 that moved \$40,000 from personal services to operating expenses. Excess personal services authority, due a vacant position for a significant portion of FY 2018, was transferred in order to address anticipated shortfalls in operating expenses.

Executive Request

The Facility Finance Authority is requesting an increase in proprietary fund appropriations of approximately \$262,000 in FY 2020 and \$248,000 in FY 2021. This proposed increase is primarily due to a grant program that provides funds for energy efficiency audits of eligible facilities.

Funding

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

Department of Commerce, 71-Facility Finance Authority Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06015 Facilities Finance Authority	0	0	1,601,744	0	1,601,744	100.00 %	
Proprietary Total	\$0	\$0	\$1,601,744	\$0	\$1,601,744	100.00 %	
Total All Funds	\$0	\$0	\$1,601,744	\$0	\$1,601,744		

The Facility Finance Authority is entirely supported through non-budgeted proprietary funds. These funds are discussed in the Proprietary Rates section of the narrative.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	545,877	545,877	1,091,754	68.16 %
SWPL Adjustments	0	0	0	0.00 %	(2,064)	(18,210)	(20,274)	(1.27)%
PL Adjustments	0	0	0	0.00 %	(6,186)	(3,550)	(9,736)	(0.61)%
New Proposals	0	0	0	0.00 %	270,000	270,000	540,000	33.71 %
Total Budget	\$0	\$0	\$0		\$807,627	\$794,117	\$1,601,744	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	(20,615)	0.00	0	0	0	(19,966)
DP 2 - Fixed Costs	0.00	0	0	0	18,499	0.00	0	0	0	1,691
DP 3 - Inflation Deflation	0.00	0	0	0	52	0.00	0	0	0	65
DP 7102 - FFA Administrative Costs Adjustments	0.00	0	0	0	(6,186)	0.00	0	0	0	(3,550)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	(\$8,250)	0.00	\$0	\$0	\$0	(\$21,760)

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2019 statewide pay plan adjustments, benefit rate adjustments, vacancy savings adjustments and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 7102 - FFA Administrative Costs Adjustments -

The executive requests a decrease in proprietary fund appropriations. This change package includes:

- An increase in proprietary funding of approximately \$8,500 for software
- An increase in proprietary funding of approximately \$1,200 in FY 2020 and \$1,700 in FY 2021 for an increase in rent
- An increase in proprietary funding of \$2,000 in FY 2020 and \$4,000 in FY 2021 to adjust payments to the Board of Investments for support services
- A decrease in proprietary funding of approximately \$8,800 because the Authority transferred ownership of a property and no longer incurs property management costs
- A decrease in proprietary funding of approximately \$9,000 for indirect costs paid to the Director’s Office

New Proposals

The “New Proposals” table shows new changes to spending.

New Proposals	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7101 - FFA Energy Audit Grants	0.00	0	0	0	270,000	0.00	0	0	0	270,000
Total	0.00	\$0	\$0	\$0	\$270,000	0.00	\$0	\$0	\$0	\$270,000

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 7101 - FFA Energy Audit Grants -

The executive requests proprietary funding for a newly created grant program, effective July 1, 2018. This grant program provides funds for an energy efficiency audit of eligible facilities. The new grant program identifies energy efficiency savings for authority partners, providing them with an opportunity to significantly reduce operating costs while upgrading capital systems. In addition, the expansive scope of eligible facilities allows the authority to increase its footprint in several markets, including group homes and senior living facilities, while generating more financing opportunities for the authority.

Other Issues -

Proprietary Rates

Facility Finance Authority - 06015

HFA Loan Program - 06012

Proprietary Program Description

The Facility Finance Authority provides debt financing or refinancing at low-cost, tax-exempt interest rates through a number of programs. The Authority has established reserve requirements for:

- Master Loan Program – The Authority provides qualified borrowers financing through tax exempt bond issuances. Loans can be used for eligible projects including equipment purchases, reimbursement of capital expenditures made during the current fiscal year (as approved by the bond counsel), new facility construction, renovation of existing facilities, and refunding or refinancing of outstanding debt

- Permanent Coal Tax Trust Loan Program – Statute allows the Authority to administer \$15.0 million of the permanent coal tax trust fund for capital projects. Individual loan amounts may not exceed 10.0% of the amount administered by the Authority
- Direct Loan Program – Statute allows the Authority to 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 Facility Finance Authority account that is transferred to the HFA Loan Program
- Working Capital – National bond rating agencies, national bond insurers, and institutional investors 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

Figure 6

Department of Commerce Facility Finance Authority Reserve Requirements as of the Beginning of FY 2019		
	Required	Funded
Capital Reserve Account A	\$ 8,145,051	\$ 2,831,775
Capital Reserve Account B	431,770	337,544
Direct Loan Program	3,461,671	3,461,671
Working Capital Fund	<u>1,687,804</u>	<u>1,687,804</u>
Total	\$ 13,726,296	\$ 8,318,794
Percent Funded		60.6%

As shown in the figure, the amount of the reserves as of the beginning of FY 2019 is 60.6% of the reserve requirements established by the Authority. This is an improvement over the November 2016 funded ratio of 44.1%.

Proprietary Program Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the Facility Finance Authority and HFA Loan Program proprietary funds.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06012	HFA Loan Program	65010	Dept. of Commerce	Facility Finance Authority
06015	Facilities Finance Authority			

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Fee Revenue A	612,735	485,000	622,000	613,500
Fee Revenue B	2,204,735	60,000	100,000	100,000
Other Operating Revenues				
Total Operating Revenues	<u>2,817,470</u>	<u>545,000</u>	<u>722,000</u>	<u>713,500</u>
Expenses				
Personal Services	216,936	289,103	268,488	269,137
Other Operating Expense	217,521	503,774	499,139	482,980
Total Operating Expense	<u>434,457</u>	<u>792,877</u>	<u>767,627</u>	<u>752,117</u>
Operating Income (Loss)	<u>2,383,013</u>	<u>(247,877)</u>	<u>(45,627)</u>	<u>(38,617)</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>2,383,013</u>	<u>(247,877)</u>	<u>(45,627)</u>	<u>(38,617)</u>
Capital Contributions				
Transfers In				
Transfers Out	(36,778)	(38,000)	(40,000)	(42,000)
Loans and Lease Payments				
Change in Net Position	<u>2,346,235</u>	<u>(285,877)</u>	<u>(85,627)</u>	<u>(80,617)</u>
Beginning Net Position - July 1	5,555,582	7,901,817	7,615,940	7,530,313
Prior Period Adjustments				
Change in Net Position	<u>2,346,235</u>	<u>(285,877)</u>	<u>(85,627)</u>	<u>(80,617)</u>
Ending Net Position - June 30	<u>7,901,817</u>	<u>7,615,940</u>	<u>7,530,313</u>	<u>7,449,696</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

Overall, the executive is proposing an increase in grants in the Facility Finance Authority. The increase is due to a grant program that provides funds for energy efficiency audits of eligible facilities. The new grant program identifies energy efficiency savings for authority partners, providing them with an opportunity to significantly reduce operating costs while upgrading capital systems.

