

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	22,594,383	24,680,570	2,086,187	9.23 %
Operating Expenses	12,319,471	12,197,066	(122,405)	(0.99)%
Equipment & Intangible Assets	39,000	100,000	61,000	156.41 %
Capital Outlay	18,735	0	(18,735)	(100.00)%
Local Assistance	53,958	57,958	4,000	7.41 %
Transfers	3,306,000	0	(3,306,000)	(100.00)%
Total Expenditures	\$38,331,547	\$37,035,594	(\$1,295,953)	(3.38)%
General Fund	13,713,154	12,151,214	(1,561,940)	(11.39)%
State/Other Special Rev. Funds	13,169,753	14,255,763	1,086,010	8.25 %
Federal Spec. Rev. Funds	1,194,407	28,268	(1,166,139)	(97.63)%
Proprietary Funds	10,254,233	10,600,349	346,116	3.38 %
Total Funds	\$38,331,547	\$37,035,594	(\$1,295,953)	(3.38)%
Total Ongoing	\$35,025,547	\$36,985,594	\$1,960,047	5.60 %
Total OTO	\$3,306,000	\$50,000	(\$3,256,000)	(98.49)%

Mission Statement

The Department of Administration's mission is to serve as the backbone of state government by providing leading edge services to our customers and business partners.

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

Agency Highlights

Department of Administration Major Budget Highlights
<ul style="list-style-type: none"> • The Department of Administration is proposing to increase total ongoing HB 2 funding by approximately \$2.0 million between the 2019 biennium and the 2021 biennium, which is a 5.6% increase • Only 3.5% the department's budget is appropriated through HB 2 • Approximately 63.5% the department's budget is non-budgeted proprietary funds. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases of approximately \$3.7 million in state agency fixed costs for information technology

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	139.66	139.66	139.66	139.66
Personal Services	10,494,233	10,949,006	11,645,377	12,343,006	12,337,564
Operating Expenses	5,172,798	6,506,826	5,812,645	6,176,105	6,020,961
Equipment & Intangible Assets	18,054	19,500	19,500	50,000	50,000
Capital Outlay	18,735	18,735	0	0	0
Local Assistance	22,651	26,979	26,979	28,979	28,979
Transfers	1,649,000	1,649,000	1,657,000	0	0
Total Expenditures	\$17,375,471	\$19,170,046	\$19,161,501	\$18,598,090	\$18,437,504
General Fund	6,320,046	6,446,152	7,267,002	6,084,730	6,066,484
State/Other Special Rev. Funds	6,064,698	6,502,061	6,667,692	7,132,276	7,123,487
Federal Spec. Rev. Funds	53,418	1,078,083	116,324	14,134	14,134
Proprietary Funds	4,937,309	5,143,750	5,110,483	5,366,950	5,233,399
Total Funds	\$17,375,471	\$19,170,046	\$19,161,501	\$18,598,090	\$18,437,504
Total Ongoing	\$15,726,471	\$17,521,046	\$17,504,501	\$18,598,090	\$18,387,504
Total OTO	\$1,649,000	\$1,649,000	\$1,657,000	\$0	\$50,000

Agency Discussion

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Department of Administration's (DOA) HB 2 modified budget of \$19.2 million was 90.6% expended as of the end of FY 2018. Operating expenses of \$6.5 million were 79.5% expended which is below anticipated expenditures. Operating expenses in the State Information Technology Services Division (SITSD) primarily contributed to the lower percentage expended. This was mainly due to low expenditures related to the FirstNet grant program, which was a federal grant to implement a dedicated frequency for first responders.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between the FY 2018 appropriation and FY 2019 appropriation, which are primarily in personal services and operating expenses. The main differences in personal services appropriations are due to state share contribution reductions in FY 2018 and SB 9 restorations. The difference in operating expenses appropriations is primarily due to the entire biennial appropriation for FirstNet being included in the FY 2018 appropriation.

Executive Request

The Department of Administration is requesting an increase above the FY 2019 base in ongoing funding for general fund, state special revenue, and proprietary funds of approximately \$1.1 million in FY 2020 and \$900,000 in FY 2021. These increases are primarily due to statewide present law adjustments for personal services, fixed costs and inflation/deflation.

The Department of Administration is requesting a decrease in federal funds in FY 2020 and FY 2021 because the FirstNet Planning grant ended.

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

Legislative Audit Findings

LFD COMMENT

The Legislative Audit Division conducted a performance audit of the Department of Administration in January 2017. The audit found that under current statute, DOA is required to investigate the operation and effect of the general provisions and the classification process of the broadband pay plan. However, state

law does not currently require any investigation or reporting of employee compensation, including the use of discretionary pay adjustments.

The Legislative Auditor recommends legislation be enacted requiring the Department of Administration to:

1. Conduct a biennial investigation of the operation and effect of the application of discretionary pay adjustments under the broadband pay plan, and
2. Report results of this analysis prior to the commencement of each regular legislative session.

Additional information on the audit can be found at: <https://leg.mt.gov/content/Publications/Audit/Report/15P-05.pdf>.

The Legislative Audit Division conducted a performance audit of the Department of Administration in June 2017. The audit found the Request for Proposal (RFP) for the Montana Health Clinics was created with little input from stakeholders, including state employees, legislators, the Montana University System, and local health care providers.

The Legislative Auditor recommends the Department of Administration work with stakeholders to determine if the Montana Health Centers should continue to be a health care option for state employees, and either:

1. End Montana Health Center services at the end of the current contract extension period, or
2. Develop and submit a new Request for Proposal based on a clearly defined vision and goals.

Additional information on the audit can be found at: <https://leg.mt.gov/content/Publications/Audit/Report/16P-03.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 Administration				
	Legislative Action	Executive Modifications per Statutory Authority	Executive Base	% Change from Legislative Action
01 Directors Office				
61000 Personal Services	338,392	-	338,392	0.0%
62000 Operating Expenses	70,064	-	70,064	0.0%
65000 Local Assistance	14,296	-	14,296	0.0%
Program Total	422,752	-	422,752	0.0%
03 State Financial Services Div				
61000 Personal Services	2,257,673	(200,000)	2,057,673	-8.9%
62000 Operating Expenses	732,828	-	732,828	0.0%
Program Total	2,990,501	(200,000)	2,790,501	-6.7%
04 Architecture & Engineering Div				
61000 Personal Services	1,602,780	-	1,602,780	0.0%
62000 Operating Expenses	582,841	-	582,841	0.0%
Program Total	2,185,621	-	2,185,621	0.0%
07 State It Services Division				
61000 Personal Services	593,646	-	593,646	0.0%
62000 Operating Expenses	209,767	-	209,767	0.0%
Program Total	803,413	-	803,413	0.0%
14 Div Of Banking & Financial Inst				
61000 Personal Services	3,140,006	-	3,140,006	0.0%
62000 Operating Expenses	876,132	-	876,132	0.0%
Program Total	4,016,138	-	4,016,138	0.0%
15 Montana State Lottery				
61000 Personal Services	2,224,521	-	2,224,521	0.0%
62000 Operating Expenses	2,811,089	-	2,811,089	0.0%
63000 Equipment & Intangible Assets	19,500	-	19,500	0.0%
Program Total	5,055,110	-	5,055,110	0.0%
23 State Human Resources Division				
61000 Personal Services	1,228,711	-	1,228,711	0.0%
62000 Operating Expenses	389,843	-	389,843	0.0%
Program Total	1,618,554	-	1,618,554	0.0%
37 Montana Tax Appeal Board				
61000 Personal Services	459,648	-	459,648	0.0%
62000 Operating Expenses	140,081	-	140,081	0.0%
65000 Local Assistance	12,683	-	12,683	0.0%
Program Total	612,412	-	612,412	0.0%
Grand Total	17,704,501	(200,000)	17,504,501	-1.1%

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. SB 9 restored general fund appropriations of approximately \$538,000 to the Department of Administration in FY 2019. Additionally, there was one executive modification that transferred appropriation authority of \$200,000 from FY 2019 to FY 2018 to provide personal services and operating authority in FY 2018.

5% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2021 biennium 5% plan submitted for the Department of Administration is in the appendix.

The general fund impact of the 5% plan for the Department of Administration is approximately \$204,000 and the state special revenue impact is approximately \$205,000. The department proposes to primarily reduce personal services.

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 following 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
01 DIRECTOR'S OFFICE	6,836	1,712	21,690	-	30,238
03 STATE FINANCIAL SERVICES DIVISION	22,594	10,105	112,145	200,000	344,844
04 ARCHITECTURE & ENGINEERING	7,977	(6,648)	33,417	-	34,746
07 INFORMATION TECH SERV DIVISION	7,846	(4,123)	(74,610)	-	(70,887)
14 BANKING AND FINANCIAL DIVISION	40,211	(1,988)	120,460	-	158,683
15 MONTANA STATE LOTTERY	19,525	(5,226)	94,357	-	108,656
23 STATE HUMAN RESOURCES DIVISION	19,686	0	111,557	-	131,243
37 MONTANA TAX APPEAL BOARD	7,664	6,167	32,084	-	45,915
Agency Total	\$132,338	(\$0)	\$451,100	\$200,000	\$783,438

Personal services were \$11.6 million or 60.8% of total FY 2019 appropriations. The executive proposes an increase of approximately \$783,000 in FY 2020 and \$778,000 in FY 2021. The proposed reinstatement of personal services base budget reductions and modifications to the personal services base are primarily contributing to the statewide present law adjustment for personal services.

The proposed reinstatement of personal services base is primarily due to the reinstatement of reductions from SB 261 and the 2017 Legislative Session including the additional 2.0% vacancy savings. The modifications to the personal services base was due to the transfer of authority from FY 2019 to FY 2018.

Additional 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 Administration Funding by Source of Authority 2021 Biennium Budget Request - Department of Administration						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	12,101,214	50,000	0	184,833,460	196,984,674	18.48 %
State Special Total	14,255,763	0	0	47,917,000	62,172,763	5.83 %
Federal Special Total	28,268	0	0	36,284,000	36,312,268	3.41 %
Proprietary Total	10,600,349	0	677,388,387	82,596,208	770,584,944	72.28 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$36,985,594	\$50,000	\$677,388,387	\$351,630,668	\$1,066,054,649	
Percent - Total All Sources	3.47 %	0.00 %	63.54 %	32.98 %		

The majority of the Department of Administration is funded with proprietary funds. These funds support the operations of the Director's Office, State Financial Services Division, General Services Division, State Information Technology Services Division, Healthcare and Benefits Division, State Human Resources Division, Risk Management and Tort Defense, and Montana State Lottery.

Statutory Appropriations also comprise a significant portion of appropriations for the Department of Administration. These primarily include appropriations related to transfers to the teachers' retirement and public employees' retirement system, and lottery prizes.

HB 2 appropriations of general fund, state special revenue funds, federal special revenue funds and proprietary funds 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 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	5,610,002	5,610,002	11,220,004	92.34 %	17,504,501	17,504,501	35,009,002	94.53 %
SWPL Adjustments	452,732	384,486	837,218	6.89 %	1,120,902	907,816	2,028,718	5.48 %
PL Adjustments	21,996	71,996	93,992	0.77 %	(27,313)	25,187	(2,126)	(0.01)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$6,084,730	\$6,066,484	\$12,151,214		\$18,598,090	\$18,437,504	\$37,035,594	

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	595,997	737,708	141,711	23.78 %
Operating Expenses	207,043	202,190	(4,853)	(2.34)%
Local Assistance	28,592	28,592	0	0.00 %
Transfers	3,306,000	0	(3,306,000)	(100.00)%
Total Expenditures	\$4,137,632	\$968,490	(\$3,169,142)	(76.59)%
General Fund	4,112,218	943,076	(3,169,142)	(77.07)%
Federal Spec. Rev. Funds	25,414	25,414	0	0.00 %
Total Funds	\$4,137,632	\$968,490	(\$3,169,142)	(76.59)%
Total Ongoing	\$831,632	\$968,490	\$136,858	16.46 %
Total OTO	\$3,306,000	\$0	(\$3,306,000)	(100.00)%

Program Description

The Director's Office provides overall leadership and management support to the Department of Administration's divisions and offers administrative support to attached boards and commissions. The office acts as a liaison among the agency's divisions, administratively-attached boards and commissions, the cabinet, the legislature, and the Governor's Office.

The Director's Office has 3.50 FTE funded through HB 2 and 26.52 FTE funded by the revenues generated from the internal fees charged to the Department of Administration's divisions and its attached-to agencies. These FTE provide services in the areas of legal, human resources, financial management, labor relations, project management and communications, continuity of government, emergency management, and homeland security.

- The Office of Legal Services advises the divisions on legal matters
- The staff of the Office of Human Resources partner with DOA leadership and employees to enhance agency performance through strategic human resource programs and effective administrative processes (e.g., payroll administration, talent acquisition, policy development, etc.)
- The Office of Finance and Budget prepares and presents the biennial budget, processes budget change documents, monitors approved budgets for compliance with state law and legislative intent, and provides accounting assistance
- Labor Relations provides labor relations services for managers and human resource officers and is the Governor's designated representative in collective bargaining
- The State Continuity and Emergency Management Office provides leadership and support for the enterprise continuity of government, emergency management, and homeland security programs
- The Office of Program and Information Management provides communication and project management services

The customers served are internal to the department and its attached-to agencies, with the exception of the Office of Labor Relations and the State Continuity and Emergency Management Office, which serve state agencies.

Program Highlights

Director's Office Major Budget Highlights
<ul style="list-style-type: none"> • The Director's Office is proposing to increase total ongoing spending by approximately \$137,000 between the 2019 biennium and the 2021 biennium. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in general fund in FY 2020 and FY 2021 for statewide present law adjustment for personal services ◦ Proposed increases in general fund in FY 2020 and decreases in FY 2021 for statewide present law adjustments for 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	3.50	3.50	3.50	3.50
Personal Services	276,254	257,605	338,392	368,630	369,078
Operating Expenses	81,725	136,979	70,064	136,253	65,937
Local Assistance	7,795	14,296	14,296	14,296	14,296
Transfers	1,649,000	1,649,000	1,657,000	0	0
Total Expenditures	\$2,014,774	\$2,057,880	\$2,079,752	\$519,179	\$449,311
General Fund	2,006,979	2,045,173	2,067,045	506,472	436,604
Federal Spec. Rev. Funds	7,795	12,707	12,707	12,707	12,707
Total Funds	\$2,014,774	\$2,057,880	\$2,079,752	\$519,179	\$449,311
Total Ongoing	\$365,774	\$408,880	\$422,752	\$519,179	\$449,311
Total OTO	\$1,649,000	\$1,649,000	\$1,657,000	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Director's Office expended 97.9% of its HB 2 modified budget as of the end of FY 2018. Personal services were 107.2% expended, operating expenses were 59.7% expended, and transfers-out were 100.0% expended.

The high percentage expended in personal services was due to two factors. First, the Director's Office did not have any vacancy savings. Second, the office rehired a retired labor relations specialist part-time to assist in training new labor relations specialists.

The lower percentage expended in operating expenses was due to an unexpended portion related to a biennial audit appropriation and the office reducing variable operating expenses to stay within the budget.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- Personal Services
 - There was a decrease in the FY 2018 appropriation resulting from legislative action that reduced the state share contribution by approximately \$6,000
 - There were decreases in the FY 2018 appropriation resulting from executive modifications. The Director's Office transferred general fund of \$53,000 to the Montana Tax Appeal Board. This transfer was completed to manage budget reductions within the Montana Tax Appeal Board
 - There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$17,000 were applied to personal services
- Operating Expenses
 - The FY 2018 appropriation includes audit fees, which totaled approximately \$67,000

Executive Request

The Director's Office is requesting an overall increase above the FY 2019 base in ongoing general fund of approximately \$96,000 in FY 2020 and \$27,000 in FY 2021. This proposed increase is primarily due to the statewide present law adjustment for personal services and fixed costs in FY 2020 and the statewide present law adjustment for personal services in FY 2021.

Program Personal Services Narrative

Personal services were \$338,000 or 16.3% of total FY 2019 appropriations. The executive proposes an increase of approximately \$30,000 in FY 2020 and \$31,000 in FY 2021. The majority of this increase is due to the proposed reinstatement of personal services base budget reductions. This includes the reinstatement of reductions from the 2017 Legislative Session, SB 261, and the additional 2.0% vacancy savings.

Funding

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

Department of Administration, 01-Director's Office Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	943,076	0	0	179,919,158	180,862,234	75.53 %	
02858 Mineral Impact	0	0	0	16,372,000	16,372,000	100.00 %	
02151 YthCrt Intervention?evention	0	0	0	0	0	0.00 %	
02116 Accommodation Tax Account	0	0	0	0	0	0.00 %	
02218 School Facility & Tech Account	0	0	0	0	0	0.00 %	
02270 Treasure State Endowment	0	0	0	0	0	0.00 %	
02771 Big Sky Economic Dev Program	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$16,372,000	\$16,372,000	6.84 %	
03095 Taylor Grazing Act Dist.	0	0	0	250,000	250,000	0.69 %	
03369 Flood Control Payments	25,414	0	0	0	25,414	0.07 %	
03425 Forest Reserve Shared Revenue	0	0	0	36,034,000	36,034,000	99.24 %	
Federal Special Total	\$25,414	\$0	\$0	\$36,284,000	\$36,309,414	15.16 %	
06534 Management Services	0	0	4,378,418	0	4,378,418	74.04 %	
06535 Continuity Emergency Mgmt	0	0	1,534,985	0	1,534,985	25.96 %	
Proprietary Total	\$0	\$0	\$5,913,403	\$0	\$5,913,403	2.47 %	
Total All Funds	\$968,490	\$0	\$5,913,403	\$232,575,158	\$239,457,051		

HB 2

HB 2 appropriations are less than 0.5% of total appropriations in the Director's Office.

The general fund appropriations in HB 2 support the following functions:

- Burial Preservation Board
- Office of Labor Relations

Federal special revenue provides for the administrative functions that support the allocation of federal flood control payments. These funds are received by the department from the U.S. Army Corps of Engineers. It is directed to specific counties for reimbursement for 75% of receipts from the leasing of lands acquired for flood control, navigation, and allied purposes pursuant to 33 USC 701c3.

Non-Budgeted Proprietary

The majority of the Director's Office functions are supported by proprietary funds. These funds are considered and approved as rates charged to other divisions in the agency and are discussed in the Proprietary Rates section of the narrative.

Statutory Appropriations

In the Director's Office, statutory appropriations account for 97.1% of appropriations from all sources of authority. The executive proposes statutory appropriation authority of approximately \$116.4 million in FY 2020 and \$116.2 million in FY 2021. The figure below provides FY 2018 actual expenditures, FY 2019 appropriations, and current HJR 2 estimates for FY 2020 and FY 2021 appropriations, which are slightly below executive estimates at this point in time.

Figure 3

Department of Administration Director's Office Statutory Appropriations				
	FY 2018 Actual	FY 2019 Appropriated	FY 2020 Estimated	FY 2021 Estimated
General Fund				
Debt Service	\$ 12,395,476	\$ 9,270,551	\$ 8,145,083	\$ 6,887,515
Local Government PERD Contribution	445,877	574,401	463,890	473,168
School District PERD Contribution	522,760	605,284	543,879	554,757
TRS GABA	909,308	973,507	909,308	909,308
TRS Supplemental Contribution	44,096,364	45,289,354	45,246,186	45,853,571
State Fund Dividend - Federal Share	213,475	396,431	170,000	170,000
Public Employees Retirement Transfers	<u>31,386,000</u>	<u>31,958,000</u>	<u>32,277,580</u>	<u>32,600,356</u>
Total General Fund	89,969,260	89,067,528	87,755,926	87,448,675
State Special Revenues				
Mineral Impact Fees	<u>5,778,774</u>	<u>8,186,000</u>	<u>6,963,687</u>	<u>6,849,095</u>
Total State Special Revenues	5,778,774	8,186,000	6,963,687	6,849,095
Federal Special Revenue				
Taylor Grazing Fees	154,442	125,000	125,000	125,000
Forest Reserve Funds	<u>15,119,644</u>	<u>18,017,000</u>	<u>18,017,000</u>	<u>18,017,000</u>
Total Federal Special Revenue	15,274,086	18,142,000	18,142,000	18,142,000
Total Statutory Appropriations	\$111,022,120	\$115,395,528	\$112,861,613	\$112,439,770

As reflected in the figure above, there is a reduction in the appropriation for debt service which is due to declining costs for debt service.

LFD COMMENT The Revenue and Transportation Interim Committee adopted revenue estimates that impact the levels of some of the statutory appropriations in the figure above. LFD staff updated the information included in the figure to reflect current HJR 2 estimates.

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	410,045	410,045	820,090	86.96 %	422,752	422,752	845,504	87.30 %
SWPL Adjustments	97,105	27,237	124,342	13.18 %	97,105	27,237	124,342	12.84 %
PL Adjustments	(678)	(678)	(1,356)	(0.14)%	(678)	(678)	(1,356)	(0.14)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$506,472	\$436,604	\$943,076		\$519,179	\$449,311	\$968,490	

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	30,238	0	0	30,238	0.00	30,686	0	0	30,686
DP 2 - Fixed Costs	0.00	66,867	0	0	66,867	0.00	(3,449)	0	0	(3,449)
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	(678)	0	0	(678)	0.00	(678)	0	0	(678)
Grand Total All Present Law Adjustments	0.00	\$96,427	\$0	\$0	\$96,427	0.00	\$26,559	\$0	\$0	\$26,559

**"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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests a decrease in general fund due to a reduction in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

Other Issues -**Proprietary Rates**

There are two proprietary funds in the Director's Office, which include:

- **Management Services Fund** – The Director's Office provides management services to other divisions within the agency and services for state agencies related to labor relations
- **Continuity and Emergency Management** – The Director's Office prepares to manage and coordinate state government in the event of a major catastrophic disruption.

These programs are funded with internal service type proprietary funds. As such, the legislature approves the maximum rates that the programs can charge during the biennium.

Management Services Fund – 06534*Proprietary Program Description*

In addition to oversight, support, and coordination, the services provided by the Director's Office with the management services fund include:

- Office of Human Resources
 - Processes payroll
 - Assists with recruitment, selection, and orientation of new employees
 - Classifies positions
 - Develops policies for the department
- Office of Legal Services
 - Advises on legal matters
- Office of Finance and Budget
 - Prepares and presents the biennial budget
 - Processes budget change documents
 - Monitors budgets for compliance with state law and legislative intent
 - Provides accounting assistance

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 management services fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06534	Management Services	61010	Dept. of Administration	Director's Office

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Fee Revenue A	1,918,300	1,881,472	1,938,008	1,938,008
Fee Revenue B	543	12	12	12
Total Operating Revenues	<u>1,918,843</u>	<u>1,881,484</u>	<u>1,938,020</u>	<u>1,938,020</u>
Expenses				
Personal Services	1,700,144	1,657,707	1,930,372	1,926,374
Other Operating Expense	295,784	244,605	262,053	259,619
Total Operating Expense	<u>1,995,929</u>	<u>1,902,312</u>	<u>2,192,425</u>	<u>2,185,993</u>
Operating Income (Loss)	<u>(77,085)</u>	<u>(20,828)</u>	<u>(254,405)</u>	<u>(247,973)</u>
Nonoperating Revenues				
Other Revenue A				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>(77,085)</u>	<u>(20,828)</u>	<u>(254,405)</u>	<u>(247,973)</u>
Capital Contributions				
Transfers In				
Transfers Out	(733)			
Change in Net Position	<u>(77,818)</u>	<u>(20,828)</u>	<u>(254,405)</u>	<u>(247,973)</u>
Beginning Net Position - July 1	352,367	274,549	253,721	(684)
Prior Period Adjustments				
Change in Net Position	(77,818)	(20,828)	(254,405)	(247,973)
Ending Net Position - June 30	<u>274,549</u>	<u>253,721</u>	<u>(684)</u>	<u>(248,657)</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

Overall, the executive is proposing an increase in personal services and operating expenses over the 2021 biennium. This proposed increase is due to increases in statewide present law adjustments for personal services and fixed costs.

Revenues

All divisions of the agency and some administratively attached boards and agencies, use the services provided by the Director's Office. Administratively attached agencies or boards are not charged a fee if they do not use some of the services because they have staff to perform these functions.

The revenues for this program are allocated in three ways:

- The human resource function allocation is based on the annual amount per FTE served
- The legal unit is allocated based on a time use study
- The remaining portion is allocated on the proportional size of the division budget to the total of all served

Proprietary Rates

The figure below shows the rates proposed by the executive for the 2021 biennium.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
Total Allocation of Costs	\$1,499,893	\$1,499,500	\$1,408,903	\$1,408,903
FTE Component	\$891	\$891	\$947	\$947

This program is funded with an internal service type proprietary fund. As such, the legislature approves the maximum rate the program may charge during the biennium. They are not the rates the program must charge.

LFD COMMENT	<p>The fund balance at the end of the 2021 biennium is projected to be negative by approximately \$249,000. It appears that the revenues are not sufficient to cover the proposed expenditures. According to the department there are two positions that they are anticipating leaving vacant in the 2021 biennium. Additionally, the hours allocated to the management services proprietary fund may be over-allocated.</p> <p>The legislature may wish to adjust the proposed personal services expenditures to ensure there will not be a negative fund balance at the end of the 2021 biennium.</p>
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Continuity and Emergency Management – 06535

Proprietary Program Description

The Department of Administration is responsible for providing centralized management and coordination of the Continuity and Emergency Management Program for state agencies to ensure the ability to protect and recover essential functions of state government in the event of catastrophic loss.

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 continuity and emergency management fund.

2021 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06535	SCEMO	61010	Dept. of Administration	Continuity and Emergency Mgmt.		
			Actual	Estimated	Proposed	Proposed
			FY 18	FY 19	FY 20	FY 21
Operating Revenues						
Fees and Charges						
	Fee Revenue A		728,874	728,817	758,029	757,972
	Other Operating Revenues		809			
Total Operating Revenues			729,683	728,817	758,029	757,972
Expenses						
	Personal Services		550,432	531,976	563,453	561,965
	Other Operating Expense		174,308	201,148	205,233	204,335
Total Operating Expense			724,740	733,124	768,686	766,300
Operating Income (Loss)			4,943	(4,307)	(10,657)	(8,328)
Nonoperating Revenues						
Nonoperating Expenses						
Total Nonoperating Revenues (Expenses)			-	-	-	-
Income (Loss) Before Contributions and Transfers			4,943	(4,307)	(10,657)	(8,328)
Capital Contributions						
Transfers In						
Transfers Out						
Loans and Lease Payments						
Change in Net Position			4,943	(4,307)	(10,657)	(8,328)
Beginning Net Position - July 1			41,857	46,800	42,493	31,836
Prior Period Adjustments						
Change in Net Position			4,943	(4,307)	(10,657)	(8,328)
Ending Net Position - June 30			46,800	42,493	31,836	23,508
Net Position (Fund Balance) Analysis						
Restricted Net Postion (Enterprise Funds Only)						
Unrestricted Net Position						

Expenses

The executive is proposing an increase in personal services and operating expenses over the 2021 biennium. This proposed increase is primarily due to increases in statewide present law adjustments for personal services and fixed costs.

Revenues

The Continuity and Emergency Management Program (CEMP) bills the State Information Technology Services Division (SITSD) and General Services Division (GSD) quarterly for their services. Because these two divisions are funded through charges to state agencies, CEMP is essentially funded by all state agencies.

The executive proposes that SITSD pays approximately \$546,000 and GSD pays approximately \$212,000 annually in the 2021 biennium for this function.

Proprietary Rates

The figure below shows the rates proposed by the executive for the 2021 biennium.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
Total Allocation of Costs	\$728,874	\$728,817	\$758,029	\$757,972

This program is funded with an internal service type proprietary fund. As such, the legislature approves the maximum rate 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
Operating Expenses	0	50,000	50,000	0.00 %
Total Expenditures	\$0	\$50,000	\$50,000	0.00 %
General Fund	0	50,000	50,000	0.00 %
Total Funds	\$0	\$50,000	\$50,000	0.00 %
Total Ongoing	\$0	\$0	\$0	100.00 %
Total OTO	\$0	\$50,000	\$50,000	100.00 %

Program Description

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

Program Highlights

Governor Elect Program Major Budget Highlights
<ul style="list-style-type: none"> The executive is requesting \$50,000 one-time-only, general fund for the Governor Elect Program in FY 2021. Statute requires the Department of Administration provide funding to the Governor-elect and his or her staff for the period between the general election and the inauguration

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	0	0	0	0	50,000
Total Expenditures	\$0	\$0	\$0	\$0	\$50,000
General Fund	0	0	0	0	50,000
Total Funds	\$0	\$0	\$0	\$0	\$50,000
Total Ongoing	\$0	\$0	\$0	\$0	\$0
Total OTO	\$0	\$0	\$0	\$0	\$50,000

Program Discussion -

Statute requires the Department of Administration provide funding to the Governor-elect and his or her staff for the period between the general election and the inauguration because there will be a change in office as a result of the 2020 general election. As the potential change in the Governor occurs only once every four years, this funding is not included in the base budget.

Executive Request

The Department of Administration is requesting a one-time-only, general fund appropriation of \$50,000 in FY 2021 for the Governor Elect Program.

LFD COMMENT The Governor-elect startup costs have been funded at the same level for several biennia. In FY 2005, \$50,000 was appropriated and expenditures totaled \$49,999. In FY 2009, \$50,000 was appropriated and the entire appropriation was expended. Inflationary increases have not been considered or included in the funding. The legislature may wish to:

1. Consider applying an inflationary adjustment to the proposed appropriation
2. Approve the \$50,000 appropriation as proposed

Funding

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

Department of Administration, 02-Governor Elect Program Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	0	50,000	0	0	50,000	100.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$0	\$50,000	\$0	\$0	\$50,000		

The Governor Elect Program is funded entirely with general fund.

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 %	0	0	0	0.00 %
SWPL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	50,000	50,000	100.00 %	0	50,000	50,000	100.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$50,000	\$50,000		\$0	\$50,000	\$50,000	

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 201 - Governor-Elect Appropriation - OTO	0.00	0	0	0	0	0.00	50,000	0	0	50,000
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$50,000	\$0	\$0	\$50,000

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

DP 201 - Governor-Elect Appropriation - OTO -

The executive requests a one-time-only general fund appropriation for the Governor Elect Program. Montana Statute (2-15-221, MCA) requires the department to provide funding to a Governor-elect and his or her staff for the period between the general election and the inauguration because there will be a change in office as a result of the 2020 general election.

LFD COMMENT	The executive is requesting that the general fund appropriation for the Governor Elect Program be designated as a one-time-only appropriation. The legislature may wish to restrict the use of the appropriation for use by the Governor-elect in addition to designating the appropriation as one-time-only.
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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	3,977,073	4,804,718	827,645	20.81 %
Operating Expenses	1,051,398	1,526,975	475,577	45.23 %
Capital Outlay	18,735	0	(18,735)	(100.00)%
Total Expenditures	\$5,047,206	\$6,331,693	\$1,284,487	25.45 %
General Fund	4,558,311	5,852,131	1,293,820	28.38 %
State/Other Special Rev. Funds	375,295	365,962	(9,333)	(2.49)%
Federal Spec. Rev. Funds	2,854	2,854	0	0.00 %
Proprietary Funds	110,746	110,746	0	0.00 %
Total Funds	\$5,047,206	\$6,331,693	\$1,284,487	25.45 %
Total Ongoing	\$5,047,206	\$6,331,693	\$1,284,487	25.45 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Biennium Comparison -

The biennium comparison table shows a total growth of 25.5%, which for State Financial Services Division is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 13.5%.

Program Description

The State Financial Services Division performs many centralized functions and administers state and federal programs to state agencies, local government entities, and Montana citizens and businesses. The division consists of three bureaus – Statewide Accounting, State Procurement, Financial Services Technology Bureau – and includes Local Government Services and the State Social Security Administrator.

The Division Strategies and Solutions Team (DSST) provides resources at the division level and focuses on operational business strategies and technology solutions to support division-wide initiatives.

The Statewide Accounting Bureau (SAB) prepares and publishes the state's annual comprehensive financial report (CAFR) and maintains a statewide accounting structure with related policies and procedures to allow all branches of government to meet their individual reporting needs. The Daily Operations Unit includes both the Treasury and Warrant Writer services. The Treasury responsibilities include central banking functions and maintaining accountability of all money and securities belonging to or held in trust by the state. The Warrant Writer services include management of the state payment processes and state vendor file, and issuance of 1099 miscellaneous and 1042 forms. The bureau also serves as the process owner of the Statewide Accounting Budgeting & Human Resources System (SABHRS) financial modules and assists state agencies in operating the state's accounting system. The Department of Administration (DOA) and the Board of Investments (BOI) work jointly to manage the State of Montana's cash. The Treasury within DOA reconciles the state's banking activity/movement of cash, manages bank contracts, and provides support to BOI and other agencies.

Local Government Services (LGS) is part of the Statewide Accounting Bureau. LGS works with local governments (counties, cities and towns, school districts, and special districts) to support uniform financial accountability and to assist the local governments in complying with their statutory, financial, and budgetary reporting requirements, including provisions of the Montana Single Audit Act. LGS receives and makes the local government financial, budget, and audit reports available to the public.

The State Social Security Administrator is also a part of the Statewide Accounting Bureau. The State Social Security Administrator is responsible for administering Section 218 of the Social Security Act by providing education and outreach and insuring proper application of Social Security coverage to all state and local government employees.

The State Procurement Bureau (SPB) provides professional procurement services to all state agencies for the acquisition of supplies and services. State Procurement advocates for compliance with all state statutes and procurement requirements, establishes statewide contracts for commonly used goods and services, manages the State’s Fuel and Procurement Card Programs, and offers procurement/contract management training to state agencies. In addition, SPB promotes compliance of the Montana Procurement Act (MCA Title 18-4) and is the business process owner of the Montana Acquisition and Contracting System (eMACS).

The Financial Services Technology Bureau (FSTB) provides system analysis, support, configuration, development, and maintenance of the state’s enterprise accounting and budgeting systems. The bureau also manages system architecture and provides database administration for the entire SABHRS application. FSTB partners with the Statewide Accounting Bureau, Governor’s Office of Budget and Program Planning, Legislative Fiscal Division, and the State Human Resources Division to gather business requirements and develop application strategies. In addition, FSTB supports the Montana Acquisition and Contracting System (eMACS).

Program Highlights

State Financial Services Division Major Budget Highlights
<ul style="list-style-type: none"> • The State Financial Services Division’s 2021 biennium budget is \$751,000 or 13.5% higher when compared to the FY 2019 base appropriation. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in general fund due to statewide present law adjustments for personal services and fixed costs • The majority of the funding in the division is from proprietary funds that are approved as rates in HB 2. The executive is proposing rate increases for SABHRS and warrant writing

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	28.92	28.92	28.92	28.92
Personal Services	1,917,841	1,919,400	2,057,673	2,402,517	2,402,201
Operating Expenses	311,935	318,570	732,828	763,102	763,873
Capital Outlay	18,735	18,735	0	0	0
Total Expenditures	\$2,248,511	\$2,256,705	\$2,790,501	\$3,165,619	\$3,166,074
General Fund	2,015,468	2,016,124	2,542,187	2,925,954	2,926,177
State/Other Special Rev. Funds	176,795	183,781	191,514	182,865	183,097
Federal Spec. Rev. Funds	878	1,427	1,427	1,427	1,427
Proprietary Funds	55,370	55,373	55,373	55,373	55,373
Total Funds	\$2,248,511	\$2,256,705	\$2,790,501	\$3,165,619	\$3,166,074
Total Ongoing	\$2,248,511	\$2,256,705	\$2,790,501	\$3,165,619	\$3,166,074
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The State Financial Services Division (SFSD) expended 99.6% of its \$2.3 million HB 2 modified budget as of the end of FY 2018. Personal services were 99.9% expended, operating expenses were 97.9% expended, and capital outlay was 100.0% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- Personal Services
 - There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$255,000 were applied to personal services
- Operating Expenses
 - As part of the budgeting process, \$500,000 was restored to the FY 2019 base budget

Executive Request

The State Financial Services Division is requesting an increase above the FY 2019 base in general fund appropriations of approximately \$375,000 in both FY 2020 and FY 2021. These proposed increases are primarily due to statewide present law adjustments for personal services and fixed costs. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

Program Personal Services Narrative

Personal services were \$2.1 million or 73.7% of total FY 2019 appropriations. The executive proposes an increase of approximately \$345,000 in FY 2020 and \$345,000 in FY 2021. The majority of this increase includes:

- The proposed reinstatement of personal services base budget reductions which totals approximately \$112,000. This includes the reinstatement of reductions from the 2017 Legislative Session, SB 261, and the additional 2.0% vacancy savings
- Executive modifications which total \$200,000. This modification transferred \$200,000 from FY 2019 to FY 2018 in order to address budget reductions

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Modifications to Personal Services and Base Budget Restorations

The State Financial Services Division had a budget reduction of \$300,000 to operating expenses and a budget modification that moved \$200,000 from personal services in FY 2019 to FY 2018 in order to address budget reductions. As part of the budgeting process, \$500,000 was restored to the FY 2019 base budget. This restoration was applied to operating expenses. Since the budget modification did not reduce FTE when it eliminated personal services funding in FY 2019, the personal services reduction automatically returns when the personal services snapshot is used to establish the level of funding required in the 2021 biennium. As a result, the State Financial Services Division's 2021 biennium budget is \$400,000 higher than it would have been had a portion of the restoration been applied to personal services instead of operating expenses.

Legislative options:

- Reduce operating expenses in the State Financial Services Division by \$200,000 each year of the 2021 biennium
- Adopt the executive proposal for increased personal services

Funding

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

Department of Administration, 03-State Financial Services 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	5,852,131	0	0	4,914,302	10,766,433	44.66 %	
02211 Procurement Special Revenue	365,962	0	0	0	365,962	100.00 %	
State Special Total	\$365,962	\$0	\$0	\$0	\$365,962	1.52 %	
03320 CMIA Funds	2,854	0	0	0	2,854	100.00 %	
Federal Special Total	\$2,854	\$0	\$0	\$0	\$2,854	0.01 %	
06042 Local Govt Svcs AuditRportng	0	0	1,550,130	0	1,550,130	11.95 %	
06511 SABHRS	0	0	9,819,908	0	9,819,908	75.69 %	
06527 Investment Division	110,746	0	0	0	110,746	0.85 %	
06564 Warrant Writing	0	0	1,492,467	0	1,492,467	11.50 %	
Proprietary Total	\$110,746	\$0	\$12,862,505	\$0	\$12,973,251	53.81 %	
Total All Funds	\$6,331,693	\$0	\$12,862,505	\$4,914,302	\$24,108,500		

HB 2

HB 2 appropriations support 26.3% of the costs in the State Financial Services Division.