Revenues

Revenues are projected to increase in the Facility Finance Authority. Annual fees are anticipated to increase because several new, large bond issuances resulted in larger projected annual fees. Additionally, investment income is anticipated to increase.

Proprietary Rates

The table below provides information on the fees charged by the Facility Finance Authority.

Requested Rates for Internal Service Funds Fee/Rate Information					
		Actual FY 2018	Budgeted FY 2019	Budgeted FY 2020	Budgeted FY 2021
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				
Master Loan Program	10 bp X the outstanding principal amount				
Trust Fund Loan Program	50 bp X the outstanding monthly balance (incorporated into loan interest rate)				
Fee Revenue: 90-7-202 and 90-7-211, MCA					
Investment Earnings: 90-7-202, MCA					

The Facility Finance Authority is funded with an enterprise fund, which is a type of a proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Operating Expenses	170,000	150,000	(20,000)	(11.76)%
Benefits & Claims	697,842	0	(697,842)	(100.00)%
Total Expenditures	\$867,842	\$150,000	(\$717,842)	(82.72)%
State/Other Special Rev. Funds	150,000	150,000	0	0.00 %
Federal Spec. Rev. Funds	717,842	0	(717,842)	(100.00)%
Total Funds	\$867,842	\$150,000	(\$717,842)	(82.72)%
Total Ongoing	\$867,842	\$150,000	(\$717,842)	(82.72)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Housing Division includes the U.S. Department of Housing and Urban Development (HUD) Section 8 Housing programs and the Board of Housing (board) and its programs. Together, these programs are known as Montana Housing.

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.

The Board of Housing is funded by five enterprise funds, with revenues derived from an administrative charge applied to the projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund and is completely self-supporting.

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor’s Executive Order 27-81.

Program Highlights

Housing Division Major Budget Highlights
<ul style="list-style-type: none"> • The Housing Division’s 2021 biennium budget proposal is approximately \$718,000 or 82.7% lower than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed decreases in federal special revenue due to the Shelter Plus Care Program ending in November 2018

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
Operating Expenses	5,542	85,000	85,000	75,000	75,000
Benefits & Claims	141,183	348,921	348,921	0	0
Total Expenditures	\$146,725	\$433,921	\$433,921	\$75,000	\$75,000
State/Other Special Rev. Funds	0	75,000	75,000	75,000	75,000
Federal Spec. Rev. Funds	146,725	358,921	358,921	0	0
Total Funds	\$146,725	\$433,921	\$433,921	\$75,000	\$75,000
Total Ongoing	\$146,725	\$433,921	\$433,921	\$75,000	\$75,000
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Housing Division expended 33.8% of its HB 2 modified budget as of the end of FY 2018. The Shelter Plus Care Program primarily contributed to the lower percentage expended. The Housing Division was awarded a grant to address chronic homelessness in scattered sites in Cascade, Flathead, and Yellowstone counties. The program is in the process of being closed out (November 2018) which caused the decline in expenditures.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are no differences between FY 2018 and FY 2019 appropriations.

Executive Request

The Housing Division is requesting to eliminate federal special revenue appropriations for operating expenses and benefits and claims. This reduction is due to the Shelter Care Plus Program ending in November 2018. There are no proposed changes to the state special revenue appropriations for the Mobile Home Revolving Loan Program.

Funding

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

Department of Commerce, 74-Housing Division Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02575 Mobile Home Revolving Loan Fun	150,000	0	0	0	150,000	100.00 %	
State Special Total	\$150,000	\$0	\$0	\$0	\$150,000	0.13 %	
03144 Shelter Plus Care-HUD	0	0	0	0	0	0.00 %	
03521 Section 811 Project Rental	0	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06030 BOH Financial Program Fund	0	0	6,172,185	0	6,172,185	5.29 %	
06031 Housing Trust Fund	0	0	20,000	0	20,000	0.02 %	
06032 Mortgage Loan Servicing	0	0	4,006,389	0	4,006,389	3.44 %	
06074 SEC 8 Project Based	0	0	49,133,114	0	49,133,114	42.13 %	
06075 Section 8 Vouchers	0	0	52,165,144	0	52,165,144	44.73 %	
06078 Housing Montana Fund	0	0	20,000	0	20,000	0.02 %	
06079 Revolving Loan Fund - TANF	0	0	20,000	0	20,000	0.02 %	
06085 Section 8 Mod Rehab	0	0	5,086,272	0	5,086,272	4.36 %	
Proprietary Total	\$0	\$0	\$116,623,104	\$0	\$116,623,104	99.87 %	
Total All Funds	\$150,000	\$0	\$116,623,104	\$0	\$116,773,104		

HB 2

There is one program funded through HB 2 in the Housing Division. The mobile home revolving loan fund is a state special revenue fund used to finance the replacement of substandard homes with newer, energy-efficient manufactured homes.

Non-Budgeted Proprietary Funds

The majority of the Housing Division is funded with proprietary funds. These funds are discussed in the Proprietary Rates section of the narrative.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	433,921	433,921	867,842	578.56 %
SWPL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	(358,921)	(358,921)	(717,842)	(478.56)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$75,000	\$75,000	\$150,000	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7402 - HD Administrative Costs Adjustments	0.00	0	0	(358,921)	(358,921)	0.00	0	0	(358,921)	(358,921)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	(\$358,921)	(\$358,921)	0.00	\$0	\$0	(\$358,921)	(\$358,921)

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 7402 - HD Administrative Costs Adjustments -

The executive requests a decrease in federal special revenue in FY 2020 and FY 2021. This proposal eliminates operating expenses and benefits and claims related to the Housing Division's Shelter Care Plus Program. The Shelter Care Plus grant will terminate in November 2018 and will not be renewed.

Other Issues -

Other Issues

Proprietary Rates

The Housing Division has three programs that are funded through proprietary funds, which include:

- The Montana Board of Housing
- Project Based Section 8 Program
- Tenant Based Section 8 Program

Montana Board of Housing – 06030, 06031, 06032, 06078, 06079

Proprietary Program Description

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA. 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 direction to the agency staff for its programs that include the Homeownership Program, Multifamily Loan Program, Low Income Housing Tax Credit Program, Housing Montana Fund, and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed.

Proprietary Program Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the Montana Board of Housing's proprietary funds.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
Various		65010	Dept. of Commerce	Board of Housing

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Charges for Services	2,887,954	4,066,095	4,162,998	4,200,469
Investment Earnings	19,302,514	22,341,912	23,012,169	23,932,656
Federal	-			
Other Operating Revenue	-		520,000	520,000
Total Operating Revenues	<u>22,190,468</u>	<u>26,408,007</u>	<u>27,695,167</u>	<u>28,653,125</u>
Expenses				
Personal Services	2,327,273	2,345,235	2,489,513	2,491,476
Other Operating Expense	2,104,567	2,455,327	2,656,932	2,600,653
Bonds	17,811,605	21,744,207	21,429,926	23,057,501
Total Operating Expense	<u>22,243,445</u>	<u>26,544,769</u>	<u>26,576,371</u>	<u>28,149,630</u>
Operating Income (Loss)	<u>(52,977)</u>	<u>(136,762)</u>	<u>1,118,796</u>	<u>503,495</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>(52,977)</u>	<u>(136,762)</u>	<u>1,118,796</u>	<u>503,495</u>
Capital Contributions				
Transfers In	500,000		-	-
Transfers Out	(500,000)			
Loans and Lease Payments				
Change in Net Position	<u>(52,977)</u>	<u>(136,762)</u>	<u>1,118,796</u>	<u>503,495</u>
Beginning Net Position - July 1	155,490,180	155,426,898	155,290,136	156,408,932
Prior Period Adjustments	(10,305)			
Change in Net Position	<u>(52,977)</u>	<u>(136,762)</u>	<u>1,118,796</u>	<u>503,495</u>
Ending Net Position - June 30	<u>155,426,898</u>	<u>155,290,136</u>	<u>156,408,932</u>	<u>156,912,427</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position	155,426,898	155,290,136	156,408,932	156,912,427

Expenses

The figure below shows the proposed expenditures for the Board of Housing and loan servicing.

Figure 7

Housing Division				
Program	Actual FY 2018	Appropriated FY 2019	Proposed FY 2020	Proposed FY 2021
Board of Housing				
Personal Services	\$1,284,691	\$1,292,166	\$1,382,557	\$1,383,746
Operating Expenses	<u>1,384,315</u>	<u>1,596,406</u>	<u>1,746,873</u>	<u>1,719,009</u>
Total Expenditures	<u>2,669,006</u>	<u>2,888,572</u>	<u>3,129,430</u>	<u>3,102,755</u>
Loan Servicing				
Personal Services	1,048,205	1,053,069	1,106,956	1,107,730
Operating Expenses	<u>748,713</u>	<u>858,921</u>	<u>910,059</u>	<u>881,644</u>
Total Expenditures	<u>\$1,796,918</u>	<u>\$1,911,990</u>	<u>\$2,017,015</u>	<u>\$1,989,374</u>

Overall, the executive is proposing an increase in personal services and operating expenses in the Board of Housing. This includes:

- **Personal Services** – The Board of Housing is proposing proprietary funding for 1.25 FTE for a marketing and public relations program specialist. This FTE would address workload increases related to multiple program growth strategies and community engagement
- **Operating Expenses** – This increase is primarily for professional services for the hiring of a financial advisor/consultant to provide advice on variable rate bond issues and other financial matters. The Board of Housing will be issuing variable rate bonds in the near future. This will mean purchasing variable rate investments and guaranteed investment contracts. In order to ensure that the board will meet federal, state, and indenture requirements, the board will be engaging an advisor to work with the trustee, the underwriter, and any other parties involved in the bond issuance. The advisor will also be engaged to work with the board on setting up the best variable rate investments and contracts to protect the board against possible loss associated with variable rate bonds

The Loan Servicing Program is proposing an increase in expenditures, which is primarily in personal services. This includes:

- **Personal Services** – The Board of Housing is proposing proprietary funding for 2.25 FTE for loan servicing positions. The board has an In-House Loan Servicing Program. The Board of Housing completed an in-house transfer of several portfolios and is now servicing 4,550 loans

Revenues

The Board of Housing's income is derived primarily from mortgage investment income. Mortgage income is the interest people pay on Board of Housing 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 markets, which set both mortgage rates and bond financing rates. Investment income comes from interest earned on investing reserves the Board of Housing is required to hold and bond and program moneys not yet used to buy mortgages and pay bondholders. Both future mortgage and investment income depends on the interest rate environment, which is determined by the national financial markets.

Proprietary Rates

The Board of Housing recovers 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 18	Budgeted FY 19	Budgeted FY 20	Budgeted FY 21
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		\$1,000	\$1,000	No Change	No Change
Reservation fees-Housing Credit Program	% of the tax credit amount reserved	6.00%	6.00%	No Change	No Change
Compliance fees-Housing Credit Program	per unit	\$45	\$45	No Change	No Change
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

The Board of Housing is funded with an enterprise fund, which is a type of a proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.

HUD Section 8 – Project Based Housing – 06074

Proprietary Program Description

The Project Based Section 8 Program is the U.S. Department of Housing and Urban Development contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of direct assistance to 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 program renews rent contracts to project owners as they expire. Contract managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews,

follow-up to physical inspections, review of management decisions, and provides budget assistance to local property owners.

Proprietary Program Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the Project Based Section 8 Program proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06074	HUD Section 8 Housing Program	65010	Dept. of Commerce	Housing Division - PB Section 8

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Investment Earnings	57,052	13,821	57,052	57,052
Other Operating Revenues	22,307,899	22,679,882	23,473,678	24,295,257
Total Operating Revenues	22,364,952	22,693,703	23,530,730	24,352,309
Expenses				
Personal Services	759,092	717,852	828,194	827,605
Other Operating Expense	322,033	547,588	574,230	566,135
Benefits & Claims	21,203,725	22,000,000	22,770,000	23,566,950
Total Operating Expense	22,284,850	23,265,440	24,172,424	24,960,690
Operating Income (Loss)	80,102	(571,737)	(641,694)	(608,381)
Nonoperating Revenues		106		
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	106	-	-
Income (Loss) Before Contributions and Transfers	80,102	(571,631)	(641,694)	(608,381)
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	80,102	(571,631)	(641,694)	(608,381)
Beginning Net Position - July 1	3,907,684	3,987,786	3,416,155	2,774,461
Prior Period Adjustments				
Change in Net Position	80,102	(571,631)	(641,694)	(608,381)
Ending Net Position - June 30	3,987,786	3,416,155	2,774,461	2,166,080
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position	3,987,786	3,416,155	2,774,461	2,166,080

Expenses

The following figure shows the proposed expenditures for the Project Based Section 8 Program.