General fund is the primary funding source for the functions approved in HB 2. General fund supports the development of statewide accounting standards, treasury functions, procurement functions, accounting assistance for local governments, and the State Social Security Administrator function.

State special revenue from procurement and term contract rebates fund procurement functions related to administering term contracts, the eMarket Center, and the procurement and fuel card programs. There is a 1.5% to 2.0% fee that is assessed to businesses participating in the eMarket Center as well as any vendors who have a term contract with the state.

Federal special revenues provide for cash management services related to the federal Cash Management Improvement Act. These funds are deposited into the general fund.

Proprietary funding in HB 2 is a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the BOI.

Non-Budgeted Proprietary Funds

Approximately 53.4% of the SFSD functions are supported with non-budgeted proprietary funds. These funds are discussed in the Proprietary Rates section of the narrative.

Statutory Appropriations

Approximately 20.4% of the funding in SFSD is statutorily appropriated for use by the state treasurer. The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated from the general fund. In addition, SFSD issues federal fund rebates for procard and fuel card rebates under 17-3-106, MCA. Rebates are for costs already paid by federal funds that are returned to the federal government.

LFD COMMENT The Revenue and Transportation Interim Committee adopted revenue estimates that impact the levels of some of the statutory appropriations shown in the preceding table. LFD staff will be updating the information to reflect current HJR 2 estimates.

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	2,542,187	2,542,187	5,084,374	86.88 %	2,790,501	2,790,501	5,581,002	88.14 %
SWPL Adjustments	384,052	384,275	768,327	13.13 %	375,299	375,754	751,053	11.86 %
PL Adjustments	(285)	(285)	(570)	(0.01)%	(181)	(181)	(362)	(0.01)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$2,925,954	\$2,926,177	\$5,852,131		\$3,165,619	\$3,166,074	\$6,331,693	

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	335,849	8,995	0	344,844	0.00	335,058	9,470	0	344,528
DP 2 - Fixed Costs	0.00	47,996	(17,754)	0	30,242	0.00	48,958	(17,999)	0	30,959
DP 3 - Inflation Deflation	0.00	207	6	0	213	0.00	259	8	0	267
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	(285)	104	0	(181)	0.00	(285)	104	0	(181)
Grand Total All Present Law Adjustments	0.00	\$383,767	(\$8,649)	\$0	\$375,118	0.00	\$383,990	(\$8,417)	\$0	\$375,573

**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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests a decrease in general fund and an increase in state special revenue funds due to indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

Other Issues -

Proprietary Rates

The State Financial Services Division provides the following functions with proprietary funds:

- Statewide Accounting, Budgeting, and Human Resources System (SABHRS)
- Warrant writer
- Local government audit and reporting

SABHRS - 06511*Proprietary Program Description*

The Financial Services Technology Bureau (FSTB) is responsible for the operational support and maintenance of the enterprise financial (SABHRS Financials) and budget development information (IBARS) systems and for supporting the enterprise acquisition and contracting system (eMACS). FSTB is also responsible for providing database administration services, system architecture, and maintenance for the SABHRS HR information system for the HR Information Systems Bureau.

FSTB has a total of 21.00 FTE supporting these applications, including upgrades, enhancements, testing, user training, database maintenance, and system architecture.

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 SABHRS fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06511	SABHRS	61010	Dept. of Administration	State Financial Services Division

	Actual FY18	Estimated FY19	Proposed FY20	Proposed FY21
Operating Revenues				
Fees and Charges				
SABHRS Services	3,967,407	3,818,905	4,168,577	3,971,663
Other Operating Revenues	118,314	200,120	200,120	200,120
Other Revenue	23			
Total Operating Revenues	<u>4,085,743</u>	<u>4,019,025</u>	<u>4,368,697</u>	<u>4,171,783</u>
Expenses				
Personal Services	1,917,344	1,960,053	2,081,742	2,082,387
Other Operating Expense	2,757,489	2,595,141	2,863,251	2,792,528
Total Operating Expense	<u>4,674,832</u>	<u>4,555,194</u>	<u>4,944,993</u>	<u>4,874,915</u>
Operating Income (Loss)	<u>(589,089)</u>	<u>(536,169)</u>	<u>(576,296)</u>	<u>(703,132)</u>
Income (Loss) Before Contributions and Transfers	<u>(589,089)</u>	<u>(536,169)</u>	<u>(576,296)</u>	<u>(703,132)</u>
Capital Contributions				
Transfers In				
Transfers Out		(633,000)		
Change in Net Position	<u>(589,089)</u>	<u>(1,169,169)</u>	<u>(576,296)</u>	<u>(703,132)</u>
Beginning Net Position - July 1	2,672,680	2,083,590	914,421	338,125
Prior Period Adjustments				
Change in Net Position	<u>(589,089)</u>	<u>(1,169,169)</u>	<u>(576,296)</u>	<u>(703,132)</u>
Ending Net Position - June 30	<u>2,083,590</u>	<u>914,421</u>	<u>338,125</u>	<u>(365,007)</u>

LFD COMMENT

The fund balance at the end of the 2021 biennium is projected to be negative by approximately \$362,000. It appears that revenues are not sufficient to cover the proposed expenses. According to the department, there will be adjustments in expenses from FY 2019 through FY 2021 to ensure that the SABHRS proprietary fund will have revenues sufficient to cover expenses and have a positive cash balance. This may include vacancy savings, reduced maintenance expenditures, and/or contracted services reductions. The legislature may wish to discuss the steps the division is taking to ensure positive fund and cash balances for the SABHRS proprietary fund in further detail.

Expenses

The executive proposes increasing expenses in the SABHRS fund by approximately \$390,000 in FY 2020 and \$320,000 in FY 2021. These proposed increases are primarily due to statewide present law adjustments for personal services and fixed costs.

Revenues

All state agencies are required to use the SABHRS Program to ensure consistent, accurate, and transparent financial and budgeting information. Revenues are based on:

- Costs to operate
- Maintaining a reasonable working capital balance of 60 days

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. The executive is proposing rate increases for SABHRS.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
SABHRS Services	\$3,967,407	\$3,818,905	\$4,168,577	\$3,971,663

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

Warrant Writer - 06564

Proprietary Program Description

The Warrant Writer Unit (WWU) provides payment processing services for most state agencies, including the university system. The WWU generates, tracks, and reconciles each approved agency payment generated in SABHRS. Warrant printing is provided to the WWU by Print and Mail Services within the General Services Division.

The services the WWU offer include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant reissues, warrant research, supplier file maintenance, stale-dated payment processing, and IRS 1099-MISC and 1042 tax reporting.

The program funds 4.33 FTE and is authorized through 17-8-305, MCA.

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 warrant writing proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Program Name			
06564	Warrant Writing	61010	Administrative Financial Services			
			Actual FY 18	Estimated FY 19	Budgeted FY 20	Budgeted FY 21
Operating Revenues						
Fees and Charges						
	Warrant Writing Revenue		677,537	675,927	692,240	687,153
Total Operating Revenues			677,537	675,927	692,240	687,153
Expenses						
	Personal Services		236,466	221,967	256,375	255,761
	Other Operating Expense		453,346	484,387	490,702	489,629
Total Operating Expense			689,812	706,354	747,077	745,390
Operating Income (Loss)			(12,275)	(30,427)	(54,837)	(58,237)
Change in Net Position			(12,275)	(30,427)	(54,837)	(58,237)
Beginning Net Position - July 1			283,031	275,442	245,015	190,178
	Prior Period Adjustments		4,686			-
	Change in Net Position		(12,275)	(30,427)	(54,837)	(58,237)
Ending Net Position - June 30			275,442	245,015	190,178	131,941

Expenses

The executive proposes increasing expenses in the warrant writing fund by approximately \$41,000 in FY 2020 and \$39,000 in FY 2021. These proposed increases are primarily due to statewide present law adjustments for personal services and fixed costs.

Revenues

Revenues are derived from monthly billing based on the number of actual warrants issued. Budget authority to pay the costs is a fixed cost item in state agency budgets.

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. The executive is proposing rate increases for warrant writing services.

**Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information**

	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
Mailer	\$0.80301	\$0.80179	\$0.83386	\$0.83386
Non-Mailer	\$0.34725	\$0.34672	\$0.36059	\$0.36059
Emergency	\$13.02172	\$13.00204	\$13.52212	\$13.52212
Duplicate	\$8.68115	\$8.66803	\$9.01475	\$9.01475
Payroll - Printed Warrants	\$0.14643	\$0.14621	\$0.15206	\$0.15206
External - University System	\$0.11720	\$0.11702	\$0.12170	\$0.12170
Direct Deposit Mailer	\$0.95493	\$0.95348	\$0.99162	\$0.99162
Direct Deposit Non-mailer	\$0.13022	\$0.13002	\$0.13522	\$0.13522
UI - Warrant Printing Only	\$0.11408	\$0.11391	\$0.11847	\$0.11847
UI - Direct Deposit	\$0.02872	\$0.02867	\$0.02982	\$0.02982

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

Local Government Audit and Reporting – 06042

Proprietary Program Description

The Local Government Audit and Reporting Program is responsible for administering the provisions of the Montana Single Audit Act, which specifies the financial reporting and audit requirements for all Montana local government entities.

The work of the program is mandated primarily in 2-7-5, MCA, and funds 6.00 FTE.

The program performs the following services:

- Collects and makes available to the public annual financial reports from approximately 900 local governments
- Collects and makes available to the public annual budgets from local governments
- Determines which local government entities are subject to audit under the act and notifies them of the audit requirements
- Accepts applications from, and maintains a roster of, independent auditors authorized to conduct local government audits
- Provides technical assistance on accounting, reporting, auditing, and legal compliance matters to local governments and certified public accountants conducting local government audits
- Prepares and keeps current a legal compliance supplement for use by independent auditors in conducting local government audits
- Receives and approves audit contracts for local government audits
- Verifies that all local governments that are required to have audits do so
- Publishes notices in local newspapers of delinquent annual reports and audits
- Receives and reviews local government audit reports to determine whether the audits have been conducted in accordance with required standards
- Notifies state agencies of audit findings related to financial assistance programs that they administer
- Receives and reviews each local government's response to the audit report findings
- Maintains copies of all local government entity audit reports, and the local governments' responses to audit findings, and makes those reports and responses available through a public website or upon request

- Investigates, or refers to auditors for follow-up action, complaints or allegations received from the public, either directly or through the Legislative Auditor's hotline
- Provides information regarding local government audits, audit findings, entity responses to findings, and legal compliance and accounting requirements to the public

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 local government audit and reporting proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06042	Single Audit Review - HB328	61010	Dept. of Administration	State Financial Services

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Revenue from Audit Review Roster Fee	-	-		
Revenue from Annual Report Filing Fee	625,732	635,000	635,000	635,000
Other Operating Revenues				
Revenue from Delinquent Report Submissions	94,138	100,000	100,000	100,000
Miscellaneous Revenue	312			
Total Operating Revenues	<u>720,182</u>	<u>735,000</u>	<u>735,000</u>	<u>735,000</u>
Expenses				
Personal Services	607,566	480,163	488,610	488,736
Other Operating Expense	167,716	96,397	286,974	285,810
Total Operating Expense	<u>775,282</u>	<u>576,560</u>	<u>775,584</u>	<u>774,546</u>
Operating Income (Loss)	<u>(55,100)</u>	<u>158,440</u>	<u>(40,584)</u>	<u>(39,546)</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>(55,100)</u>	<u>158,440</u>	<u>(40,584)</u>	<u>(39,546)</u>
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	<u>(55,100)</u>	<u>158,440</u>	<u>(40,584)</u>	<u>(39,546)</u>
Beginning Net Position - July 1	279,968	224,868	383,308	342,724
Prior Period Adjustments				
Change in Net Position	<u>(55,100)</u>	<u>158,440</u>	<u>(40,584)</u>	<u>(39,546)</u>
Ending Net Position - June 30	<u>224,868</u>	<u>383,308</u>	<u>342,724</u>	<u>303,178</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

The executive proposes increasing personal services and operating expenses in the proprietary fund by approximately \$199,000 in FY 2020 and \$198,000 in FY 2021. These proposed increases are primarily due to software enhancements and upgrades. These upgrades will include better integration with SABHRS, fixing and adding efficiencies to current reporting modules, and upgrading the user interface that is used by local governments for inputting audit reports or financial reviews.

Revenues

The Local Government Audit and Reporting Program is funded with enterprise funds, as it serves entities outside of state government. Fees include:

- Report filing fee based on costs incurred for administering the program. All local government entities that are required to submit audits must pay the fee
- Roster fee collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana
- Late penalties incurred when a local government entity fails to file a report as required
- Fine for failure to file audits or reports as required

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

**Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information**

Fee Description:	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Annual revenues equal to or greater than \$750,000 but less than \$1,000,0000	\$550	\$550	\$550	\$550
Annual revenues equal to or greater than \$1,000,000 but less than \$1,500,0000	\$800	\$800	\$800	\$800
Annual revenues equal to or greater than \$1,500,000 but less than \$2,500,0000	\$950	\$950	\$950	\$950
Annual revenues equal to or greater than \$2,500,000 but less than \$5,000,0000	\$1,300	\$1,300	\$1,300	\$1,300
Annual revenues equal to or greater than \$5,000,000 but less than \$10,000,0000	\$1,700	\$1,700	\$1,700	\$1,700
Annual revenues equal to or greater than \$10,000,000 but less than \$50,000,0000	\$2,500	\$2,500	\$2,500	\$2,500
Annual revenues equal to or greater than \$50,000,000	\$3,000	\$3,000	\$3,000	\$3,000
Local Government Financial Review Fee	\$75	\$75	\$75	\$75
Roster Fee	\$100	\$100	\$100	\$100

The funding for this program is provided through an enterprise fund. As such, the legislature does not approve rates or appropriate funds for this proprietary 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	3,149,486	3,273,474	123,988	3.94 %
Operating Expenses	1,166,999	1,240,459	73,460	6.29 %
Total Expenditures	\$4,316,485	\$4,513,933	\$197,448	4.57 %
State/Other Special Rev. Funds	4,316,485	4,513,933	197,448	4.57 %
Total Funds	\$4,316,485	\$4,513,933	\$197,448	4.57 %
Total Ongoing	\$4,316,485	\$4,513,933	\$197,448	4.57 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Architecture and Engineering Division manages remodeling and construction of state buildings. Its functions include:

- Planning new projects and remodeling projects
- Advertising, bidding, and awarding construction contracts
- Administering contracts with architects, engineers, and contractors
- Disbursing building construction payments
- Providing design services for small projects

The division also formulates a long-range building plan for legislative consideration each session. This division operates under the authority found in Titles 17 and 18, MCA, as well as other state mandates.

Program Highlights

Architecture and Engineering Program Major Budget Highlights
<ul style="list-style-type: none"> • The Architecture and Engineering Division’s 2021 biennium budget request is approximately \$197,000 or 4.6% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in state special revenue due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation

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	16.50	16.50	16.50	16.50
Personal Services	1,411,929	1,546,706	1,602,780	1,637,526	1,635,948
Operating Expenses	542,845	584,158	582,841	621,073	619,386
Total Expenditures	\$1,954,774	\$2,130,864	\$2,185,621	\$2,258,599	\$2,255,334
State/Other Special Rev. Funds	1,954,774	2,130,864	2,185,621	2,258,599	2,255,334
Total Funds	\$1,954,774	\$2,130,864	\$2,185,621	\$2,258,599	\$2,255,334
Total Ongoing	\$1,954,774	\$2,130,864	\$2,185,621	\$2,258,599	\$2,255,334
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Architecture and Engineering Division expended 91.7% of its \$2.1 million HB 2 modified budget as of the end of FY 2018. Personal services were 91.3% expended and operating expenses were 92.9% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- There was a decrease in the FY 2018 appropriation resulting from legislative action that reduced the state share contribution by approximately \$34,000
- There was an increase in the FY 2019 appropriation resulting from legislative action. This difference was the result of the pay plan which increase FY 2019 appropriations by approximately \$14,000

Executive Request

The Architecture and Engineering Division is requesting an increase above the FY 2019 base in state special revenue funds of approximately \$73,000 in FY 2020 and \$70,000 in FY 2021. These proposed increases are primarily due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

Program Personal Services Narrative

Personal services were approximately \$1.6 million or 73.3% of total FY 2019 appropriations. The executive proposes an increase of approximately \$35,000 in FY 2020 and \$33,000 in FY 2021. The majority of this increase is due to proposed reinstatement of personal services base budget reduction. This includes the reinstatement of reductions from the additional 2.0% vacancy savings.

Funding

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

Department of Administration, 04-Architecture & Engineering Pgm 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 %	
02030 Arch & Engin Construction	4,513,933	0	0	0	4,513,933	100.00 %	
State Special Total	\$4,513,933	\$0	\$0	\$0	\$4,513,933	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$4,513,933	\$0	\$0	\$0	\$4,513,933		

The Architecture and Engineering Division is funded entirely with state special revenue funds. Funds are transferred from the long-range building capital projects fund to the state special revenue fund, which was established for administrative expenses related to the support of the state Long-Range Building Program.