Figure 8

Housing Division				
Program	Actual FY 2018	Appropriated FY 2019	Proposed FY 2020	Proposed FY 2021
Project Based Section 8 Program				
Personal Services	\$738,881	\$717,852	\$828,194	\$827,605
Operating Expenses	316,239	391,588	418,230	410,135
Equipment	133,029	156,000	156,000	156,000
Benefits & Claims	<u>21,203,725</u>	<u>22,000,000</u>	<u>22,770,000</u>	<u>23,566,950</u>
Total Expenditures	<u>\$22,391,875</u>	<u>\$23,265,440</u>	<u>\$24,172,424</u>	<u>\$24,960,690</u>

Overall, the executive is proposing an increase primarily in personal services and benefits and claims. The increase in personal services is due to the statewide present law adjustment for personal services as well as a request for proprietary funding for 0.25 FTE. The additional FTE is to address increased workload due to program growth and additional regulatory requirements of federal agencies.

The increase in benefits and claims is based on the U.S. Department of Housing and Urban Development's fair market rents, which traditionally increase each year.

Revenues

Revenues are generated in the Project Based Section 8 Contract Administration under a HUD performance-based contract using 17 incentive based performance standards, which are 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 program staff and tenant income data. Payments are paid and reimbursed monthly by HUD, based on actual program benefits paid to owners.

Proprietary Rates

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5-year renewable request for proposal. 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.

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual	Budgeted	Budgeted	Budgeted
	FY 18	FY 19	FY 20	FY 21
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.				

The Project Based Section 8 Program is funded with an enterprise fund, which is a type of a proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.

HUD Section 8 – Tenant Based – 06075

HUD Section 8 Mod Rehab – 06085

Proprietary 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 the 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 30.0% of their income towards rent and utilities.

Proprietary Program Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the Tenant Based Section 8 Program proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06075	HUD Section 8 Housing	65010	Dept. of Commerce	Housing Division - TB Section 8
06085	HUD Section 8 Mod Rehab			Housing Division - TB Section 8

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Investment Earnings	64,857	8,578	64,858	64,858
Other Operating Revenues	25,719,723	26,748,511	27,818,452	28,931,190
Total Operating Revenues	<u>25,784,580</u>	<u>26,757,089</u>	<u>27,883,310</u>	<u>28,996,048</u>
Expenses				
Personal Services	788,131	808,669	838,601	839,811
Other Operating Expense	2,057,691	2,343,224	2,363,203	2,344,772
Benefits & Claims	21,813,218	24,149,855	24,995,100	25,869,929
Total Operating Expense	<u>24,659,040</u>	<u>27,301,748</u>	<u>28,196,904</u>	<u>29,054,512</u>
Operating Income (Loss)	<u>1,125,540</u>	<u>(544,659)</u>	<u>(313,594)</u>	<u>(58,464)</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>1,125,540</u>	<u>(544,659)</u>	<u>(313,594)</u>	<u>(58,464)</u>
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	<u>1,125,540</u>	<u>(544,659)</u>	<u>(313,594)</u>	<u>(58,464)</u>
Beginning Net Position - July 1	3,938,819	5,064,359	4,519,700	4,206,106
Prior Period Adjustments				
Change in Net Position	<u>1,125,540</u>	<u>(544,659)</u>	<u>(313,594)</u>	<u>(58,464)</u>
Ending Net Position - June 30	<u>5,064,359</u>	<u>4,519,700</u>	<u>4,206,106</u>	<u>4,147,642</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position	5,064,359	4,519,700	4,206,106	4,147,642

Expenses

The following figure shows the proposed expenditures for the Tenant Based Section 8 Housing Program.

Figure 9

Housing Division				
Program	Actual FY 2018	Appropriated FY 2019	Proposed FY 2020	Proposed FY 2021
Tenant Based Section 8 Housing Program				
Personal Services	\$788,607	\$808,669	\$838,601	\$839,811
Operating Expenses	1,951,909	2,187,224	2,207,203	2,188,772
Equipment	0	156,000	156,000	156,000
Benefits & Claims	<u>21,812,806</u>	<u>24,149,855</u>	<u>24,995,100</u>	<u>25,869,929</u>
Total Expenditures	<u>\$24,553,322</u>	<u>\$27,301,748</u>	<u>\$28,196,904</u>	<u>\$29,054,512</u>

Overall, the executive is requesting minor changes in operating expenses. There are more significant changes proposed to personal services and benefits and claims, which include:

- A request for proprietary funding for 0.25 FTE. The additional FTE is to address increased workload due to program growth and additional regulatory requirements of federal agencies
- A request for proprietary funding for benefits and claims, which is based on the U.S. Department of Housing and Urban Development's fair market rents. This traditionally increases each year

Revenues

The Tenant Based Section 8 Program is supported by an enterprise fund with revenues derived from performance-based Annual Contribution Contracts with HUD. Revenues for the Tenant Based Section 8 Program are generated per unit for each rental unit under lease each month.

Proprietary Rates

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	Budgeted	Budgeted	Budgeted
	FY 18	FY 19	FY 20	FY 21
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	100.0%	100.0%	100.0%	100.0%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.				

The Tenant Based Section 8 Program is funded with an enterprise fund, which is a type of a proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	7,801,423	8,423,731	622,308	7.98 %
Operating Expenses	6,684,765	6,570,676	(114,089)	(1.71)%
Total Expenditures	\$14,486,188	\$14,994,407	\$508,219	3.51 %
Proprietary Funds	14,486,188	14,994,407	508,219	3.51 %
Total Funds	\$14,486,188	\$14,994,407	\$508,219	3.51 %

Program Description

Article VIII, Section 13 of the Montana Constitution created the Unified Investment Program, which includes all state agency funds. The Board of Investments (Board), by law, invests the Unified Investment Program. Local governments may also invest with the Board. As of June 30, 2017, the Board managed over \$17.6 billion in pension funds, trust funds, insurance reserves, state operating funds, and certain local government funds. To facilitate management of the Unified Investment Program, a combination of investment pools and separate accounts are utilized to meet the financial goals and expectations of the agencies and entities which entrust these funds to the Board. Investments not managed in pools are included in All Other Funds-Direct Holdings.

<u>Name of Pool</u>	<u>Eligible Participants</u>
1. Consolidated Asset Pension Pool	Retirement systems funds only
2. Trust Funds Investment Pool	Various state trust funds
3. Short Term Investment Pool	Eligible local & state agencies
4. Separately Managed Investments	Non-pool state agency investments

The Board issues a “consolidated” financial statement for the investment pools and All Other Funds-Direct Holdings that provides a comprehensive view of total pool and All Other Funds-Direct Holdings’ assets.

In addition to the Board’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 Board administers a number of different loan programs that can be specifically tailored to meet an individual business’ or local government’s needs. The In-State Investment Program consists of commercial loans funded by the Coal Tax Trust and low interest loans for first time home buying Montana veterans.

The Board also issues tax-exempt bonds and lends the proceeds to Montana state agencies, universities, and local governments for various projects.