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 %	2,185,621	2,185,621	4,371,242	96.84 %
SWPL Adjustments	0	0	0	0.00 %	72,619	69,354	141,973	3.15 %
PL Adjustments	0	0	0	0.00 %	359	359	718	0.02 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$2,258,599	\$2,255,334	\$4,513,933	

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	34,746	0	34,746	0.00	0	33,168	0	33,168
DP 2 - Fixed Costs	0.00	0	34,405	0	34,405	0.00	0	31,883	0	31,883
DP 3 - Inflation Deflation	0.00	0	3,468	0	3,468	0.00	0	4,303	0	4,303
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	359	0	359	0.00	0	359	0	359
Grand Total All Present Law Adjustments	0.00	\$0	\$72,978	\$0	\$72,978	0.00	\$0	\$69,713	\$0	\$69,713

**"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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in state special revenue funds due to a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

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	9,603,447	9,723,212	119,765	1.25 %
Operating Expenses	33,821,964	35,086,840	1,264,876	3.74 %
Equipment & Intangible Assets	886,330	826,330	(60,000)	(6.77)%
Capital Outlay	98,968	0	(98,968)	(100.00)%
Transfers	320,000	320,000	0	0.00 %
Debt Service	426,908	384,826	(42,082)	(9.86)%
Total Expenditures	\$45,157,617	\$46,341,208	\$1,183,591	2.62 %
Proprietary Funds	45,157,617	46,341,208	1,183,591	2.62 %
Total Funds	\$45,157,617	\$46,341,208	\$1,183,591	2.62 %
Total Ongoing	\$45,157,617	\$46,341,208	\$1,183,591	2.62 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The General Services Division (GSD) is composed of two bureaus and one program responsible for providing certain internal services to government agencies and the public:

- Capitol Facilities Management (CFM) manages the following services for state agencies in the capitol complex and several state-owned buildings in the Helena area, either directly or through the administration of service contracts: repair, maintenance, construction, energy consumption, disaster response and recovery, space allocation, security, janitorial, pest control, grounds maintenance, and garbage collection. CFM manages lease negotiation and administration for state agencies throughout the state
- State Print and Mail provides print and mail services to state agencies. Services include internal and external (contracted) printing, marketing and outreach, managed print services, mail preparation, central mail operations, and inter-agency (deadhead) mail. The bureau also operates the United States Post Office in the Capitol
- In addition to the two bureaus, the division manages the State and Federal Surplus Property and Recycling Program

Program Highlights

General Services Division Major Budget Highlights
<ul style="list-style-type: none"> • General Services Division’s 2021 biennium budget request is \$1.2 million or 2.6% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in proprietary funds due to statewide present law adjustment for personal services and fixed costs ◦ Proposed increases in proprietary funding for several contracts related to the maintenance and management of the Capitol Complex buildings. These contracts include janitorial, mechanical, elevator, pest control, fire suppression, and security 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	72.35	72.35	72.35	72.35
Personal Services	4,644,204	4,970,930	4,632,517	4,859,409	4,863,803
Operating Expenses	15,289,859	16,541,577	17,280,387	17,484,994	17,601,846
Equipment & Intangible Assets	316,655	473,165	413,165	413,165	413,165
Capital Outlay	98,968	98,968	0	0	0
Transfers	228,629	160,000	160,000	160,000	160,000
Debt Service	262,124	234,495	192,413	192,413	192,413
Total Expenditures	\$20,840,439	\$22,479,135	\$22,678,482	\$23,109,981	\$23,231,227
Proprietary Funds	20,840,439	22,479,135	22,678,482	23,109,981	23,231,227
Total Funds	\$20,840,439	\$22,479,135	\$22,678,482	\$23,109,981	\$23,231,227
Total Ongoing	\$20,840,439	\$22,479,135	\$22,678,482	\$23,109,981	\$23,231,227
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

General Services Division expended 92.7% of its \$22.5 million budget as of the end of FY 2018. Personal services were 93.4% expended, operating expenses were 92.4% expended, transfers-out were 142.9% expended, and debt service was 111.8% expended. Lower percentages expended in personal services were primarily in the print and mail services proprietary fund and were due to positions being left vacant for a longer period of time. The higher percentages expended in transfers-out and debt services were primarily in the rent and maintenance proprietary fund and due to a transfer related to the recycling program and debt service related to the Department of Environmental Quality Building Conservation Program.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- There was an increase in personal services and decrease in operating expenses in the FY 2018 appropriations resulting from an executive modification. The General Services Division moved approximately \$397,000 from operating expenses to personal services to account for janitorial contract savings due to the use of modified positions for eight custodians
- The FY 2019 appropriation for operating expenses includes an additional \$145,000 over the FY 2018 appropriation. This additional appropriation was due to increased facility operating costs

Executive Request

The General Services Division is requesting an increase above the FY 2019 base in proprietary fund appropriations of approximately \$431,000 in FY 2020 and \$553,000 FY 2021. These proposed increases are primarily due to statewide present law adjustments for personal services and fixed costs. Also, the division is requesting proprietary funding for an increase in contract service costs. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

Funding

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

Department of Administration, 06-General Services 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 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06066 Surplus Property	0	0	1,329,355	0	1,329,355	2.87 %	
06528 Rent And Maintenance	0	0	23,365,232	0	23,365,232	50.42 %	
06530 Print & Mail Services	0	0	21,646,621	0	21,646,621	46.71 %	
Proprietary Total	\$0	\$0	\$46,341,208	\$0	\$46,341,208	100.00 %	
Total All Funds	\$0	\$0	\$46,341,208	\$0	\$46,341,208		

Proprietary Funds

The General Service Division is entirely supported through 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 %	22,678,482	22,678,482	45,356,964	97.88 %
SWPL Adjustments	0	0	0	0.00 %	299,867	321,622	621,489	1.34 %
PL Adjustments	0	0	0	0.00 %	131,632	231,123	362,755	0.78 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$23,109,981	\$23,231,227	\$46,341,208	

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	0	0	226,892	0.00	0	0	0	231,286
DP 2 - Fixed Costs	0.00	0	0	0	72,965	0.00	0	0	0	90,324
DP 3 - Inflation Deflation	0.00	0	0	0	10	0.00	0	0	0	12
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	0	0	11,478	0.00	0	0	0	11,478
DP 5 - Increase in SCEMO Fees	0.00	0	0	0	8,163	0.00	0	0	0	8,163
DP 601 - Increase in Contracted Services cost	0.00	0	0	0	93,991	0.00	0	0	0	191,110
DP 602 - Increase in Taxes and Assessments	0.00	0	0	0	18,000	0.00	0	0	0	20,372
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$431,499	0.00	\$0	\$0	\$0	\$552,745

***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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in proprietary funds due because of a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

DP 5 - Increase in SCEMO Fees -

The executive requests an increase in proprietary funds for the General Services Division's portion of the costs paid to the State Continuity and Emergency Office.

DP 601 - Increase in Contracted Services cost -

The executive requests an increase in proprietary funds for several contracts related to the maintenance and management of the Capitol Complex buildings. These contracts include janitorial, mechanical, elevator, pest control, fire suppression, and security services.

DP 602 - Increase in Taxes and Assessments -

The executive requests an increase in proprietary funds for assessments paid to the City of Helena.

Other Issues -**Proprietary Rates**

The General Services Division provides the following functions supported by proprietary rates:

- Capitol Facilities Management (rent and maintenance)
- Print and mail services
- Surplus property and recycling

Capitol Facilities Management – Rent and Maintenance (06528)*Proprietary Program Description*

Capitol Facilities Management is the custodian of all state property and grounds in the state capitol area, which is the geographic area within a 10-mile radius of the state Capitol. Services include providing all utilities on the complex (including water, sewer, electricity, natural gas, and garbage collection), locksmith services, repair and maintenance, construction, construction management, grounds maintenance, leasing services, emergency response and management, and security. The bureau manages several service contracts for the capitol complex including security, pest control, mechanical maintenance, janitorial services, elevator repair and maintenance, fire sprinkler systems maintenance, and access control.

Operational authority for the bureau is provided by Title 2, Chapter 17, Part 8, Section 811, MCA. The bureau currently has 34.85 FTE.

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 rent and maintenance proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
06528	Rent & Maintenance	61010	Department of Administration	General Services				
Operating Revenues								
Fees and Charges								
	Revenue from Office Rental Rate				9,247,328	9,263,746	9,458,480	9,634,369
	Revenue from Warehouse Rental Rate				632,156	604,092	628,573	628,573
	Revenue from Recycling Revenue				-	-	-	-
	Revenue from Handyman Charges				139,942	139,996	139,966	139,966
	Revenue from Project Work				365,699	362,774	362,774	362,774
	Revenue from Grounds Maintenance				-	-	28,194	28,194
	Revenue from Construction Supervisory Fees				48,726	48,186	48,186	48,186
	Access and ID Card Revenue				15,280	15,300	15,300	15,300
	Other Operating Revenues				23,918	18,168	18,168	18,168
	Total Operating Revenues				10,473,051	10,452,262	10,699,641	10,875,530
Expenses								
	Personal Services				2,687,140	2,365,275	2,556,436	2,559,557
	Other Operating Expense				7,701,852	8,596,734	8,788,065	8,916,056
	Total Operating Expense				10,388,992	10,962,009	11,344,501	11,475,613
	Operating Income (Loss)				84,059	(509,747)	(644,860)	(600,083)
Nonoperating Revenues								
	Gain (Loss) Sale of Fixed Assets				-	-	-	-
Nonoperating Expenses								
	Total Nonoperating Revenues (Expenses)				-	-	-	-
	Income (Loss) Before Contributions and Transfers				84,059	(509,747)	(644,860)	(600,083)
	Transfers In				(228,629)	(160,000)	(160,000)	(160,000)
	Loans and Lease Payments				(34,525)	(112,559)	(112,559)	(112,559)
	Change in Net Position				(179,095)	(782,306)	(917,419)	(872,642)
	Beginning Net Position - July 1				1,763,068	1,583,973	801,667	(115,752)
	Prior Period Adjustments							
	Change in Net Position				(179,095)	(782,306)	(917,419)	(872,642)
	Ending Net Position - June 30				1,583,973	801,667	(115,752)	(988,394)
Net Position (Fund Balance) Analysis								
	Restricted Net Position (Enterprise Funds Only)							
	Unrestricted Net Position							

**LFD
COMMENT**

The fund balance at the end of the 2021 biennium is projected to be negative by approximately \$988,000. It appears that revenues are not sufficient to cover the proposed expenses. According to the department, there will be adjustments in expenses from FY 2019 through FY 2021 to ensure that the rent and maintenance proprietary fund will have revenues sufficient to cover expenses and have a positive cash balance. This may include vacancy savings and/or reductions in scope and service related to contracted services. Maintenance issues will have to be re-prioritized as the fiscal year ensues, in order to ensure enough contingency to address unforeseen maintenance issues. The General Services Division is exploring the possibility of using eligible Long Range Building Program (LRBP) funds to cover maintenance expenses. LRBP funds are appropriated in HB 5, and are usually authorized for deferred maintenance and life safety issues on the Capitol Complex.

The legislature may wish to discuss the steps the division is taking to ensure positive fund and cash balances for the rent and maintenance proprietary fund in further detail.

Expenses

The executive proposes increased expenditures from the rent and maintenance proprietary fund by approximately \$382,000 in FY 2020 and \$514,000 in FY 2021. Increases due to statewide present law adjustment for personal services as well as increases in contracted services are primarily driving the change. The following figure shows the increases as proposed by the executive as reflected in the budgeting system.

Department of Administration General Services Division Capitol Facilities Management Proposed Increases for the 2021 Biennium in the Budgeting System		
	FY 2020	FY 2021
Personal Services		
Statewide Present Law Adjustment - Personal Services	<u>\$ 191,161</u>	<u>\$ 194,282</u>
Total Personal Services	191,161	194,282
Operating Expenses		
Statewide Present Law Adjustment - Fixed Costs	66,876	95,374
Statewide Present Law Adjustment - Inflation/Deflation	10	12
Allocate Indirect/Administrative Costs	4,291	4,291
Increase State Continuity and Emergency Management Fees	8,163	8,163
Increase in Contracted Services Costs	93,991	191,110
Increase in Taxes and Assessments	<u>18,000</u>	<u>20,372</u>
Total Operating Expenses	191,331	319,322
Total Proposed Increases	<u>\$ 382,492</u>	<u>\$ 513,604</u>

Revenues

Revenues are based on square footage rental rates charged for office and non-office space billed to agencies occupying space in state owned buildings overseen by the Department of Administration.

Proprietary Rates

Rent is based on the number of square feet occupied and is assessed to each agency in the buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services, operating expenses, maintenance and equipment. Grounds maintenance is included in the rate, with one exception.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
Fee Description:	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Office Rent (per sq. ft.)	\$10.135	\$10.323	\$10.540	\$10.736
Non-office Rent (per sq. ft.)	\$5.330	\$5.330	\$5.546	\$5.546
Grounds Maintenance (per sq. ft.)			\$0.615	\$0.615
Project Mgmt. (In-house)	15%	15%	15%	15%
Project Mgmt. (Consultation)	Actual Cost	Actual Cost	Actual Cost	Actual Cost
State Employee Access ID Card	Actual Cost	Actual Cost	Actual Cost	Actual Cost

LFD COMMENT Grounds maintenance is included in the rate for rent, with one exception. The Liquor Warehouse is owned by the Department of Revenue, so the General Services Division does not collect rent on this building. However, the General Service Division provides grounds maintenance, so the department is proposing a grounds maintenance fee. This fee would generate approximately \$28,000 in revenue each fiscal year.

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.

Print and Mail Bureau - 06530

Proprietary Program Description

The State Print and Mail Bureau provides printing and mail services to all agencies within state government. The bureau has seven components: 1) internal printing; 2) external (contracted) printing; 3) managed print; 4) mail preparation; 5) central mail operations; 6) inter-agency (deadhead) mail; and 7) the postal station in the Capitol. All printing or purchasing of printing is requested through Print & Mail Services, which determines the most cost-effective method of project completion. Approximately 48.4% of printing expenditures are procured through commercial vendors.

Section 18-7-101, MCA, requires the Department of Administration to supervise and attend to all public printing within the state and to contract for any printing used by the state. Section 2-17-301, MCA, charges the department with the responsibility of administering the state Managed Print Program. Section 2-17-301, MCA, also requires the department to maintain and supervise any central mailing messenger service.

State Print and Mail has authority for 31.85 FTE.

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 print and mail services proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
06530	Print & Mail Services	61010	Dept. of Administration	General Services Division				
Operating Revenues								
Fees and Charges								
	Charges for Services				9,874,843	10,750,000	10,750,000	10,750,000
	Other Operating Revenue				-	36,000	36,000	36,000
Total Operating Revenues					<u>9,874,843</u>	<u>10,786,000</u>	<u>10,786,000</u>	<u>10,786,000</u>
Expenses								
	Personal Services				1,622,957	1,894,319	1,910,840	1,912,096
	Other Operating Expense				7,809,881	8,826,222	8,837,216	8,826,761
Total Operating Expense					<u>9,432,838</u>	<u>10,720,541</u>	<u>10,748,056</u>	<u>10,738,857</u>
Operating Income (Loss)					<u>442,005</u>	<u>65,459</u>	<u>37,944</u>	<u>47,143</u>
Nonoperating Revenues								
	Other Revenue A				3,794	12	12	12
Nonoperating Expenses								
	Other Expense A							
Total Nonoperating Revenues (Expenses)					<u>3,794</u>	<u>12</u>	<u>12</u>	<u>12</u>
Income (Loss) Before Contributions and Transfers					<u>445,799</u>	<u>65,471</u>	<u>37,956</u>	<u>47,155</u>
Capital Contributions					1,695			
Transfers In					5,486			
Transfers Out								
Loans and Lease Payments					<u>(14,713)</u>	<u>(79,854)</u>	<u>(79,854)</u>	<u>(79,854)</u>
Change in Net Position					<u>438,267</u>	<u>(14,383)</u>	<u>(41,898)</u>	<u>(32,699)</u>
Beginning Net Position - July 1					1,440,025	1,878,293	1,863,910	1,822,012
Prior Period Adjustments								
Change in Net Position					<u>438,267</u>	<u>(14,383)</u>	<u>(41,898)</u>	<u>(32,699)</u>
Ending Net Position - June 30					<u>1,878,293</u>	<u>1,863,910</u>	<u>1,822,012</u>	<u>1,789,313</u>

Expenses

The executive proposes increased expenditures from the print and mail proprietary fund by approximately \$28,000 in FY 2020 and \$18,000 in FY 2021. Increases are primarily due to statewide present law adjustments for personal services.

Revenues

All state agencies in Helena use the services of the State Print and Mail depending on their printing and mail needs. Printing revenue is based on the actual type and volume of printing provided and mail services is based on agency specified service frequency.

Proprietary Rates

All Print and Mail Services projects are unique, and Print and Mail Services has many rates to provide services to agencies. Direct and administrative overhead is allocated to each program, and costs are recovered by charging for each unit of service provided. External printing and the Managed Print Program recover costs by charging a percentage markup on the invoice for the printing job and/or multi-function device.

**Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information**

	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
Internal Printing				
Impressions	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
Ink	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
Bindery work	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
Pre-Press work	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
CD/DVD duplicating	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
Variable data printing	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
Large Format Color per ft.	Cost + 25%	Cost + 25%	Cost + 25%	Cost + 25%
Pick and Pack Fulfillment	\$1.00	\$1.00	\$1.00	\$1.00
Overtime	\$30.00	\$30.00	\$30.00	\$30.00
Desktop	\$75.00	\$75.00	\$75.00	\$75.00
Scan	\$9.52	\$9.52	Cost + 25%	Cost + 25%
IT Programming	\$95.00	\$95.00	\$95.00	\$95.00
File Transfer	\$25.00	\$25.00	\$25.00	\$25.00
Mainframe Print	\$0.071	\$0.071	\$0.071	\$0.071
Warrant Printing	\$0.25	\$0.25	\$0.25	\$0.25
Inventory Mark Up	20.0%	20.0%	20.0%	20.0%
External Printing				
Percent of Invoice Mark-Up	8.8%	8.8%	8.8%	8.8%
Managed Print				
Percent of Invoice Mark-Up	15.9%	15.9%	15.9%	15.9%
Mail Preparation				
Tabbing	\$ 0.023	\$ 0.023	\$ 0.023	\$ 0.023
Labeling	\$ 0.023	\$ 0.023	\$ 0.023	\$ 0.023
Ink Jet	\$ 0.036	\$ 0.036	\$ 0.036	\$ 0.036
Inserting	\$ 0.045	\$ 0.045	\$ 0.045	\$ 0.045
Waymark	\$ 0.069	\$ 0.069	\$ 0.069	\$ 0.069
Permit mailings	\$ 0.069	\$ 0.069	\$ 0.069	\$ 0.069
Mail Operations				
Service Type (each)				
Machinable	\$ 0.043	\$ 0.043	\$ 0.043	\$ 0.043
Non-Machinable	\$ 0.110	\$ 0.110	\$ 0.110	\$ 0.110

Seal Only	\$ 0.020	\$ 0.020	\$ 0.020	\$ 0.020
Post cards	\$ 0.070	\$ 0.070	\$ 0.070	\$ 0.070
Certified Mail	\$ 0.620	\$ 0.620	\$ 0.620	\$ 0.620
Registered Mail	\$ 0.614	\$ 0.614	\$ 0.614	\$ 0.614
Internatl Mail	\$ 0.510	\$ 0.510	\$ 0.510	\$ 0.510
Flats	\$ 0.150	\$ 0.150	\$ 0.150	\$ 0.150
Priority	\$ 0.614	\$ 0.614	\$ 0.614	\$ 0.614
Express Mail	\$ 0.614	\$ 0.614	\$ 0.614	\$ 0.614
USPS Parcels	\$ 0.510	\$ 0.510	\$ 0.510	\$ 0.510
Insured mail	\$ 0.614	\$ 0.614	\$ 0.614	\$ 0.614
Media Mail	\$ 0.320	\$ 0.320	\$ 0.320	\$ 0.320
Standard Mail	\$ 0.200	\$ 0.200	\$ 0.200	\$ 0.200
Postage Due	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061
Fee Due	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061
Tapes	\$ 0.245	\$ 0.245	\$ 0.245	\$ 0.245
Express Services	\$ 0.500	\$ 0.500	\$ 0.500	\$ 0.500
Mail tracking	\$ 0.250	\$ 0.250	\$ 0.250	\$ 0.250
Cass letters/postcards	\$ 0.047	\$ 0.047	\$ 0.047	\$ 0.047
Cass flats	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.100
Flat sorter	\$ 0.250	\$ 0.250	\$ 0.250	\$ 0.250
Inter-agency Mail				
Dollars-yearly	\$360,175	\$360,175	\$362,325	\$362,325
Postal Contract (Capitol)				
Dollars-yearly	\$38,976	\$38,976	\$38,976	\$38,976

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.

Surplus Property – 06066

Proprietary Program Description

The Surplus Property and Recycling Program administers the sale of surplus property no longer needed by agencies. This property is distributed either to state agencies or other eligible organizations.

Section 18-4-221, MCA, requires the department to sell, trade, or otherwise dispose of surplus supplies belonging to the state. The program sells property through online auction, fixed-price warehouse sales, public auction, and garage sales. Program services include extending the life of state property by providing a mechanism to transfer surplus property between agencies, providing accountability in the disposal of surplus state property, providing agencies with a surplus equipment pick up service, and providing a screening service to locate federal surplus property for state and local agencies.

The program has authority for 5.65 FTE.

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 surplus property proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06066	Surplus Property	61010	Dept. of Administration	General Services Division

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
State Surplus Property Handling Fee	471,735	525,000	525,000	525,000
Federal Surplus Property Handling Fee	39,220	25,000	25,000	25,000
Other Operating Revenue	18,775	18,000		
Total Operating Revenues	529,730	568,000	550,000	550,000
Expenses				
Personal Services	346,417	372,923	392,133	392,150
Other Operating Expense	827,261	870,596	872,878	872,194
Total Operating Expense	1,173,677	1,243,519	1,265,011	1,264,344
Operating Income (Loss)	(643,947)	(675,519)	(715,011)	(714,344)
Nonoperating Revenues				
Other Revenue A				
Nonoperating Expenses				
Other Expense A				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	(643,947)	(675,519)	(715,011)	(714,344)
Capital Contributions	651,181	600,000	600,000	600,000
Transfers In	68,724	67,500		
Transfers Out				
Change in Net Position	75,957	(8,019)	(115,011)	(114,344)
Beginning Net Position - July 1	933,671	1,009,628	1,001,609	886,598
Prior Period Adjustments				
Change in Net Position	75,957	(8,019)	(115,011)	(114,344)
Ending Net Position - June 30	1,009,628	1,001,609	886,598	772,254

Expenses

Overall the executive is proposing an increase in personal services and operating expenses. The increases are primarily due to statewide present law adjustments for personal services and fixed costs.

Revenues

The Surplus Property and Recycling Program is an enterprise fund which sells property to the general public. The program operates by charging up to \$500 plus 5.0% per item sold.

Proprietary Rates

The Surplus Property and Recycling 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.

**Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information**

Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
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Fee Description:

The State Surplus handling fees are: If property is sold for less than \$500, the program retains the proceeds. The program retains \$500 plus 5.0% and unusual expenses for property sold for more than \$500. The Federal Surplus Property Program fees are an allocation of freight expenses and 14.0% of acquisition costs. This is included in the Federal Plan of Operation, which has been approved by the Federal General Services Administration.

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	1,159,308	851,527	(307,781)	(26.55)%
Operating Expenses	1,353,652	377,788	(975,864)	(72.09)%
Total Expenditures	\$2,512,960	\$1,229,315	(\$1,283,645)	(51.08)%
General Fund	804,415	342,092	(462,323)	(57.47)%
State/Other Special Rev. Funds	542,406	887,223	344,817	63.57 %
Federal Spec. Rev. Funds	1,166,139	0	(1,166,139)	(100.00)%
Total Funds	\$2,512,960	\$1,229,315	(\$1,283,645)	(51.08)%
Total Ongoing	\$2,512,960	\$1,229,315	(\$1,283,645)	(51.08)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The State Information Technology Services Division (SITSD) is primarily a proprietary program that provides central computing, data network, and telecommunications services to more than 100 government customers throughout the state. SITSD manages two data centers, a statewide data network, and provides information technology (IT) services to all branches of state government, the Office of Public Instruction, and various city and county municipalities.

The Office of the Chief Information Officer directs and coordinates the development of the Statewide Strategic Information Technology Plan, statewide IT training, and the establishment of hardware, software, and consulting service contracts used by agencies. The office also reviews and approves information technology acquisitions.

Program Highlights

State Information Technology Services Division Major Budget Highlights
<ul style="list-style-type: none"> • The State Information Technology Services Division's 2021 biennium HB 2 budget request is approximately \$1.3 million or 51.1% lower than the 2019 biennium HB 2 budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed decreases in general fund due to statewide present law adjustments for personal services and fixed costs ◦ Proposed increases in state special revenue due to the statewide present law adjustment for personal services ◦ Proposed decreases in federal special revenue due to the FirstNet Planning grant ending • The majority of the funding in the State Information Technology Division is proprietary funding that is not included in HB 2. The executive proposes to increase state agency costs for information technology services by \$3.7 million over the 2021 biennium

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	5.49	5.49	5.49	5.49
Personal Services	379,379	565,662	593,646	426,175	425,352
Operating Expenses	141,022	1,143,885	209,767	188,837	188,951
Total Expenditures	\$520,401	\$1,709,547	\$803,413	\$615,012	\$614,303
General Fund	309,136	377,611	426,804	170,890	171,202
State/Other Special Rev. Funds	166,520	267,987	274,419	444,122	443,101
Federal Spec. Rev. Funds	44,745	1,063,949	102,190	0	0
Total Funds	\$520,401	\$1,709,547	\$803,413	\$615,012	\$614,303
Total Ongoing	\$520,401	\$1,709,547	\$803,413	\$615,012	\$614,303
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Information Technology Services Division expended 30.4% of its \$1.7 million HB 2 modified budget as of the end of FY 2018. Personal services were 67.1% expended and operating expenses were 12.3% expended. The lower percentage expended in the division was mainly comprised of federal funds associated with FirstNet. This was a federal grant to implement a dedicated frequency for first responders. The federal FirstNet contract was awarded to AT&T in August 2017.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- The FY 2018 appropriation includes the majority of a biennial appropriation for the FirstNet grant, which totaled approximately \$1.1 million
- There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$43,000 were applied to operating expenses

Executive Request

The State Information Technology Services Division is proposing an overall decrease in general fund and federal special revenue. This decrease is due to statewide present law adjustments for personal services and fixed costs. Additionally, the division is requesting a reduction in federal special revenue because the FirstNet Planning Grant has ended.

The increase in state special revenue is primarily due to the statewide present law adjustment for personal services. This proposal is discussed in further detail in the Program Personal Services section below.

Program Personal Services Narrative

Personal services were approximately \$594,000 or 73.9% of total FY 2019 appropriations. The executive proposes an overall decrease of approximately \$71,000 in FY 2020 and \$72,000 in FY 2021. The majority of the decrease in the statewide present law adjustment is due to the proposed reinstatement of personal services reductions, which includes the reinstatement of reductions from the 2017 Legislative Session, SB 261, and the additional 2.0% vacancy savings.

The proposed reinstatement is negative because in the 2017 session the legislature approved personal services funding for the FirstNet grant without an associated increase in FTE. Since there were not FTE, this funding is not included in the 2021 snapshot calculations.

LFD COMMENT	HB 2 appropriations support the Public Safety Bureau and administrative costs related to 911 services in SITSD. The department has moved 1.49 FTE from the Public Safety Bureau to the 911 services. This has resulted in a funding switch. The FTE were funded with general fund in the Public Safety Bureau and the funding is proposed to switch to state special revenue.
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Funding

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

Department of Administration, 07-State Information Technology 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	342,092	0	0	0	342,092	0.27 %	
02105 Basic 9-1-1 Emrgncy Phone Prog	1,714	0	0	0	1,714	0.01 %	
02397 Enhanced 9-1-1 Emerg Tel Pgm	0	0	0	0	0	0.00 %	
02594 Statewide 911 Services Admin	885,273	0	0	0	885,273	2.74 %	
02993 911 Wireless	0	0	0	0	0	0.00 %	
02994 911 Wireless Providers	236	0	0	0	236	0.00 %	
02995 911 Planning	0	0	0	0	0	0.00 %	
02996 911 Next Generation	0	0	0	0	0	0.00 %	
02997 911 Distribution	0	0	0	23,590,500	23,590,500	72.94 %	
02998 911 Grants	0	0	0	7,863,500	7,863,500	24.31 %	
State Special Total	\$887,223	\$0	\$0	\$31,454,000	\$32,341,223	25.33 %	
03485 FirstNet Planning Grant	0	0	0	0	0	0.00 %	
03276 DES Project Grants	0	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06522 ISD Proprietary	0	0	94,980,422	0	94,980,422	100.00 %	
Proprietary Total	\$0	\$0	\$94,980,422	\$0	\$94,980,422	74.40 %	
Total All Funds	\$1,229,315	\$0	\$94,980,422	\$31,454,000	\$127,663,737		

HB 2

General fund appropriations provide funding for the administrative portion of the Public Safety Bureau. State special revenue appropriations provide support for the administrative costs related to 911 services. Fees are imposed on a per month, per access line basis for each telephone subscriber in the state using either landline or wireless services.

Non-Budgeted Proprietary Funding

The majority of the functions within SITSD are funded with proprietary funds. These funds are considered and approved as rates charged to other agencies and divisions and are discussed in the Proprietary Rates section of the narrative.

Statutory Appropriations

The majority of the state special revenue funding in the division is statutorily appropriated for 911 services. 911 surcharges are collected by the state and statutorily appropriated for distribution to counties and telecommunication providers.

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	426,804	426,804	853,608	249.53 %	803,413	803,413	1,606,826	130.71 %
SWPL Adjustments	(256,528)	(256,216)	(512,744)	(149.88)%	(86,033)	(86,742)	(172,775)	(14.05)%
PL Adjustments	614	614	1,228	0.36 %	(102,368)	(102,368)	(204,736)	(16.65)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$170,890	\$171,202	\$342,092		\$615,012	\$614,303	\$1,229,315	

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	(224,521)	153,634	0	(70,887)	0.00	(224,664)	152,954	0	(71,710)
DP 2 - Fixed Costs	0.00	(32,267)	16,861	0	(15,406)	0.00	(31,875)	16,520	0	(15,355)
DP 3 - Inflation Deflation	0.00	260	0	0	260	0.00	323	0	0	323
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	614	(792)	0	(178)	0.00	614	(792)	0	(178)
DP 701 - Decrease budget for eliminated federal funding source	0.00	0	0	(102,190)	(102,190)	0.00	0	0	(102,190)	(102,190)
Grand Total All Present Law Adjustments	0.00	(\$255,914)	\$169,703	(\$102,190)	(\$188,401)	0.00	(\$255,602)	\$168,682	(\$102,190)	(\$189,110)

**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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in general fund and a decrease in state special revenue funds because of a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

DP 701 - Decrease budget for eliminated federal funding source -

The executive proposes a decrease in federal special revenue. This change is due to the elimination of the federal funding source for the FirstNet Planning Grant.

Other Issues -**Proprietary Rates****SITSD Proprietary Fund 06522***Proprietary Program Description*

SITSD is a proprietary program that provides central computing, data network, and telecommunications services to more than 100 government customers throughout the state. SITSD manages two data centers, a statewide data network, and provides information technology (IT) services to all branches of state government, the Commissioner of Higher Education, and various city and county municipalities. Responsibilities include:

- Information Systems Security
 - Ensure continuity of enterprise operations and security of data through risk assessment and mitigation, planning and monitoring, detailed recovery planning, incident response, and periodic testing
 - Coordination of security policies and procedures
- Network Technology Services
 - Manage the statewide network (SummitNet)
 - Provide voice, video, data, and wireless services
 - Develop and implement solutions to address network growth and expansion
 - Support customers' needs regarding increased bandwidth and connectivity
- Enterprise Support Services
 - Manage the service desk to assist customers regarding hardware and software applications
 - Manage desktop lifecycle for customers
- Montana Data Centers
 - Manage data centers in Helena and Miles City
 - Provide reliable, efficient, and secure file storage
- Application Technology Services
 - Support the state's mt.gov websites
 - Assist customers with designing and deploying customized applications and online services, including eGovernment applications
- Strategic Planning Services
 - Ensure IT operations are conducted through planning and periodic performance reports
 - Provide oversight of agency IT procurement and plans
- Business and Financial Services
 - Manage budget development, billing, and acquisition and procurement services for IT customers
- State IT Project Management Services
 - Provide expertise, assistance, tools, methodologies, and training to customers to ensure IT projects are conducted in an organized, deliberate, and cost-effective manner

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 SITSD proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06522	SITSD Proprietary	61010	Dept. of Administration	State Information Technology Services Div.

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Charges for Services - Agency	45,145,445	45,856,485	47,085,039	47,173,114
Charges for Services - Outside Revenues	592,302	600,000	1,387,000	1,387,000
Other Operating Revenues	-	-	-	-
Total Operating Revenues	<u>45,737,747</u>	<u>46,456,485</u>	<u>48,472,039</u>	<u>48,560,114</u>
Expenses				
Personal Services	16,213,004	15,888,812	15,890,000	15,890,000
Operating Expense - Agency	40,497,529	30,382,374	30,577,798	30,521,125
Equipment - Agency	-	370,861	370,861	370,861
Operating Expenses - Non-Agency	-	-	-	-
Total Operating Expense	<u>56,710,533</u>	<u>46,642,047</u>	<u>46,838,659</u>	<u>46,781,986</u>
Operating Income (Loss)	<u>(10,972,786)</u>	<u>(185,562)</u>	<u>1,633,380</u>	<u>1,778,128</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Contributions and Transfers	<u>(10,972,786)</u>	<u>(185,562)</u>	<u>1,633,380</u>	<u>1,778,128</u>
Capital Contributions	79,022			
Transfers In	31,813			
Transfers Out	-			
Loans and Lease Payments	(235,408)			
Change in Net Position	<u>(11,097,359)</u>	<u>(185,562)</u>	<u>1,633,380</u>	<u>1,778,128</u>
Beginning Net Position - July 1	<u>3,615,865</u>	<u>(7,537,251)</u>	<u>933,587</u>	<u>2,566,967</u>
Prior Period Adjustments	(55,757)	8,656,399		
Change in Net Position	<u>(11,097,359)</u>	<u>(185,562)</u>	<u>1,633,380</u>	<u>1,778,128</u>
Ending Net Position - June 30	<u>(7,537,251)</u>	<u>933,587</u>	<u>2,566,967</u>	<u>4,345,095</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

Overall, the executive is proposing a slight increase in personal services, which is due to the statewide present law adjustment for personal services. There is a decrease in operating expenses and increase in debt services due to the division entering into equipment leases.

**LFD
COMMENT**

The executive request includes a 6.0% vacancy savings in the adjustment for personal services in SITSD. According to the department, the 6.0% vacancy savings is included in the calculation for the rates.

Revenues

Funding for SITSD services is mainly derived from charges to state agencies through the fixed cost process for services. Budget authority to pay the SITSD allocation is a fixed cost item in each agency's budget. The statewide fixed costs included in the executive proposal are \$1.8 million higher in FY 2020 and \$1.9 million higher in FY 2021 when compared to FY 2019 appropriations.

SITSD uses a methodology to identify and allocate the full costs of each service it offers to the users of that service. This is known as the full-cost transparency model (FTM). FTM has been in place since the 2011 biennium. Changes to state agency SITSD costs in the 2021 biennium are shown in the following table.

Department of Administration State Information Technology Services Division State Agency Fixed Costs					
	Budgeted FY 2019	Change FY 2020	Requested FY 2020	Change FY 2021	Requested FY 2021
Legislative Branch	\$658,343	\$205,201	\$863,544	\$153,356	\$811,698
Montana Consumer Counsel	15,702	7,772	23,474	7,772	23,474
Judicial Branch	2,338,236	(389,562)	1,948,674	(386,527)	1,951,709
Governor's Office	189,387	73,202	262,588	73,385	262,771
Secretary of State's Office	267,324	27,937	295,260	27,939	295,263
Comm of Political Practice	91,398	89,778	181,176	89,779	181,177
State Auditor's Office	209,486	(18,476)	191,010	(18,376)	191,111
Office of Public Instruction	509,337	86,157	595,495	86,345	595,683
Dept. of Justice	3,859,918	(371,593)	3,488,325	(369,523)	3,490,395
Board of Crime Control	89,429	(89,429)	0	(89,429)	0
Public Service Commission	78,946	102,610	181,556	102,610	181,556
Board of Public Education	8,378	3,049	11,428	3,049	11,428
Commissioner of Higher Ed	60,712	(58,993)	1,720	(58,993)	1,720
University Systems	772,965	(772,965)	0	(772,965)	0
School for the Deaf & Blind	39,659	60,747	100,406	60,747	100,406
Montana Arts Council	28,089	1,970	30,059	1,970	30,059
Montana State Library	309,628	38,254	347,882	38,254	347,882
Historical Society	195,408	20,483	215,891	20,483	215,891
Fish, Wildlife & Parks	1,362,838	336,044	1,698,883	336,056	1,698,894
Dept. of Environmental Quality	1,114,942	180,545	1,295,487	175,338	1,290,281
Montana Dept. of Transportation	4,933,446	148,475	5,081,920	90,894	5,024,340
Dept. of Livestock	152,800	100,719	253,519	100,760	253,560
Dept. Natural Resources & Conservation	1,568,259	712,491	2,280,750	818,353	2,386,612
Dept. of Revenue	2,171,194	57,579	2,228,772	58,290	2,229,484
Dept. of Administration	2,462,644	77,090	2,539,734	95,139	2,557,783
Office of Public Defender	686,636	219,931	906,567	225,070	911,706
Montana State Fund	608,899	95,014	703,913	95,210	704,109
MPERA	297,630	(10,527)	287,104	(10,527)	287,104
Teachers Retirement System	102,945	7,982	110,926	7,982	110,927
Dept. of Agriculture	277,908	43,504	321,412	37,257	315,166
Dept. of Corrections	2,507,880	371,220	2,879,100	492,277	3,000,158
Dept of Commerce	508,618	108,728	617,346	108,728	617,346
Dept. of Labor and Industry	3,104,721	8,880	3,113,601	9,863	3,114,584
Dept. of Military Affairs	81,907	101,677	183,584	101,677	183,584
Dept. Public Health & Human Services	<u>11,775,177</u>	<u>186,867</u>	<u>11,962,044</u>	<u>189,283</u>	<u>11,964,460</u>
Total	<u>\$43,440,787</u>	<u>\$1,762,362</u>	<u>\$45,203,149</u>	<u>\$1,901,532</u>	<u>\$45,342,319</u>

LFD COMMENT

The executive is projecting additional revenue of approximately \$2.0 million in FY 2020 and \$2.1 million in FY 2021 in the 2021 Biennium Report on Internal Service and Enterprise Funds. A portion of the estimated revenue would be generated if SITSD successfully executes contracts with outside parties. The legislature may wish to discuss in further detail the anticipated revenues for the 2021 biennium to ensure that the fund balance remains positive.

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds				
Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-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	6,179,801	6,595,075	415,274	6.72 %
Operating Expenses	1,755,766	1,893,570	137,804	7.85 %
Total Expenditures	\$7,935,567	\$8,488,645	\$553,078	6.97 %
State/Other Special Rev. Funds	7,935,567	8,488,645	553,078	6.97 %
Total Funds	\$7,935,567	\$8,488,645	\$553,078	6.97 %
Total Ongoing	\$7,935,567	\$8,488,645	\$553,078	6.97 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Division of Banking and Financial Institutions licenses, supervises, regulates, and examines financial institutions doing business in Montana. Those institutions include 43 banks and trust companies, with 405 branch banks, nine credit unions, 247 consumer finance companies, 233 sales finance companies, and 10 escrow companies. The division also licenses and examines 5,620 residential mortgage loan service providers. All program functions are statutorily mandated in Title 32, Chapters 1-11, and Title 31, Chapter 1, Parts 7 & 8, MCA.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations on applications for new bank charters and trust companies, hearing appeals of division decisions on branch bank, merger, or relocation applications, and may also act in an advisory capacity with respect to the duties and powers given by statute to the department when requested by the division.