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

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

Program Highlights

Board of Investments Major Budget Highlights
<ul style="list-style-type: none"> • The Board of Investments' 2021 biennium budget proposal is approximately \$508,000 or 3.5% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases are primarily due to statewide present law adjustments for personal services and fixed costs

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	32.00	32.00	32.00	32.00
Personal Services	3,935,977	3,948,444	3,852,979	4,213,053	4,210,678
Operating Expenses	3,025,462	3,468,628	3,216,137	3,338,537	3,232,139
Total Expenditures	\$6,961,439	\$7,417,072	\$7,069,116	\$7,551,590	\$7,442,817
Proprietary Funds	6,961,439	7,417,072	7,069,116	7,551,590	7,442,817
Total Funds	\$6,961,439	\$7,417,072	\$7,069,116	\$7,551,590	\$7,442,817

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Board of Investments expended 93.9% of its \$7.4 million FY 2018 budget. Personal Services were 99.7% expended and operating expenses were 87.2% expended. The lower percentage in operating expenses was primarily due to several of the services that the Board anticipated purchasing did not occur and travel expenses were less than anticipated.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between FY 2018 and FY 2019 appropriations in personal services and operating expenses. Significant differences include:

- Personal Services
 - There was an increase in the FY 2018 appropriation resulting from executive modifications. These changes increased personal services by \$137,000 because there was little vacancy savings realized in the Board of Investments
 - There was an increase in the FY 2019 appropriation resulting from legislative action. This change increased personal services appropriations by approximately \$35,000 for the pay plan
- Operating Expenses
 - The FY 2018 appropriation includes audit fees and Information Technology Services Division application hosting fees. The appropriations totaled approximately \$339,000

Executive Request

The Board of Investments is requesting an increase above the FY 2019 base in proprietary funds for personal services and operating expenses of approximately \$482,000 in FY 2020 and \$374,000 in FY 2021. This proposed increase is primarily due to statewide present law adjustments for personal services and operating expenses.

Funding

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

Department of Commerce, 75-Board of Investments Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02065 State Fund to Fire Suppression	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06014 Economic Development Bond	0	0	1,238,133	6,268,509	7,506,642	35.30 %	
06527 Investment Division	0	0	13,756,274	0	13,756,274	64.70 %	
Proprietary Total	\$0	\$0	\$14,994,407	\$6,268,509	\$21,262,916	100.00 %	
Total All Funds	\$0	\$0	\$14,994,407	\$6,268,509	\$21,262,916		

The Board of Investments is entirely supported through non-budgeted proprietary funds. These funds are discussed in the Proprietary Rates section of the narrative.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	7,069,116	7,069,116	14,138,232	94.29 %
SWPL Adjustments	0	0	0	0.00 %	481,757	371,865	853,622	5.69 %
PL Adjustments	0	0	0	0.00 %	717	1,836	2,553	0.02 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$7,551,590	\$7,442,817	\$14,994,407	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2020-----						-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	360,004	0.00	0	0	0	357,629
DP 2 - Fixed Costs	0.00	0	0	0	121,590	0.00	0	0	0	14,033
DP 3 - Inflation Deflation	0.00	0	0	0	163	0.00	0	0	0	203
DP 7502 - BOI Administrative Costs Adjustments	0.00	0	0	0	717	0.00	0	0	0	1,836
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$482,474	0.00	\$0	\$0	\$0	\$373,701

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2019 statewide pay plan adjustments, benefit rate adjustments, vacancy savings adjustments and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 7502 - BOI Administrative Costs Adjustments -

The executive requests an increase in proprietary funds in FY 2020 and FY 2021. This change package adjusts for anticipated increases in board member per diem, rent, and indirect costs paid to the Director's Office for support services provided to the division.

Other Issues -

Other Issues

Proprietary Rates

The Board of Investments has two programs funded with proprietary funds, which include:

- The Industrial Revenue Bond, which funds the INTERCAP Program
- The Investment Division Program, which funds the investment programs

The Board of Investments' customers include state agencies, the university system, local governments, financial institutions, and local economic development organizations.

Industrial Revenue Bond 1-95 -- 06014*Proprietary Program Description*

The Industrial Revenue Bond proprietary fund is used to fund the INTERCAP Program. The INTERCAP program only loans funds to eligible governmental units as defined under 17-5-1604, MCA. The Board sells tax-exempt bonds and lends the proceeds to eligible governments for various 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 Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the Industrial Revenue Bond proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06014	Industrial Revenue Bond 1-95	65010	Dept. of Commerce	Board of Investments

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Investment Earnings	249,607	-	-	-
Loan Receivable Interest	2,304,362	3,516,873	3,846,585	4,077,987
Other Operating Revenues				
Total Operating Revenues	<u>2,553,969</u>	<u>3,516,873</u>	<u>3,846,585</u>	<u>4,077,987</u>
Expenses				
Personal Services	403,270	375,283	426,630	427,307
Other Operating Expense	309,041	178,213	202,295	181,901
Total Operating Expense	<u>712,311</u>	<u>553,496</u>	<u>628,925</u>	<u>609,208</u>
Operating Income (Loss)	<u>1,841,657</u>	<u>2,963,377</u>	<u>3,217,660</u>	<u>3,468,779</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>1,841,657</u>	<u>2,963,377</u>	<u>3,217,660</u>	<u>3,468,779</u>
Capital Contributions				
Transfers In	36,778	38,000	40,000	42,000
Transfers Out				
Loans and Lease Payments	(1,905,753)	(2,309,513)	(3,033,115)	(3,235,394)
Change in Net Position	<u>(27,318)</u>	<u>691,864</u>	<u>224,545</u>	<u>275,385</u>
Beginning Net Position - July 1	5,494,862	5,473,797	6,165,661	6,390,206
Prior Period Adjustments	6,253			
Change in Net Position	(27,318)	691,864	224,545	275,385
Ending Net Position - June 30	<u>5,473,797</u>	<u>6,165,661</u>	<u>6,390,206</u>	<u>6,665,591</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position	5,473,797	6,165,661	6,390,206	6,665,591

Expenses

Overall, the executive is proposing increases in personal services and operating expenses. These increases are primarily due to statewide present law adjustments for personal services and operating expenses.

Revenues

Nearly all bond 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 bond program between draws. Remaining revenues are received monthly from the board’s contract with the Montana Facility Finance Authority.

Proprietary Rates

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 a fee at that level. Fees proposed for the INTERCAP Program are shown below.

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Budgeted FY 20	Budgeted FY 21
Budgeted Revenues				
Fees & Investment Revenues	\$ 2,553,969	\$ 3,552,553	\$ 3,846,585	\$ 4,077,987

The INTERCAP Program is funded with an enterprise fund, which is a type of a proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.