Program Highlights

Division of Banking and Financial Institutions Major Budget Highlights
<ul style="list-style-type: none"> • The Division of Banking and Financial Institutions' 2021 biennium budget request is \$553,000 or 7.0% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in state special revenue due to statewide present law adjustments for personal services ◦ Proposed increases in state special revenue due to the allocation of indirect costs paid to the Director's Office

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	34.00	34.00	34.00	34.00
Personal Services	2,784,126	3,039,795	3,140,006	3,298,689	3,296,386
Operating Expenses	982,483	879,634	876,132	948,001	945,569
Total Expenditures	\$3,766,609	\$3,919,429	\$4,016,138	\$4,246,690	\$4,241,955
State/Other Special Rev. Funds	3,766,609	3,919,429	4,016,138	4,246,690	4,241,955
Total Funds	\$3,766,609	\$3,919,429	\$4,016,138	\$4,246,690	\$4,241,955
Total Ongoing	\$3,766,609	\$3,919,429	\$4,016,138	\$4,246,690	\$4,241,955
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Division of Banking and Financial Institutions expended 96.1% of its \$3.9 million HB 2 modified budget as of the end of FY 2018. Personal services were 91.6% expended and operating expenses were 111.7% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- A decrease in the FY 2018 appropriation resulting from legislative action that reduced the state share contribution by approximately \$63,000
- An increase in the FY 2019 appropriation resulting from legislative action. This difference was the result of the pay plan which increased FY 2019 appropriations by approximately \$28,000

Executive Request

The Division of Banking and Financial Institutions is requesting an increase above the FY 2019 base in state special revenue of approximately \$231,000 in FY 2020 and \$226,000 in FY 2021. This increase is primarily due to proposed increases in the statewide present law adjustments for personal services and fixed costs as well as a proposed increase in indirect costs paid to the Director's Office. The division is also proposing increases in the statewide present law adjustment for inflation/deflation and rent. Additional information on these proposed adjustments is included in the Present Law Adjustments section below.

Program Personal Services Narrative

Personal services were \$3.1 million or 78.2% of total FY 2019 appropriations. The executive proposes an increase of approximately \$159,000 in FY 2020 and \$156,000 in FY 2021. The majority of these increases are due to formula based changes and proposed reinstatement of personal services base budget reductions. This includes the reinstatement of reductions from the 2017 Legislative Session and the additional 2.0% vacancy savings.

Funding

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

Department of Administration, 14-Banking and Financial Institutions 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 %	
02077 Financial Institutions Div	8,488,645	0	0	0	8,488,645	100.00 %	
State Special Total	\$8,488,645	\$0	\$0	\$0	\$8,488,645	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$8,488,645	\$0	\$0	\$0	\$8,488,645		

The Division of Banking and Financial Institutions is funded entirely by state special revenues generated from assessments, application fees, and examination fees paid by the regulated financial institutions.

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 %	4,016,138	4,016,138	8,032,276	94.62 %
SWPL Adjustments	0	0	0	0.00 %	189,146	181,911	371,057	4.37 %
PL Adjustments	0	0	0	0.00 %	41,406	43,906	85,312	1.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$4,246,690	\$4,241,955	\$8,488,645	

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	158,683	0	158,683	0.00	0	156,380	0	156,380
DP 2 - Fixed Costs	0.00	0	24,188	0	24,188	0.00	0	17,744	0	17,744
DP 3 - Inflation Deflation	0.00	0	6,275	0	6,275	0.00	0	7,787	0	7,787
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	37,506	0	37,506	0.00	0	37,506	0	37,506
DP 1401 - Increase in rent expense for off-campus space	0.00	0	3,900	0	3,900	0.00	0	6,400	0	6,400
Grand Total All Present Law Adjustments	0.00	\$0	\$230,552	\$0	\$230,552	0.00	\$0	\$225,817	\$0	\$225,817

**“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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in state special revenue funds due to an increase in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

DP 1401 - Increase in rent expense for off-campus space -

The executive requests an increase in state special revenue to provide the funding to pay contracted increases in rent expense.

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	4,358,677	4,686,598	327,921	7.52 %
Operating Expenses	5,745,810	5,703,005	(42,805)	(0.74)%
Equipment & Intangible Assets	39,000	100,000	61,000	156.41 %
Total Expenditures	\$10,143,487	\$10,489,603	\$346,116	3.41 %
Proprietary Funds	10,143,487	10,489,603	346,116	3.41 %
Total Funds	\$10,143,487	\$10,489,603	\$346,116	3.41 %
Total Ongoing	\$10,143,487	\$10,489,603	\$346,116	3.41 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. The general purpose is to allow lottery games in which players purchase from the state, through the administration of the lottery, a chance to win a prize. A five-member Lottery Commission, appointed by the Governor, sets policy and oversees program activities and procedures. Lottery’s operations are accounted for in an enterprise fund. Lottery is required to transfer its net revenue of up to \$12.3 million to the general fund on a quarterly basis. Net revenues above \$12.3 million are transferred to the Montana University System for scholarships. The Montana State Lottery is attached to the Department of Administration for administrative purposes only.

Program Highlights

Montana State Lottery Major Budget Highlights
<ul style="list-style-type: none"> • The Montana State Lottery’s 2021 biennium budget request is \$346,000 or 3.4% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in proprietary funds for the 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.

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	31.50	31.50	31.50	31.50
Personal Services	2,096,616	2,134,156	2,224,521	2,343,952	2,342,646
Operating Expenses	2,767,269	2,934,721	2,811,089	2,917,625	2,785,380
Equipment & Intangible Assets	18,054	19,500	19,500	50,000	50,000
Total Expenditures	\$4,881,939	\$5,088,377	\$5,055,110	\$5,311,577	\$5,178,026
Proprietary Funds	4,881,939	5,088,377	5,055,110	5,311,577	5,178,026
Total Funds	\$4,881,939	\$5,088,377	\$5,055,110	\$5,311,577	\$5,178,026
Total Ongoing	\$4,881,939	\$5,088,377	\$5,055,110	\$5,311,577	\$5,178,026
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Montana State Lottery expended 95.9% of its \$5.1 million HB 2 modified budget as of the end of FY 2018. Personal services were 98.2% expended, operating expenses were 94.3% expended, and equipment and intangible assets were 92.6% expended.

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 a decrease in the FY 2018 appropriation resulting from legislative action that reduced the state share contribution by approximately \$65,000
 - There was an increase in the FY 2019 appropriation resulting from legislative action. This difference was the result of the pay plan which increase FY 2019 appropriations by approximately \$18,000
- Operating Expenses
 - The FY 2018 appropriation includes audit fee, which totaled approximately \$126,000

Executive Request

The Montana State Lottery is requesting an increase above the FY 2019 base in proprietary funds of approximately \$256,000 in FY 2020 and \$123,000 in FY 2021. The proposed increases are primarily due to statewide present law adjustments for personal services and fixed costs. The Montana State Lottery is also requesting proprietary funding for overtime.

Program Personal Services Narrative

Personal services were \$2.2 million or 44.0% of total FY 2019 appropriations. The executive proposes an increase of approximately \$109,000 in FY 2020 and \$107,000 in FY 2021. The majority of these increases are due to formula based changes and proposed reinstatement of personal services base budget reductions. This includes the reinstatement of reductions from the 2017 Legislative Session and the additional 2.0% vacancy savings.

Funding

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

Department of Administration, 15-Montana State Lottery 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	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 %	
06001 State Lottery Fund	10,489,603	0	0	82,596,208	93,085,811	100.00 %	
Proprietary Total	\$10,489,603	\$0	\$0	\$82,596,208	\$93,085,811	100.00 %	
Total All Funds	\$10,489,603	\$0	\$0	\$82,596,208	\$93,085,811		

HB 2

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenue of the lottery, up to \$12.363 million are transferred annually to the general fund. Net revenues above \$12.363 million are transferred to the Science, Technology, Engineering and Math (STEM) scholarship account.

LFD COMMENT

The 2015 Legislature passed HB 617 which required any net revenue above the FY 2015 general fund transfer amount be transferred to the Science, Technology, Engineering and Math scholarship account. In FY 2015, the Montana State Lottery transferred approximately \$12.363 million to the general fund. Any net revenue above this amount is required to be transferred to the STEM scholarship account. The following chart shows the actual and estimated transfers-out of the Montana State Lottery.

Department of Administration Montana State Lottery				
	Actual FY 2018	Estimated FY 2019	Estimated FY 2020	Estimated FY 2021
General Fund Transfer	10,699,363	11,509,904	\$11,336,936	\$11,136,401
STEM Scholarships Transfer	-	-	-	-
Total Transfers	<u>10,699,363</u>	<u>11,509,904</u>	<u>11,336,936</u>	<u>11,136,401</u>

The table above shows that the actual and projected general fund transfers are less than the \$12.363 million threshold established in law.

Legislative options:

- The legislature may wish to consider changing statute to address how the STEM scholarship account is funded through lottery profits
- The legislature may wish to continue the current statutory funding for the STEM scholarship account

Statutory Appropriations

The Montana State Lottery has statutory appropriations for expenditures in three main areas:

- Lottery prizes
- Commissions paid to lottery ticket or chance sales agents
- Lottery contractor fees

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 %	5,055,110	5,055,110	10,110,220	96.38 %
SWPL Adjustments	0	0	0	0.00 %	244,663	111,112	355,775	3.39 %
PL Adjustments	0	0	0	0.00 %	11,804	11,804	23,608	0.23 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$5,311,577	\$5,178,026	\$10,489,603	

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	0	0	108,656	0.00	0	0	0	107,350
DP 2 - Fixed Costs	0.00	0	0	0	135,997	0.00	0	0	0	3,749
DP 3 - Inflation Deflation	0.00	0	0	0	10	0.00	0	0	0	13
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	0	0	1,029	0.00	0	0	0	1,029
DP 1501 - Increase Equipment with decrease in Operating Expense	0.00	0	0	0	0	0.00	0	0	0	0
DP 1502 - Overtime not included in SWPL-1	0.00	0	0	0	10,775	0.00	0	0	0	10,775
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$256,467	0.00	\$0	\$0	\$0	\$122,916

**"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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in proprietary funds due to a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

DP 1501 - Increase Equipment with decrease in Operating Expense -

The executive requests an increase in proprietary funds for equipment and a corresponding decrease in proprietary funds for operating expenses. This request is for anticipated vehicle needs in the program.

DP 1502 - Overtime not included in SWPL-1 -

The executive requests an increase in proprietary funds for overtime in personal services in FY 2020 and FY 2021.

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	3,529,125	3,663,956	134,831	3.82 %
Operating Expenses	31,468,551	31,028,969	(439,582)	(1.40)%
Benefits & Claims	410,607,965	439,414,460	28,806,495	7.02 %
Total Expenditures	\$445,605,641	\$474,107,385	\$28,501,744	6.40 %
Proprietary Funds	445,605,641	474,107,385	28,501,744	6.40 %
Total Funds	\$445,605,641	\$474,107,385	\$28,501,744	6.40 %
Total Ongoing	\$445,605,641	\$474,107,385	\$28,501,744	6.40 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

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

The division is entirely funded from proprietary funds, which are not appropriated in HB 2. The various accounts provide for two programs and a third function within the division:

1. Health Care Benefits Bureau provides oversight and administrative functions for the state employee group benefit plan, including administration of health, dental, vision, life insurance, and flexible spending accounts. It is funded from the group benefits claims proprietary fund, which funds the administrative costs of the bureau and benefit and claim costs
2. Workers' Compensation Management Bureau is the central resource for state agencies in working to:
 - Enhance worker safety
 - Provide for loss-prevention
 - Develop and provide return-to-work programs
 - Coordinate workers' compensation coverage and policy management issues
3. Flexible spending funds accounts for employee deductions for flexible spending, including medical and child care

Program Highlights

Health Care and Benefits Division Major Budget Highlights
<ul style="list-style-type: none"> • The Health Care and Benefits Division's 2021 biennium budget request is \$28.5 million or 6.4% higher than the 2019 biennium budget • The Health Care and Benefits Division is funded entirely with 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.

Budget Item	Actuals Fiscal 2018	Approp. Fiscal 2018	Approp. Fiscal 2019	Request Fiscal 2020	Request Fiscal 2021
FTE	0.00	20.87	20.87	20.87	20.87
Personal Services	1,704,152	1,757,681	1,771,444	1,832,804	1,831,152
Operating Expenses	14,422,899	15,742,393	15,726,158	15,517,687	15,511,282
Benefits & Claims	184,076,947	196,053,423	214,554,542	211,707,230	227,707,230
Total Expenditures	\$200,203,998	\$213,553,497	\$232,052,144	\$229,057,721	\$245,049,664
Proprietary Funds	200,203,998	213,553,497	232,052,144	229,057,721	245,049,664
Total Funds	\$200,203,998	\$213,553,497	\$232,052,144	\$229,057,721	\$245,049,664
Total Ongoing	\$200,203,998	\$213,553,497	\$232,052,144	\$229,057,721	\$245,049,664
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Health Care and Benefits Division expended 93.7% of its budget as of the end of FY 2018. Personal services were 97.0% expended, operating expenses were 91.6% expended, and benefits and claims were 93.9% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between FY 2018 and FY 2019 appropriations. This difference is primarily in benefits and claims and due to anticipated increases in costs related to medical and dental claims, prescription drug payments, and service utilization.

Executive Request

The Health Care and Benefits Division is requesting a decrease compared to the FY 2019 base in proprietary funds of approximately \$3.0 million in FY 2020 and an increase in proprietary funds of approximately \$13.0 million in FY 2021. These proposed changes are primarily to align the budget with the division's administration and claims expense projections. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

Funding

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

Department of Administration, 21-Health Care & Benefits 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 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06027 Flexible Spending Funds	0	0	15,929,960	0	15,929,960	3.36 %	
06559 Group Benefits Claims A/C	0	0	457,528,126	0	457,528,126	96.50 %	
06564 Warrant Writing	0	0	853	0	853	0.00 %	
06575 Workers Comp Mgmt Program	0	0	648,446	0	648,446	0.14 %	
Proprietary Total	\$0	\$0	\$474,107,385	\$0	\$474,107,385	100.00 %	
Total All Funds	\$0	\$0	\$474,107,385	\$0	\$474,107,385		

The Health Care and Benefits Division is funded entirely with proprietary funds which are not appropriated in HB 2. The three funds provide for two programs and a third function within the HCBD:

- **Employee Benefits Program** – provides oversight and administrative functions for the state employee group health plan including administration of the health, dental, vision, and life insurance. It is funded from the group benefits claims proprietary fund, which is an account used for the administrative costs of the program as well as benefits and claims costs
- **Workers’ Compensation Management Bureau** – is the central resource for state agencies in working to enhance worker safety, provide loss preventions, develop and provide return-to-work programs, and coordinate workers’ compensation coverage and policy management issues. It is funded from workers’ compensation management program fees which are fixed costs allocated to each state agency
- **Flexible Spending Funds** – accounts for employee deductions for flexible spending including medical and childcare

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 %	232,052,144	232,052,144	464,104,288	97.89 %
SWPL Adjustments	0	0	0	0.00 %	(148,059)	(156,116)	(304,175)	(0.06)%
PL Adjustments	0	0	0	0.00 %	(2,846,364)	13,153,636	10,307,272	2.17 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$229,057,721	\$245,049,664	\$474,107,385	

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	61,360	0.00	0	0	0	59,708
DP 2 - Fixed Costs	0.00	0	0	0	(209,775)	0.00	0	0	0	(216,266)
DP 3 - Inflation Deflation	0.00	0	0	0	356	0.00	0	0	0	442
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	0	0	948	0.00	0	0	0	948
DP 2101 - Health Plan Administration and Claims Adjustment	0.00	0	0	0	(2,847,312)	0.00	0	0	0	13,152,688
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	(\$2,994,423)	0.00	\$0	\$0	\$0	\$12,997,520

***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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in proprietary funds due to a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

DP 2101 - Health Plan Administration and Claims Adjustment -

The executive requests a decrease in proprietary funds in FY 2020 and an increase of proprietary funds in FY 2021 to align the budget with the division's administration and claims expense projections.

Other Issues -

Proprietary Rates

The Health Care and Benefits Division manages two proprietary programs:

- Employee benefits, which includes
 - State's health and other benefit insurance plans
 - Contract administration of the flexible spending account
- Management of the state agency workers' compensation insurance

Employee Benefits Program – Group Benefits and Claims – 06559*Proprietary Program Description*

The Employee Benefits Program is charged with providing state employees, retirees, members of the legislature, judges, Judicial Branch employees, and their families with adequate medical, dental, prescription drug, life, and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-funded health, prescription drug, dental, and vision plan. Life and long-term disability are purchased from private sector vendors on a fully-insured basis. The program contracts with private companies to provide claims processing services, health screenings, and wellness plan administration.

The core service provided by the program is a medical plan, which includes prescription drug, vision exam coverage, dental, and basic life insurance benefits. The medical plan is administered by Allegiance, the pharmacy plan is administered by Navitus, and the dental plan is administered by Delta Dental, through their provider networks. The life and long-term disability are fully insured products offered through Standard Insurance.

The division has developed on-site employee health centers in Helena, Billings, Missoula, Butte, and Anaconda. The division has contracted with CareHere to staff and operate the health centers.

The program is funded by the state contribution for group benefits and by contributions and fees paid by plan members. The program currently supports 17.87 FTE.

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 group benefits and claims proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name		
06559	Group Benefits Claims A/C	61010	Dept. of Administration	Health Care Benefits Division		
			Actual	Estimated	Proposed	Proposed
			FY 18	FY 19	FY 20	FY 21
Operating Revenues						
Fees and Charges						
Fee Revenue A						
Other Operating Revenues						
	Investment Earnings		512,728	515,000	515,000	515,000
	Group Benefit Plan Contributions		190,936,430	237,000,000	237,000,000	237,000,000
	Other Operating Revenues		3,656,747	3,850,000	3,850,000	3,850,000
Total Operating Revenues			195,105,904	241,365,000	241,365,000	241,365,000
Expenses						
Personal Services						
			1,535,722	1,482,131	1,542,842	1,541,634
Other Operating Expense						
	Operating		14,363,482	15,433,363	15,224,722	15,218,927
	Claims		177,295,931	189,300,000	204,000,000	220,000,000
	Expense C					
Total Operating Expense			193,195,135	206,215,494	220,767,564	236,760,561
Operating Income (Loss)			1,910,770	35,149,506	20,597,436	4,604,439
Nonoperating Revenues						
Nonoperating Expenses						
Total Nonoperating Revenues (Expenses)			-	-	-	-
Income (Loss) Before Contributions and Transfers			1,910,770	35,149,506	20,597,436	4,604,439
Capital Contributions						
Transfers In						
	Transfers Out		(124)			
Loans and Lease Payments						
Change in Net Position			1,910,646	35,149,506	20,597,436	4,604,439
Beginning Net Position - July 1			76,645,124	78,553,800	113,703,306	134,300,742
Prior Period Adjustments			(1,970)			
Change in Net Position			1,910,646	35,149,506	20,597,436	4,604,439
Ending Net Position - June 30			78,553,800	113,703,306	134,300,742	138,905,181
Net Position (Fund Balance) Analysis						
Restricted Net Postion (Enterprise Funds Only)						
Unrestricted Net Position						

Expenses

When comparing the FY 2019 base budget to proposed expenses in FY 2020 and FY 2021, the executive is requesting a reduction in expenses in FY 2020 and an increase in expenses in FY 2021. This is primarily due to the adjustments for benefits and claims related to the health plan.

When comparing estimated FY 2019 expenses to proposed expenses in FY 2020 and FY 2021 (as show in the report above), the executive is proposing an increase in benefits and claims. This increase is 8.0% each fiscal year or approximately \$14.0 million in FY 2020 and \$16.0 million in FY 2021. Primary cost drivers for both medical claims, dental claims and prescription drug payments are the cost of service and service utilization.

Total plan costs are proposed at \$220.8 million in FY 2020 and \$236.8 million in FY 2021.

LFD COMMENT During the November 2017 Special Session, the legislature approved SB 3 which authorized the suspension of employer contributions to the State Employee Group Benefit Plan (SEGBP) for two months.

Eliminating the state share paid by state agencies for two months resulted in a reduction of approximately \$24.5 million in revenues to the SEGBP from all funds, with a reduction of about \$10.7 million in general fund. This resulted in a reduction to the SEGBP fund balance.

As of September 30, 2018, the SEGBP fund balance was approximately \$106.4 million. Actuarially determined recommended reserves were \$76.8 million. Therefore, the fund balance as of September 30, 2018 exceeded the recommended reserves by approximately \$29.6 million.

Revenues

The SEGBP is self-funded, and as such is responsible for medical costs incurred by its members. SEGBP is funded through a combination of state share paid by the State of Montana as an employer and member (employee and retiree) contribution payments. The state share is \$1,054 per month and is established in 2-18-703(2), MCA. As a component of employee compensation, the state share contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees.

Plan revenue from premiums are estimated at approximately \$241.0 million each fiscal year.

LFD COMMENT The Health Care and Benefits Division receives actuarial reports regarding the SEGBP. These reports provide projections for the fund balance with different scenarios for medical and prescription trends.

One scenario calculates projections based on an increase in medical costs of 8.0% and prescription costs of 10.0%. With this scenario, the projected ending fund balance as of the end of plan year 2021 (which is the end of calendar year 2021) is \$86.7 million.

A second scenario calculates projections based on an increase in medical costs of 11.0% and prescription costs of 13.0%. With this scenario, the projected ending fund balance as of the end of plan year 2021 is \$27.2 million.

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
State Share Contribution	\$1,054	\$1,054	\$1,054	\$1,054
<p>Rates are established to maintain adequate reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average month state share rate for each fiscal year.</p>				

The amounts shown as rates above are the state share contribution for each state employee each month. The state share contribution amounts are contained in statute. For the 2021 biennium the executive is not proposing any additional funding for the state share contribution in the pay plan. The various contribution costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claim costs for each insurance type. Any difference between the state share contribution and actual costs are made up by employee and retiree contributions and investment income. As the plan year for the state employee health insurance is a calendar year, the revenues for the plans are a combination of contributions for two years.

Workers' Compensation Management Program – 06575

Proprietary Program Description

The Health Care and Benefits Division manages the Workers' Compensation Management Program. The program assists employees and agencies in ensuring a safe working environment, reduces on-the-job injuries and accidents in the workplace, and assists employees who are injured in returning to meaningful and productive work. The program is the central resource in working with the state's workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

The program is funded through a fixed cost rate charged to state agencies. The program currently supports 3.00 FTE.

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 workers' compensation management proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06575	Workers' Comp Management	61010	Administration	Workers' Comp

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Fee Revenue A	283,008	345,000	345,000	345,000
Total Operating Revenues	283,008	345,000	345,000	345,000
Expenses				
Personal Services	298,561	289,313	289,961	289,518
Other Operating Expense	39,631	35,045	35,215	34,605
Total Operating Expense	338,192	324,358	325,176	324,123
Operating Income (Loss)	(55,184)	20,642	19,824	20,877
Nonoperating Revenues				
Other Revenue A				
Other Revenue B				
Nonoperating Expenses				
Other Expense A				
Other Expense B				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	(55,184)	20,642	19,824	20,877
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	(55,184)	20,642	19,824	20,877
Beginning Net Position - July 1	71,479	16,295	36,937	56,761
Prior Period Adjustments				
Change in Net Position	(55,184)	20,642	19,824	20,877
Ending Net Position - June 30	16,295	36,937	56,761	77,638
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

The executive proposes that expenditures in FY 2020 and FY 2021 are largely unchanged from FY 2019.

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period.

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
Workers' Compensation Management	\$0.95	\$0.95	\$0.95	\$0.95

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.

Flexible Spending Account Program – 06027

Proprietary Program Description

State employees can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use the funds deposited in the accounts for allowable expenses.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are \$2,650 per year for medical and \$5,000 per year for dependent care. In the fall of 2013, the Internal Revenue Service announced the ability for participants to roll over up to \$500 from the medical flexible spending account in to the next benefit year. Employees forfeit any unspent funds beyond the \$500 rollover for medical and any remaining dependent care balance at the end of the year.

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 flexible spending proprietary fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06027	Flexible Spending	61010	Administration	Health Care & Benefits Division

	Estimated FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Administration Fee	141,181	171,863	171,863	171,863
Investment Earnings	14,177	1,000	1,000	1,000
FSA Account Contributions	7,165,675	7,709,000	7,741,250	7,741,250
Total Operating Revenues	<u>7,321,033</u>	<u>7,881,863</u>	<u>7,914,113</u>	<u>7,914,113</u>
Expenses				
Personal Services				
Other Operating Expense				
Administration	165,253	171,863	171,863	171,863
FSA Distributions	7,049,200	7,707,230	7,707,230	7,707,230
Total Operating Expense	<u>7,214,453</u>	<u>7,879,093</u>	<u>7,879,093</u>	<u>7,879,093</u>
Operating Income (Loss)	<u>106,580</u>	<u>2,770</u>	<u>35,020</u>	<u>35,020</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfer	<u>106,580</u>	<u>2,770</u>	<u>35,020</u>	<u>35,020</u>
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	<u>106,580</u>	<u>2,770</u>	<u>35,020</u>	<u>35,020</u>
Beginning Net Position - July 1	2,216,735	2,323,315	2,326,085	2,361,105
Prior Period Adjustments				
Change in Net Position	<u>106,580</u>	<u>2,770</u>	<u>35,020</u>	<u>35,020</u>
Ending Net Position - June 30	<u>2,323,315</u>	<u>2,326,085</u>	<u>2,361,105</u>	<u>2,396,125</u>
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

The executive proposes that expenditures in FY 2020 and FY 2021 are unchanged from FY 2019.

Revenues

The Flexible Spending Account Program is funded from an administrative fee of \$2.26 per month on each account participating in the program. Employees may also elect to use a debit card to pay for medical or dependent care costs. The administrative fee for the debit card is an additional \$1.00 per month per employee.

Proprietary Rates

For the 2021 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
FSA Account	\$2.26	\$2.26	\$2.26	\$2.26
FSA Debit Card	\$1.00	\$1.00	\$1.00	\$1.00

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

LFD COMMENT	The division is in the process of completing a request for proposal for flexible spending account administration services beginning January 1, 2019. No significant changes in services are contemplated. Fees could change depending on the new contract award, but significant changes are not expected.
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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	2,258,944	2,720,373	461,429	20.43 %
Operating Expenses	774,755	880,079	105,324	13.59 %
Total Expenditures	\$3,033,699	\$3,600,452	\$566,753	18.68 %
General Fund	3,033,699	3,600,452	566,753	18.68 %
Total Funds	\$3,033,699	\$3,600,452	\$566,753	18.68 %
Total Ongoing	\$3,033,699	\$3,600,452	\$566,753	18.68 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The State Human Resources Division provides statewide human resource services and programs under the authority of Title 2, Chapter 18, and 39-31-301, MCA. The division houses:

- The Human Resources Policy and Programs Bureau, which establishes the human resource rules, policies, and standards for Montana’s executive branch
- The Professional Development Center (PDC), offering training and other professional development services to Montana state government and other organizations
- The Human Resources Information Systems Bureau (HRIS), which processes the biweekly payroll and other human resources information systems for all branches of state government

Program Highlights

State Human Resources Division Major Budget Highlights
<ul style="list-style-type: none"> • The State Human Resources Division's 2021 biennium HB 2 budget request is \$567,000 or 18.7% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in general fund primarily for statewide present law adjustments for personal services and fixed costs • The majority of the funding in the State Human Resources Division is proprietary funding that is not included in HB 2. The executive proposes to increase state agency rates for HRIS from \$8.55 to \$8.89 per employee processed per pay period

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	14.25	14.25	14.25	14.25
Personal Services	1,171,060	1,030,233	1,228,711	1,359,954	1,360,419
Operating Expenses	230,352	384,912	389,843	439,651	440,428
Total Expenditures	\$1,401,412	\$1,415,145	\$1,618,554	\$1,799,605	\$1,800,847
General Fund	1,401,412	1,415,145	1,618,554	1,799,605	1,800,847
Total Funds	\$1,401,412	\$1,415,145	\$1,618,554	\$1,799,605	\$1,800,847
Total Ongoing	\$1,401,412	\$1,415,145	\$1,618,554	\$1,799,605	\$1,800,847
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The State Human Resources Division expended 99.0% of its \$1.4 million HB 2 modified budget as of the end of FY 2018. Personal services were 113.7% expended and operating expenses were 59.8% expended. The high percentage expended in personal services was partially due to unrealized vacancy savings. The lower percentage expended in operating expenses was partially due to the need to offset higher expenditures in personal services and partially due to expenditures related to an information system being moved to the HRIS proprietary fund.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- There was a decrease in the FY 2018 appropriation resulting from legislative action that reduced the state share contribution by approximately \$30,000
- There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$158,000 were applied to personal services

Executive Request

The State Human Resources Division is requesting an increase above the FY 2019 base in general fund of approximately \$181,000 in FY 2020 and \$182,000 in FY 2021. This proposed increase is primarily related to statewide present law adjustments for personal services and fixed costs. Additional details are included in the Present Law Section below.

Program Personal Services Narrative

Personal services were \$1.2 million or 75.9% of total FY 2019 appropriations. The executive proposes an increase of approximately \$131,000 in FY 2020 and \$132,000 in FY 2021. The majority of this increase is due to the proposed reinstatement of personal services base budget reductions. This includes the reinstatement of reductions from the 2017 Legislative Session, SB 261, and the additional 2.0% vacancy savings.

Funding

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

Department of Administration, 23-State Human Resources 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	3,600,452	0	0	0	3,600,452	30.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06525 Intergovernmental Training	0	0	851,418	0	851,418	10.14 %	
06559 Group Benefits Claims A/C	0	0	700,533	0	700,533	8.34 %	
06563 HR Info Services	0	0	6,847,183	0	6,847,183	81.52 %	
Proprietary Total	\$0	\$0	\$8,399,134	\$0	\$8,399,134	70.00 %	
Total All Funds	\$3,600,452	\$0	\$8,399,134	\$0	\$11,999,586		

HB 2

The general fund appropriations in HB 2 support the Human Resources Policy and Programs Bureau.

Non-Budgeted Proprietary

The majority of the State Human Resources Division’s operation are supported by proprietary funds. This includes:

- Professional Development Center
- Human Resource Information Services Bureau

The PDC is supported through fees in the form of tuition paid by state agencies that enroll employees in various classes provided by the PDC and fees for other services offered by the PDC. The HRIS Bureau is funded through a fee charged to state agencies for each employee payroll processed in a pay period. Both funds are considered and approved as rates charged to other state agencies and 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	1,618,554	1,618,554	3,237,108	89.91 %	1,618,554	1,618,554	3,237,108	89.91 %
SWPL Adjustments	180,628	181,870	362,498	10.07 %	180,628	181,870	362,498	10.07 %
PL Adjustments	423	423	846	0.02 %	423	423	846	0.02 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,799,605	\$1,800,847	\$3,600,452		\$1,799,605	\$1,800,847	\$3,600,452	

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	131,243	0	0	131,243	0.00	131,708	0	0	131,708
DP 2 - Fixed Costs	0.00	49,346	0	0	49,346	0.00	50,113	0	0	50,113
DP 3 - Inflation Deflation	0.00	39	0	0	39	0.00	49	0	0	49
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	423	0	0	423	0.00	423	0	0	423
Grand Total All Present Law Adjustments	0.00	\$181,051	\$0	\$0	\$181,051	0.00	\$182,293	\$0	\$0	\$182,293

***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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in general fund due to a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

Other Issues -

Proprietary Rates

The State Human Resources Division provides the following programs funded through proprietary rates:

- Professional Development Center
- Human Resources Information Services Bureau

Professional Development Center / Training Program - 06525*Proprietary Program Description*

The Professional Development Center (PDC) program provides training and related services throughout locations in the state of Montana. The PDC offers training directed towards improving state practices, meeting state and federal regulations, and providing professional services such as facilitation, mediation, or curriculum design. The statutory authority for this program comes from 2-18-102, MCA.

The PDC also contracts with individual agencies to provide training for their staff. The agency schedules, promotes, and provides the facility for training. The PDC provides the instruction and class materials.

The program is an internal service fund and has 3.00 FTE.

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 PDC/Training Program fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06525	Intergovernmental Training	61010	Dept. of Administration	State Human Resources Division

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Fee Revenue A	355,422	405,000	405,000	405,000
Fee Revenue B	-	2,500	2,500	2,500
Other Operating Revenues				
Total Operating Revenues	355,422	407,500	407,500	407,500
Expenses				
Personal Services	236,555	261,795	281,232	281,855
Other Operating Expense	168,086	144,016	144,327	144,004
Total Operating Expense	404,641	405,811	425,559	425,859
Operating Income (Loss)	(49,219)	1,689	(18,059)	(18,359)
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	(49,219)	1,689	(18,059)	(18,359)
Capital Contributions				
Transfers In	54,291	15,000	47,400	47,400
Transfers Out				
Loans and Lease Payments				
Change in Net Position	5,072	16,689	29,341	29,041
Beginning Net Position - July 1	(8,050)	(2,978)	13,711	43,052
Prior Period Adjustments				
Change in Net Position	5,072	16,689	29,341	29,041
Ending Net Position - June 30	(2,978)	13,711	43,052	72,093
Net Position (Fund Balance) Analysis				
Restricted Net Position (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

The executive proposes to increase total expenses by approximately \$20,000 each fiscal year. This proposed increase is primarily due to the statewide present law adjustment for personal services.

Revenues

Funding for the PDC is generated through two rates:

- Open-enrollment fees, which are a per-person tuition charged for attendance. Tuition rates are based on two factors: projected attendance and competitive pricing. Tuition rates for the 2021 biennium are based on the proportion of fixed and personal services costs to the overall anticipated program cost. The amount per person varies by length of the course and number of people attending from a single agency
- Contract fees, which are a flat fee charged for providing a service. The amount per service varies by length of the service and number of services arranged in a single contract

Proprietary Rates

For the 2021 biennium, the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
Fee Description:	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Open Enrollment Courses				
Two-Day Course (per participant)	\$190	\$190	\$190	\$190
One-Day Course (per participant)	\$123	\$123	\$123	\$123
Half-Day Course (per participant)	\$95	\$95	\$95	\$95
Eight-Day Management Series (per participant)	\$800	\$800	\$800	\$800
Six-Day Management Series (per participant)	\$600	\$600	\$600	\$600
Four-Day Administrative Assistant Series (per participant)	\$400	\$400	\$400	\$400
Contract Courses				
Full Day Training (flat fee)	\$830	\$830	\$830	\$830
Half Day Training (flat fee)	\$570	\$570	\$570	\$570
Computer Maintenance Charge (course specific)	\$10	\$10	\$10	\$10

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

Human Resources Information System Bureau (HRIS) - 06563

Proprietary Program Description

The HRIS Bureau operates the SABHRS-HR payroll, benefits, and human resources system to process, distribute, report, and account for payroll, benefits, and associated withholding and deductions for almost 14,000 state employees in the executive, legislative, and judicial branches. The bureau is also responsible for the administration and maintenance of the State of Montana Recruitment System (SOMRS) which is used by all state agencies in the recruitment and selection of applicants.

The bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll, benefits, and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs, including employee benefits (group insurance, FSA, ACA compliance, deferred compensation, and pension), classification, pay, labor relations, policy and training.

The program staff consists of 22.75 FTE. Statutory authority is 2-18-401, MCA, and 2-18-403, MCA.

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 HRIS fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06563	Human Resources Information Services	61010	Administration	State Human Resources Division

	Actual FY 18	Estimated FY 19	Proposed FY 20	Proposed FY 21
Operating Revenues				
Fees and Charges				
Revenue from HRIS Fees	3,140,014	3,113,708	3,228,135	3,241,775
Revenue from HCBD	455,272	455,272	455,272	455,272
Other Operating Revenues				
Revenue A	62	500	500	500
Total Operating Revenues	<u>3,595,348</u>	<u>3,569,480</u>	<u>3,683,907</u>	<u>3,697,547</u>
Expenses				
Personal Services	2,154,551	2,085,168	2,219,068	2,222,449
Other Operating Expense	1,345,073	1,545,097	1,238,295	1,167,371
Total Operating Expense	<u>3,499,624</u>	<u>3,630,265</u>	<u>3,457,363</u>	<u>3,389,820</u>
Operating Income (Loss)	<u>95,724</u>	<u>(60,785)</u>	<u>226,544</u>	<u>307,727</u>
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	<u>95,724</u>	<u>(60,785)</u>	<u>226,544</u>	<u>307,727</u>
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	<u>95,724</u>	<u>(60,785)</u>	<u>226,544</u>	<u>307,727</u>
Beginning Net Position - July 1	(76,919)	18,805	(41,980)	184,564
Prior Period Adjustments				
Change in Net Position	<u>95,724</u>	<u>(60,785)</u>	<u>226,544</u>	<u>307,727</u>
Ending Net Position - June 30	<u>18,805</u>	<u>(41,980)</u>	<u>184,564</u>	<u>492,291</u>
Net Position (Fund Balance) Analysis				
Restricted Net Postion (Enterprise Funds Only)				
Unrestricted Net Position				

Expenses

The executive proposes to decrease total expenses by approximately \$150,000 in FY 2020 and \$218,000 in FY 2021. The proposed decrease in the HRIS proprietary fund is due to a reduction in the statewide present law adjustment for fixed costs. HRIS is now directly paying the cost of contracts with Oracle rather than to SITSD through the fixed cost structure.

The difference between the decrease in FY 2020 and FY 2021 is primarily because audit fees are entirely included in FY 2020.

Revenues

HRIS rates are set as fixed costs and allocated to each agency based on the number of paychecks processed during the two prior fiscal years.

Proprietary Rates

For the 2021 biennium, the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
HRIS Fees (per employee process per pay period)	\$8.55	\$8.55	\$8.89	\$8.89

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	3,100,489	3,353,896	253,407	8.17 %
Operating Expenses	17,305,092	17,920,034	614,942	3.55 %
Grants	1,040,226	1,040,226	0	0.00 %
Benefits & Claims	22,470,174	12,470,174	(10,000,000)	(44.50)%
Total Expenditures	\$43,915,981	\$34,784,330	(\$9,131,651)	(20.79)%
Proprietary Funds	43,915,981	34,784,330	(9,131,651)	(20.79)%
Total Funds	\$43,915,981	\$34,784,330	(\$9,131,651)	(20.79)%

Program Description

The Risk Management & Tort Defense Division (RMTD) administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers & machinery, bonds (various), crime, cyber/information security, fine art, foreign specialties, foster care, HIPAA, medical malpractice, property, professional liability, and miscellaneous.