Investment Division – 06527

Proprietary Program Description

The Investment Division proprietary fund, an internal service fund, funds the Investment Program. The Board of Investment’s customers include state agencies, the university system, local governments, financial institutions, and local economic development organizations.

Proprietary Program Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the Investment Division proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06527	Investment Division	65010	Dept. of Commerce	Board of Investments

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Fee Revenue A	5,180,792	6,544,013	7,198,414	7,198,414
Other Operating Revenues				
Total Operating Revenues	5,180,792	6,544,013	7,198,414	7,198,414
Expenses				
Personal Services	3,606,801	3,683,413	3,786,423	3,783,371
Other Operating Expense	2,687,112	2,756,715	3,136,242	3,050,238
Total Operating Expense	6,293,913	6,440,128	6,922,665	6,833,609
Operating Income (Loss)	(1,113,121)	103,885	275,749	364,805
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	(1,113,121)	103,885	275,749	364,805
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	(1,113,121)	103,885	275,749	364,805
Beginning Net Position - July 1	1,098,966	(14,155)	89,730	365,479
Prior Period Adjustments	-	-	-	-
Change in Net Position	(1,113,121)	103,885	275,749	364,805
Ending Net Position - June 30	(14,155)	89,730	365,479	730,284
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position	(14,155)	89,730	365,479	730,284

Expenses

Overall, the executive is proposing increases in personal services and operating expenses. These increases are primarily due to statewide present law adjustments for personal services and operating expenses.

Revenues

Nearly all Investment Program revenues are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a 60-day working capital reserve.

Proprietary Rates

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				
	Actual FY 18	Approved FY 19	Budgeted FY 18	Budgeted FY 19
BOI Administrative Fee Rate	5,180,792	6,488,640	7,198,414	7,198,414
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 Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	28,150	36,362	8,212	29.17 %
Operating Expenses	367,260	362,307	(4,953)	(1.35)%
Total Expenditures	\$395,410	\$398,669	\$3,259	0.82 %
State/Other Special Rev. Funds	395,410	398,669	3,259	0.82 %
Total Funds	\$395,410	\$398,669	\$3,259	0.82 %
Total Ongoing	\$395,410	\$398,669	\$3,259	0.82 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Board of Horse Racing is responsible for:

1. Regulating 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
4. Auditing, supervising, and conducting investigations related to the pari-mutuel racing system in Montana

The program work is mandated in Title 2, Chapter 15, and Title 23, Chapter 4, MCA.

The Board of Horse Racing is funded with state special revenue derived from licenses and fees, as well as the collection of a percentage of wagering on live and remote racing events.

Program Highlights

Board of Horse Racing Major Budget Highlights
<ul style="list-style-type: none"> • The Board of Horse Racing’s 2021 biennium budget request is approximately \$3,000 or 0.8% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ A proposed present law adjustment to decrease personal services to account for a contracted executive secretary position

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	1.25	1.25	1.25	1.25
Personal Services	11,193	11,255	16,895	18,214	18,148
Operating Expenses	183,827	185,930	181,330	181,158	181,149
Total Expenditures	\$195,020	\$197,185	\$198,225	\$199,372	\$199,297
State/Other Special Rev. Funds	195,020	197,185	198,225	199,372	199,297
Total Funds	\$195,020	\$197,185	\$198,225	\$199,372	\$199,297
Total Ongoing	\$195,020	\$197,185	\$198,225	\$199,372	\$199,297
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Board of Horse Racing expended 98.9% of its FY 2018 HB 2 modified budget as of the end of FY 2018. Personal services were 99.4% expended and operating expenses were 98.9% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are slight differences between FY 2018 and FY 2019 appropriations in personal services and operating expenses. Significant differences include:

- Personal Services
 - There was a decrease in the FY 2018 appropriation resulting from an executive modification. This transferred personal services appropriations of \$4,600 to operating expenses because operating expenses were greater than anticipated
 - There was an increase in the FY 2019 appropriation resulting from legislative action. This change increased personal services appropriations by approximately \$1,000 for the pay plan
- Operating Expenses
 - There was an increase in the FY 2018 appropriation resulting from an executive modification. This change transferred authority of \$4,600 from personal services to operating expenses due to operating expenses being greater than anticipated

Executive Request

The Board of Horse Racing is requesting two present law adjustments which are primarily related to the executive secretary position. The statewide present law adjustment, because the snapshot calculates adjustments to personal services based on FTE, increases the personal services budget for the Board of Horse Racing by approximately \$108,000 each fiscal year. However, since the executive secretary position has been contracted for several fiscal years and is already accounted for in the operating budget, the board is proposing a present law adjustment to reduce the personal services budget.

Program Personal Services Narrative

Personal services were approximately \$17,000 or 8.5% of FY 2019 appropriations. The executive proposes an increase of approximately \$108,000 in FY 2020 and \$108,000 in FY 2021. The majority of this adjustment is included in the proposed reinstatement of personal services base budget reductions.

LFD COMMENT

The Board of Horse Racing has 1.00 FTE for its executive secretary position. This position has been contracted for several biennia but because there is 1.00 FTE for this position, it is captured in the executive snapshot, which is used to calculate the statewide present law adjustment for personal services. Since this position was contracted in the 2019 biennium, the operating costs are included in the base budget, so the executive has included a present law adjustment to reduce the personal services by a corresponding amount. This adjustment is included in the Present Law Adjustments section below.

Funding

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

Department of Commerce, 78-Board of Horse Racing Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02029 BOHR Operation Fund	398,669	0	0	670,000	1,068,669	100.00 %	
State Special Total	\$398,669	\$0	\$0	\$670,000	\$1,068,669	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$398,669	\$0	\$0	\$670,000	\$1,068,669		

The Board of Horse Racing is funded entirely from state special revenue funds.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	198,225	198,225	396,450	99.44 %
SWPL Adjustments	0	0	0	0.00 %	108,284	107,937	216,221	54.24 %
PL Adjustments	0	0	0	0.00 %	(107,137)	(106,865)	(214,002)	(53.68)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$199,372	\$199,297	\$398,669	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	108,284	0	108,284	0.00	0	107,937	0	107,937
DP 7801 - BOHR Administrative Costs Adjustments	0.00	0	(107,137)	0	(107,137)	0.00	0	(106,865)	0	(106,865)
Grand Total All Present Law Adjustments	0.00	\$0	\$1,147	\$0	\$1,147	0.00	\$0	\$1,072	\$0	\$1,072

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Formula based changes
- Personal services management decisions
- Reinstatement of personal services previously reduced
- Modifications made to the personal services budget in the 2019 biennium