The state self-insures most commercial insurance risks under \$1,500,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), and mobile/specialized equipment. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The division investigates, evaluates, and resolves tort liability claims (i.e. personal injury or property damage to third parties) and coordinates the adjudication and settlement of other claims involving property damage. This division operates under the authority of 2-9-101 through 2-9-305, MCA.

Program Highlights

Risk Management and Tort Defense Major Budget Highlights
<ul style="list-style-type: none"> • The Risk Management and Tort Defense’s 2021 biennium budget request is 20.8% lower than the 2019 biennium budget. This decrease is due to the \$10.0 million Libby asbestos settlement that was included in FY 2018 • The growth related to the FY 2019 base appropriation is 2.5%. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases related 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.

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	17.00	17.00	17.00	17.00
Personal Services	1,502,722	1,540,892	1,559,597	1,675,888	1,678,008
Operating Expenses	6,870,709	8,656,586	8,648,506	8,964,182	8,955,852
Grants	228,051	520,113	520,113	520,113	520,113
Benefits & Claims	14,294,195	16,235,087	6,235,087	6,235,087	6,235,087
Total Expenditures	\$22,895,677	\$26,952,678	\$16,963,303	\$17,395,270	\$17,389,060
Proprietary Funds	22,895,677	26,952,678	16,963,303	17,395,270	17,389,060
Total Funds	\$22,895,677	\$26,952,678	\$16,963,303	\$17,395,270	\$17,389,060

Program Discussion -*FY 2018 Appropriations Compared to FY 2018 Actual Expenditures*

The Risk Management and Tort Defense Division expended 84.9% of its \$27.0 million HB 2 modified budget as of the end of FY 2018. Personal services were 97.5% expended, operating expenses were 79.4% expended, grants were 43.8% expended, and benefits and claims were 88.0% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

There are differences between FY 2018 and FY 2019 appropriations, which are primarily in benefits and claims. The significant difference is because FY 2018 included a \$10.0 million appropriation for a settlement with individuals impacted by asbestosis incurred from exposure to Libby asbestos.

Executive Request

The Risk Management and Tort Defense Division is requesting increases above the FY 2019 base in proprietary funding of approximately \$432,000 in FY 2020 and \$426,000 in FY 2021. The proposed increases are primarily related to statewide present law adjustments for personal services and fixed costs. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

Funding

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

Department of Administration, 24-Risk Management and Tort Defense 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 %	
02098 Insurance Proceeds - State Bld	0	0	0	91,000	91,000	100.00 %	
State Special Total	\$0	\$0	\$0	\$91,000	\$91,000	0.26 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06532 Agency Insurance Int. Svc.	0	0	34,784,330	0	34,784,330	100.00 %	
Proprietary Total	\$0	\$0	\$34,784,330	\$0	\$34,784,330	99.74 %	
Total All Funds	\$0	\$0	\$34,784,330	\$91,000	\$34,875,330		

Non-Budgeted Proprietary

The majority of the RMTD’s budget is comprised of proprietary funds that are derived from premium assessments on insurance risks paid by state agencies and the Montana University System. These funds are considered and approved as rates charged to other state agencies and are discussed in the Proprietary Rates section of the narrative.

Statutory Appropriations

Statutory appropriations comprise less than 1.0% of total appropriations for RMTD. The statutory appropriation is for the receipt of insurance proceeds for claims that fall above the amount that the state self-insures.

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 %	16,963,303	16,963,303	33,926,606	97.53 %
SWPL Adjustments	0	0	0	0.00 %	432,055	425,845	857,900	2.47 %
PL Adjustments	0	0	0	0.00 %	(88)	(88)	(176)	(0.00)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$17,395,270	\$17,389,060	\$34,784,330	

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	116,291	0.00	0	0	0	118,411	
DP 2 - Fixed Costs										
0.00	0	0	0	314,505	0.00	0	0	0	305,872	
DP 3 - Inflation Deflation										
0.00	0	0	0	1,259	0.00	0	0	0	1,562	
DP 4 - Allocate Department Indirect/Administrative Costs										
0.00	0	0	0	(88)	0.00	0	0	0	(88)	
Grand Total All Present Law Adjustments										
0.00	\$0	\$0	\$0	\$431,967	0.00	\$0	\$0	\$0	\$425,757	

*"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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests a decrease in proprietary funds due to a reduction in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

Other Issues -

Proprietary Rates

Agency Insurance Fund - 06532

Proprietary Program Description

The Risk Management & Tort Defense Division administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles.

State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers and machinery, bonds (various), crime, cyber/information security, fine art, foreign specialties, foster care, HIPAA, medical malpractice, property, professional liability, and other miscellaneous risks. The state self-insures most commercial insurance risks under \$1,500,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), and mobile/specialized equipment. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

The division investigates, evaluates, and resolves tort liability claims (i.e. personal injury or property damage to third parties) and coordinates the adjudication and settlement of other claims involving property damage. This division operates under the authority of 2-9-101, MCA, through 2-9-305, MCA.

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 agency insurance fund.

2021 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name				
06532	Agency Insurance	61010	Dept. of Administration	Risk Management & Tort Defense Division				
					Actual	Estimated	Proposed	Proposed
					FY 18	FY 19	FY 20	FY 21
Operating Revenues								
Fees and Charges								
	Premium				22,678,417	22,573,956	23,695,766	23,695,767
Other Operating Revenues								
	Investment Earnings				254,221	195,318	195,318	195,318
	Securities Lending Income							
	Securities Lending Expense							
	Other Operating Revenue							
Total Operating Revenues					<u>22,932,638</u>	<u>22,769,274</u>	<u>23,891,084</u>	<u>23,891,085</u>
Expenses								
	Personal Services				1,514,864	1,559,597	1,675,888	1,678,008
	Other Operating Expense				3,981,684	5,168,619	5,484,295	5,475,965
	Insurance Premiums				3,492,839	4,000,000	4,000,000	4,000,000
	Claims				13,413,031	6,235,087	6,235,087	6,235,087
Total Operating Expense					<u>22,402,417</u>	<u>16,963,303</u>	<u>17,395,270</u>	<u>17,389,060</u>
Operating Income (Loss)					<u>530,220</u>	<u>5,805,971</u>	<u>6,495,814</u>	<u>6,502,025</u>
Nonoperating Revenues								
	Other Revenue A				221,692	207,157	207,157	207,157
	Other Revenue B							
Nonoperating Expenses								
	Other Expense A							
	Other Expense B							
Total Nonoperating Revenues (Expenses)					<u>221,692</u>	<u>207,157</u>	<u>207,157</u>	<u>207,157</u>
Income (Loss) Before Contributions and Transfers					<u>751,912</u>	<u>6,013,128</u>	<u>6,702,971</u>	<u>6,709,182</u>
Capital Contributions								
	Transfers In				45,258	45,258	45,258	45,258
	Transfers Out							
	Loans and Lease Payments							
Change in Net Position					<u>797,170</u>	<u>6,058,386</u>	<u>6,748,229</u>	<u>6,754,440</u>
Beginning Net Position - July 1					(306,577)	163,693	6,222,079	12,970,308
	Prior Period Adjustments				(326,900)			
	Change in Net Position				797,170	6,058,386	6,748,229	6,754,440
Ending Net Position - June 30					<u>163,693</u>	<u>6,222,079</u>	<u>12,970,308</u>	<u>19,724,748</u>

**LFD
COMMENT**

The 2017 Legislature approved increases for insurance premiums to state agencies which included a:

- 35.0% increase for automobiles
- 35.0% increase for general liability
- 10.0% increase for property

The approved increase in insurance premiums to state agencies were due, in part, to the impact of the Libby asbestos settlements. The increased premiums were to replenish reserves. Reserves are used for higher than anticipated claims costs or loss adjustment expenses and for incurred but not yet reported claims.

When asked for information regarding the target reserve amount, the department stated that consistent with recommendations from the state's actuarial firm, the division's funding objective for the 2021 biennium is to maintain reserves sufficient to move towards the actuarial target. However, at this time the Risk Management and Tort Defense Division has not provided a specific amount regarding this target.

The legislature may wish to discuss the target reserve amount in further detail with the Risk Management and Tort Defense Division.

Expenses

Overall, the executive is proposing an increase in personal services and operating expenses. The increases are primarily due to statewide present law adjustments for personal services and fixed costs. The fixed cost adjustment is mainly due to a technology upgrade for the system used for the underwriting process and to monitor and administer claims. The databases have been operating on an obsolete oracle server with outdated technology.

Revenues

Montana self-insures its insurance risks for automobile, aviation, general liability, and property via this program. All state agencies pay insurance premiums to the Risk Management and Tort Defense Division. The following figure shows insurance premiums for state agencies in the 2019 biennium and the 2021 biennium and changes in the costs between biennia.

Department of Administration Risk Management and Tort Defense Division State Agency Insurance Costs				
State Agency	2019 Biennium	2021 Biennium	Change	% Change
Legislative Branch	\$95,791	\$97,449	\$1,658	1.7%
Consumer Counsel	2,936	2,897	(39)	-1.3%
Judicial Branch	327,928	325,337	(2,591)	-0.8%
Governor's Office	60,560	58,519	(2,041)	-3.4%
Secretary of State's Office	31,402	30,393	(1,009)	-3.2%
Commissioner of Political Practices	3,322	3,302	(20)	-0.6%
State Auditor's Office	47,609	47,566	(43)	-0.1%
Office of Public Instruction	93,038	93,937	899	1.0%
Department of Justice	1,734,426	1,681,643	(52,783)	-3.0%
Public Service Regulation	34,479	33,908	(571)	-1.7%
Board of Public Education	2,088	1,835	(253)	-12.1%
Commissioner of Higher Ed	16,119,921	15,985,932	(133,989)	-0.8%
School for the Deaf and Blind	123,910	134,509	10,599	8.6%
Montana Arts Council	4,970	4,572	(398)	-8.0%
Montana State Library	34,070	30,805	(3,265)	-9.6%
Montana Historical Society	200,808	205,827	5,019	2.5%
Department of Fish Wildlife and Parks	1,069,046	1,100,857	31,811	3.0%
Department of Environmental Quality	691,345	696,181	4,836	0.7%
Department of Transportation	11,106,640	11,036,162	(70,478)	-0.6%
Department of Livestock	185,039	183,680	(1,359)	-0.7%
Department of Natural Resources and Conservation	935,295	981,006	45,711	4.9%
Department of Revenue	497,944	502,011	4,067	0.8%
Department of Administration	1,477,156	1,552,819	75,663	5.1%
Montana State Fund	1,078,953	1,074,562	(4,391)	-0.4%
Public Employees Retirement Board	34,987	33,480	(1,507)	-4.3%
Teachers Retirement Board	12,914	13,257	343	2.7%
Office of the Public Defender	182,799	201,731	18,932	10.4%
Department of Agriculture	173,476	172,945	(531)	-0.3%
Department of Corrections	3,538,976	3,555,391	16,415	0.5%
Department of Commerce	411,079	409,044	(2,035)	-0.5%
Department of Labor and Industry	625,832	621,233	(4,599)	-0.7%
Department of Military Affairs	578,548	594,709	16,161	2.8%
Department of Public Health and Human Services	<u>5,953,857</u>	<u>5,924,033</u>	<u>(29,824)</u>	<u>-0.5%</u>
Grand Total	<u>\$47,471,144</u>	<u>\$47,391,532</u>	<u>(\$79,612)</u>	<u>-0.2%</u>

Overall, revenues generated through premiums allocated to state agencies decreased by less than 1.0%. Depending on the number and types of assets owned and/or the agency's loss history, insurance premiums paid by agencies may vary. Premium amounts for state agencies are determined based on the predicted costs of losses the state may incur as a result of claims and the costs for operating the division. The division utilizes industry standards and practices employed by other municipalities and municipal risk pools in setting rates. Budgeted authority to pay insurance premiums is a fixed cost item in agency budgets.

Premiums for the 2021 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

- **Automobile** – comprised of two separate components 1) comprehensive and collision based upon total values of reported vehicles; and 2) auto liability premium based on agency losses over the past 4 years and number of vehicles reported
- **Aviation** – allocated to those agencies that have aircraft based on charges on commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft. Airport premium is apportioned to those agencies that have airports based upon the number of airports
- **General Liability** – comprised of commercial coverage, which is based on commercial coverage negotiated with commercial insurance carriers and self-insurance for those risks that are not insurable through commercial coverage based on number of exposures
- **Property** – allocated to each agency based on its percentage of reported exposures (e.g. building replacement cost values, boilers and machinery, etc.)

Proprietary Rates

For the 2021 biennium, the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 18	Budgeted FY 19	Proposed FY 20	Proposed FY 21
Fee Description:				
Auto - Comprehensive/Collision	\$2,022,570	\$2,022,570	\$2,022,570	\$2,022,570
Aviation	\$169,961	\$169,961	\$169,961	\$169,961
General Liability	\$14,613,042	\$14,613,042	\$14,573,235	\$14,573,236
Property/Miscellaneous	\$6,930,000	\$6,930,000	\$6,930,000	\$6,930,000

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	915,097	1,011,097	96,000	10.49 %
Operating Expenses	264,048	323,000	58,952	22.33 %
Local Assistance	25,366	29,366	4,000	15.77 %
Total Expenditures	\$1,204,511	\$1,363,463	\$158,952	13.20 %
General Fund	1,204,511	1,363,463	158,952	13.20 %
Total Funds	\$1,204,511	\$1,363,463	\$158,952	13.20 %
Total Ongoing	\$1,204,511	\$1,363,463	\$158,952	13.20 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Montana Tax Appeal Board (MTAB), established by Article VIII, Section 7, of the Montana Constitution and 15-2-101, MCA, provides a tax appeal system for all actions of the Department of Revenue and other taxing agencies. The board consists of three members, appointed by the Governor and confirmed by the Senate, who hear appeals as full-time state employees, with two support staff. The board hears appeals from decisions of the 56 county tax appeal boards, primarily involving residential and commercial property valuation, and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally-assessed property and new industry property, motor fuels taxes, vehicle taxes, and cabin site leases. The Montana Tax Appeal Board directs the county tax appeal board secretaries and reimburses their salaries and employee benefits from its personal services appropriation. In addition, the board pays the board member stipends, and clerical-related expenses, for all 56 county tax appeal boards, including supplies, postage and copies, but excluding office equipment.

Program Highlights

Montana Tax Appeal Board Major Budget Highlights
<ul style="list-style-type: none"> • The Montana Tax Appeal Board’s 2021 biennium budget request is \$159,000 or 13.2% higher than the 2019 biennium budget. Significant changes include: <ul style="list-style-type: none"> ◦ Proposed increases in general fund due to statewide present law adjustments for personal services ◦ Proposed increases in general fund for an increase in rent ◦ Proposed increases in general fund for funding for travel expenses and training related to county tax appeal hearings

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	5.50	5.50	5.50	5.50
Personal Services	457,028	455,449	459,648	505,563	505,534
Operating Expenses	115,167	123,967	140,081	161,563	161,437
Local Assistance	14,856	12,683	12,683	14,683	14,683
Total Expenditures	\$587,051	\$592,099	\$612,412	\$681,809	\$681,654
General Fund	587,051	592,099	612,412	681,809	681,654
Total Funds	\$587,051	\$592,099	\$612,412	\$681,809	\$681,654
Total Ongoing	\$587,051	\$592,099	\$612,412	\$681,809	\$681,654
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2018 Appropriations Compared to FY 2018 Actual Expenditures

The Montana Tax Appeal Board expended 99.1% of its \$592,000 HB 2 modified budget as of the end of FY 2018. Personal services were 100.3% expended, operating expenses were 92.9% expended, and local assistance was 117.1% expended.

FY 2018 Appropriations Compared to FY 2019 Appropriations

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

- Personal Services
 - There was an increase in the FY 2018 appropriation of approximately \$53,000 resulting from executive modifications. This change transferred personal services funding from the Director's Office to the Montana Tax Appeal Board in order to address reductions to the budget. The Board froze all discretionary spending and reduced hours for one staff member but required this transfer in order to operate
 - There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$47,000 were applied to personal services
- Operating Expenses
 - There was an increase in the FY 2019 appropriation resulting from legislative action. SB 9 restorations of approximately \$14,000 were applied to operating expenses

Executive Request

The Montana Tax Appeal Board is requesting increases above the FY 2019 base in general fund of approximately \$69,000 in both FY 2020 and FY 2021. The proposed increases are primarily related to statewide present law adjustments for personal services, increases in rent, and additional travel and training costs. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

Program Personal Services Narrative

Personal services were approximately \$460,000 or 75.1% of total FY 2019 appropriations. The executive proposes an increase of approximately \$46,000 in FY 2020 and \$46,000 in FY 2021. The majority of this increase is due to the proposed reinstatement of personal service base budget reductions. This includes the reinstatement of reductions from the 2017 Legislative Session, SB 261, and the additional 2.0% vacancy savings.

Funding

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

Department of Administration, 37-Montana Tax Appeal Board Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,363,463	0	0	0	1,363,463	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$1,363,463	\$0	\$0	\$0	\$1,363,463	

The MTAB is fully funded with general fund. General fund provides support for travel expenses, compensation, and all other incidental expenses of the country tax boards. Office space and equipment for the county tax appeal boards must be furnished by the county.

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	612,412	612,412	1,224,824	89.83 %	612,412	612,412	1,224,824	89.83 %
SWPL Adjustments	47,475	47,320	94,795	6.95 %	47,475	47,320	94,795	6.95 %
PL Adjustments	21,922	21,922	43,844	3.22 %	21,922	21,922	43,844	3.22 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$681,809	\$681,654	\$1,363,463		\$681,809	\$681,654	\$1,363,463	

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	45,915	0	0	45,915	0.00	45,886	0	0	45,886
DP 2 - Fixed Costs	0.00	1,532	0	0	1,532	0.00	1,399	0	0	1,399
DP 3 - Inflation Deflation	0.00	28	0	0	28	0.00	35	0	0	35
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	332	0	0	332	0.00	332	0	0	332
DP 3701 - Increase in rent expense for off-campus space	0.00	12,090	0	0	12,090	0.00	12,090	0	0	12,090
DP 3702 - Restore County Funding	0.00	9,500	0	0	9,500	0.00	9,500	0	0	9,500
Grand Total All Present Law Adjustments	0.00	\$69,397	\$0	\$0	\$69,397	0.00	\$69,242	\$0	\$0	\$69,242

**"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 4 - Allocate Department Indirect/Administrative Costs -

The executive requests an increase in general fund due to a change in indirect costs. These are the costs recovered by the Department of Administration from divisions within the department for services provided, which include accounting, human resources, and legal support.

DP 3701 - Increase in rent expense for off-campus space -

The executive requests an increase in general fund to provide funding to pay for an increase in rent expenses.

DP 3702 - Restore County Funding -

The executive requests an increase in general fund to provide the funding for travel expenses and training related to county tax appeal hearings.