DP 7801 - BOHR Administrative Costs Adjustments -

The executive requests a decrease in state special revenue in FY 2020 and FY 2021. This proposal would reduce the personal services budget for its executive secretary position, which is currently contracted. The funding for this contracted position is included in the operating expense base budget. This proposal does not eliminate the 1.00 FTE for the executive secretary position.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Personal Services	996,593	1,053,703	57,110	5.73 %
Operating Expenses	1,517,058	1,718,200	201,142	13.26 %
Equipment & Intangible Assets	54,000	24,000	(30,000)	(55.56)%
Total Expenditures	\$2,567,651	\$2,795,903	\$228,252	8.89 %
State/Other Special Rev. Funds	2,567,651	2,795,903	228,252	8.89 %
Total Funds	\$2,567,651	\$2,795,903	\$228,252	8.89 %
Total Ongoing	\$2,567,651	\$2,795,903	\$228,252	8.89 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

In 1997, the 55th Montana Legislature established the Montana Heritage Preservation and Development Commission (MHC) to acquire and manage historic properties for the State of Montana. This legislation approved the purchase of Virginia and Nevada City which comprised 248 buildings, 1.2 million Americana artifacts residing on 260 acres. These large historic town sites were the first properties managed by the MHC.

Since 1997, the Montana Board of Land Commissioners approved two additional acquisitions of historic Reeder's Alley and the Pioneer Cabin in Helena. Reeder's Alley was received through a private donation on November 19, 2001. The Pioneer Cabin at the front of Reeder's Alley was received from a private donation on June 19, 2006.

The Montana Legislature authorizes MHC to care for heritage resources "in a manner that protects the properties and encourages economic independence" (22-3-1001, MCA). MHC's statutory purpose is to acquire and manage, on behalf of the state, properties that possess outstanding historical value, display exceptional qualities worth preserving, and are genuinely representative of the state's culture and history. MHC has worked to expand the economic and revenue generating uses for its state buildings. MHC is responsible for the management and economic use of these historic properties including; building improvements, structural stabilization, site maintenance, artifact conservation, and protection of diverse historic features. MHC serves as a resource for the public and professionals interested in learning more about Montana history, historic building preservation, archaeology, conservation of artifacts, education, living history, and historic site management.

Program Highlights

Montana Heritage Commission Major Budget Highlights
<ul style="list-style-type: none"> • The Montana Heritage Commission is funded entirely with statutory appropriations. The 2021 biennium request is approximately \$228,000 or 8.9% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in state special revenues for statewide present law adjustments for personal services and fixed costs ◦ Proposed increases in state special revenue for other services, travel, rent, utilities, and indirect costs paid to the Director's Office for support services

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	8.00	8.00	8.00	8.00
Personal Services	470,160	495,815	500,778	526,892	526,811
Operating Expenses	754,382	834,386	682,672	861,722	856,478
Equipment & Intangible Assets	31,467	42,000	12,000	12,000	12,000
Total Expenditures	\$1,256,009	\$1,372,201	\$1,195,450	\$1,400,614	\$1,395,289
State/Other Special Rev. Funds	1,256,009	1,372,201	1,195,450	1,400,614	1,395,289
Total Funds	\$1,256,009	\$1,372,201	\$1,195,450	\$1,400,614	\$1,395,289
Total Ongoing	\$1,256,009	\$1,372,201	\$1,195,450	\$1,400,614	\$1,395,289
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

The Montana Heritage Commission is funded entirely with statutory appropriations. As such, the legislature does not approve either the expenditures or the funding of the program.

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Montana Heritage Commission expended 91.5% of its FY 2018 budget of approximately \$1.4 million. Personal services were 94.8% expended, operating expenses were 90.4% expended, and equipment and intangible assets were 74.9% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between the FY 2018 and FY 2019 budgets, which are primarily in operating expenses and equipment and intangible assets. These differences are primarily due to an executive modification. This modification

increased the FY 2018 appropriation in operating expenses by \$150,000 and equipment and intangible assets by \$30,000. MHC incurred greater than anticipated expenses due to extensive restoration and maintenance efforts.

Funding

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

Department of Commerce, 80-Montana Heritage Commission Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02102 Montana Heritage Commission	0	0	0	2,795,903	2,795,903	100.00 %	
State Special Total	\$0	\$0	\$0	\$2,795,903	\$2,795,903	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$0	\$0	\$0	\$2,795,903	\$2,795,903		

The Montana Heritage Commission is funded entirely with statutorily appropriated funding. The MHC receives funding from the lodging facility use tax, which is fixed at \$400,000 each fiscal year. The remainder of the funding includes revenues from Virginia and Nevada cities and Reeder’s Alley, as well as light vehicle registrations.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	1,195,450	1,195,450	2,390,900	85.51 %
SWPL Adjustments	0	0	0	0.00 %	34,674	29,360	64,034	2.29 %
PL Adjustments	0	0	0	0.00 %	170,490	170,479	340,969	12.20 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$1,400,614	\$1,395,289	\$2,795,903	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	26,114	0	26,114	0.00	0	26,033	0	26,033
DP 2 - Fixed Costs	0.00	0	8,560	0	8,560	0.00	0	3,327	0	3,327
DP 3 - Inflation Deflation	0.00	0	0	0	0	0.00	0	0	0	0
DP 8001 - MHC Administrative Cost Adjustments SA	0.00	0	170,490	0	170,490	0.00	0	170,479	0	170,479
Grand Total All Present Law Adjustments	0.00	\$0	\$205,164	\$0	\$205,164	0.00	\$0	\$199,839	\$0	\$199,839

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2019 statewide pay plan adjustments, benefit rate adjustments, vacancy savings adjustments and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests an increase in state special revenue in FY 2020 and FY 2021. This adjustment is for other services, travel, rent, utilities, and indirect costs paid to the Director's Office for support services provided to supported divisions, bureaus, and programs.

DP 8001 - MHC Administrative Cost Adjustments SA -

The executive proposes state special revenue for other services, travel, rent, utilities, and indirect costs paid to the Director's Office for support services provided to supported divisions, bureaus, and programs.

Program Biennium Comparison

The following table compares the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison				
Budget Item	Appropriated Budget 18-19	Requested Budget 20-21	Biennium Change	Biennium % Change
Grants	1,000,000	1,150,000	150,000	15.00 %
Total Expenditures	\$1,000,000	\$1,150,000	\$150,000	15.00 %
Federal Spec. Rev. Funds	1,000,000	1,150,000	150,000	15.00 %
Total Funds	\$1,000,000	\$1,150,000	\$150,000	15.00 %
Total Ongoing	\$1,000,000	\$1,150,000	\$150,000	15.00 %
Total OTO	\$0	\$0	\$0	0.00 %

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. The office provides executive, administrative, legal, and policy direction, along with offering problem-solving guidance. The office keeps abreast of department-related issues and acts in a public relations and informational capacity to ensure the public is informed of the important services provided by the department. The office works closely 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 also 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 Montana Council on Developmental Disabilities (MCDD), which is administratively attached to the department, is a citizen-based advocacy group. Its members are appointed by the Governor and work to provide increased independence, integration and productivity for persons with developmental disabilities. MCDD administers federal funds in three major areas:

- Assistance in the provision of comprehensive services to persons with developmental disabilities
- Assistance to the state in appropriate planning activities
- Contracting with public and private agencies to establish model programs, demonstrate innovative habilitation techniques and to train professional and paraprofessional personnel in providing services to persons with developmental disabilities

Program Highlights

Director’s Office Major Budget Highlights
<ul style="list-style-type: none"> • The Director’s Office’s 2021 biennium request is \$150,000 or 15.0% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in federal special revenue are to match anticipated available federal funds • The majority of the Director’s Office is funded with non-budgeted proprietary funds

Program Actuals and Budget Comparison

The following table compares FY 2018 actual expenditures to the 2019 biennium appropriated budget and the 2021 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
Grants	500,000	500,000	500,000	550,000	600,000
Total Expenditures	\$500,000	\$500,000	\$500,000	\$550,000	\$600,000
Federal Spec. Rev. Funds	500,000	500,000	500,000	550,000	600,000
Total Funds	\$500,000	\$500,000	\$500,000	\$550,000	\$600,000
Total Ongoing	\$500,000	\$500,000	\$500,000	\$550,000	\$600,000
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

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 2005 the department has had a contract with the Montana Council on Developmental Disabilities, a nonprofit corporation that carries out the responsibilities of the Developmental Disabilities Planning and Advisory Council (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.

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Director's Office expended 100.0% of its modified HB 2 budget as of the end of FY 2018.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are no differences between FY 2018 and FY 2019 appropriations.

Executive Request

The Director's Office is requesting an increase in federal special revenue of \$50,000 in FY 2020 and \$100,000 in FY 2021. This proposed increase is to match federal special revenue appropriations with anticipated available federal funds.

Funding

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

Department of Commerce, 81-Directors Office Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
03441 DDPAC - Dev Disabled Council	1,150,000	0	0	0	1,150,000	100.00 %	
Federal Special Total	\$1,150,000	\$0	\$0	\$0	\$1,150,000	20.24 %	
06542 Commerce Centralized Services	0	0	4,532,069	0	4,532,069	100.00 %	
Proprietary Total	\$0	\$0	\$4,532,069	\$0	\$4,532,069	79.76 %	
Total All Funds	\$1,150,000	\$0	\$4,532,069	\$0	\$5,682,069		

HB 2

The Montana Council on Developmental Disabilities is funded entirely with federal special revenues that pay for the contract for the nonprofit that carries out the responsibilities of DDPAC.

Non-Budgeted Proprietary

The Director’s Office is funded by an internal service type proprietary fund from indirect costs charged to programs in the Department of Commerce. This fund will be discussed in further detail in the Proprietary Rates section below.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget	Budget Fiscal 2020	Budget Fiscal 2021	Biennium Fiscal 20-21	Percent of Budget
2019 Base Budget	0	0	0	0.00 %	500,000	500,000	1,000,000	86.96 %
SWPL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	50,000	100,000	150,000	13.04 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$550,000	\$600,000	\$1,150,000	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes from the FY 2019 base appropriation to the budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments	-----Fiscal 2020-----					-----Fiscal 2021-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8101 - DO Federal Grants Adjustments	0.00	0	0	50,000	50,000	0.00	0	0	100,000	100,000
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$50,000	\$50,000	0.00	\$0	\$0	\$100,000	\$100,000

***Total Funds** amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 8101 - DO Federal Grants Adjustments -

The executive is requesting an increase in federal special revenue in FY 2020 and FY 2021. This request is to adjust ongoing federal appropriations for grants received by the Director's Office to match estimated available federal funds for the 2021 biennium for the Montana Council on Developmental Disabilities.

Other Issues -**Other Issues****Proprietary Rates****Commerce Centralized Services – 06542***Proprietary Program Description*

The Director's Office provides overall leadership, communication, and management support to the Department of Commerce's staff, programs, bureaus, divisions, and administratively-attached boards. The office provides executive, administrative, legal, and policy direction, along with offering problem-solving guidance. The office keeps abreast of department-related issues, and acts in a public relations and informational capacity. The office works closely 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 also 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.

Services are provided by the Offices of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information.

Proprietary Program Narrative

The following 2021 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the centralized services proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06542	Commerce Centralized Services	65010	Dept. of Commerce	Director's Office

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Fee Revenue A	1,787,656	1,935,502	2,015,477	2,015,791
Other Operating Revenues	12			
Total Operating Revenues	<u>1,787,668</u>	<u>1,935,502</u>	<u>2,015,477</u>	<u>2,015,791</u>
Expenses				
Personal Services	1,730,853	1,913,517	1,947,248	1,949,438
Other Operating Expense	296,532	302,239	312,943	322,440
Total Operating Expense	<u>2,027,385</u>	<u>2,215,756</u>	<u>2,260,191</u>	<u>2,271,878</u>
Operating Income (Loss)	<u>(239,717)</u>	<u>(280,254)</u>	<u>(244,714)</u>	<u>(256,087)</u>
Nonoperating Revenues				
Federal Indirect Cost Recoveries	317,079	302,365	302,365	302,365
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	<u>317,079</u>	<u>302,365</u>	<u>302,365</u>	<u>302,365</u>
Income (Loss) Before Contributions and Transfers	<u>77,362</u>	<u>22,111</u>	<u>57,651</u>	<u>46,278</u>
Capital Contributions				
Transfers In				
Transfers Out	-			
Loans and Lease Payments				
Change in Net Position	<u>77,362</u>	<u>22,111</u>	<u>57,651</u>	<u>46,278</u>
Beginning Net Position - July 1	152,572	229,934	252,045	309,696
Prior Period Adjustments				
Change in Net Position	<u>77,362</u>	<u>22,111</u>	<u>57,651</u>	<u>46,278</u>
Ending Net Position - June 30	<u>229,934</u>	<u>252,045</u>	<u>309,696</u>	<u>355,974</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position	229,934	252,045	309,696	355,974

Expenses

Overall, the executive is proposing slight increases in personal services and operating expenses. These increases are primarily due to statewide present law adjustments for personal services and operating expenses.

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.

Proprietary Rates

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.

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 amount 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.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Estimated FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
State Programs				
Indirect Cost Rate	16.35%	16.35%	14.22%	14.22%
Federal Programs				
Indirect Cost Rate	16.35%	16.35%	14.22%	14.22%

The executive proposes reduced rates for FY 2020 and FY 2021. 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.