

The Legislative Fiscal Division Presents an Agency Profile of: The Legislative Branch

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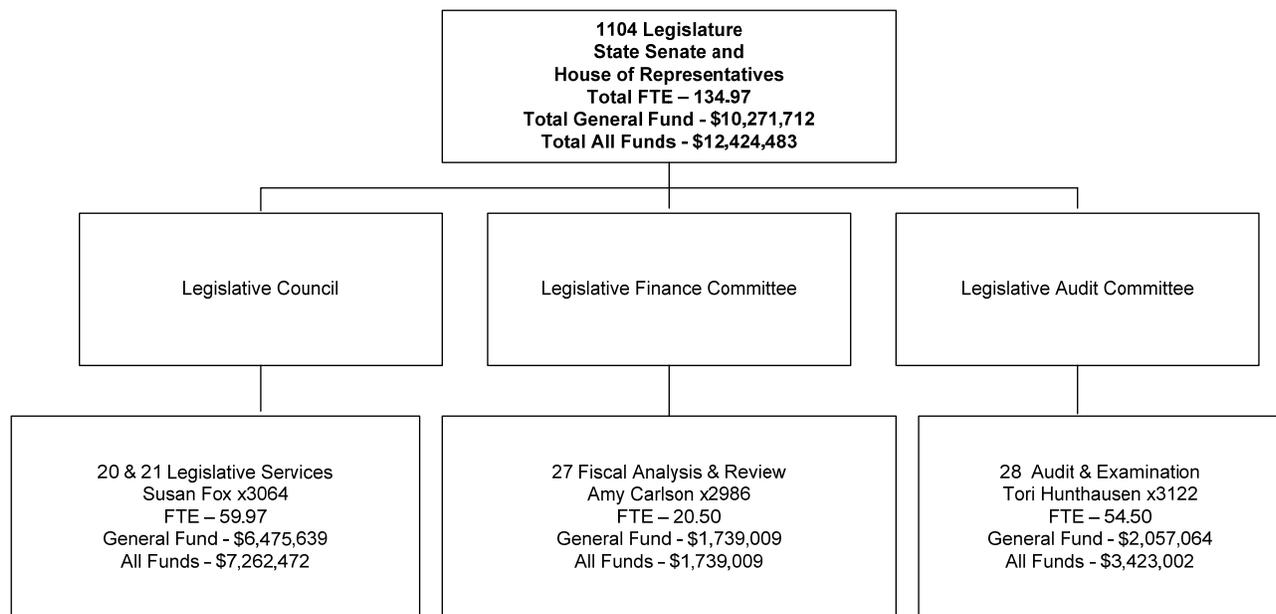
Updated December 2012

Agency Description

Definition of Terms

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

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



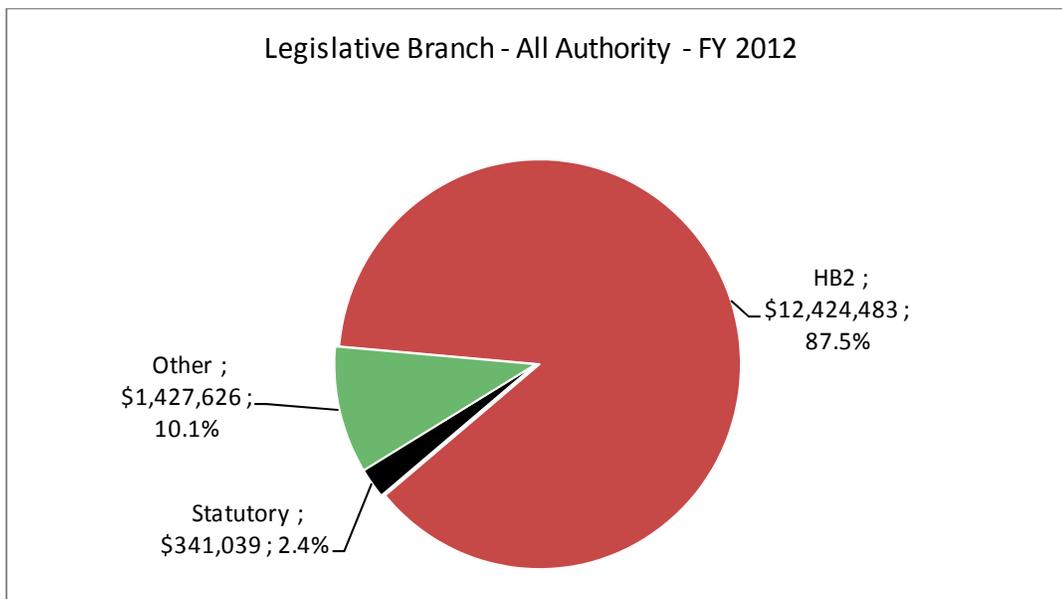
How Services are Provided

The Legislative Branch consists of the:

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

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

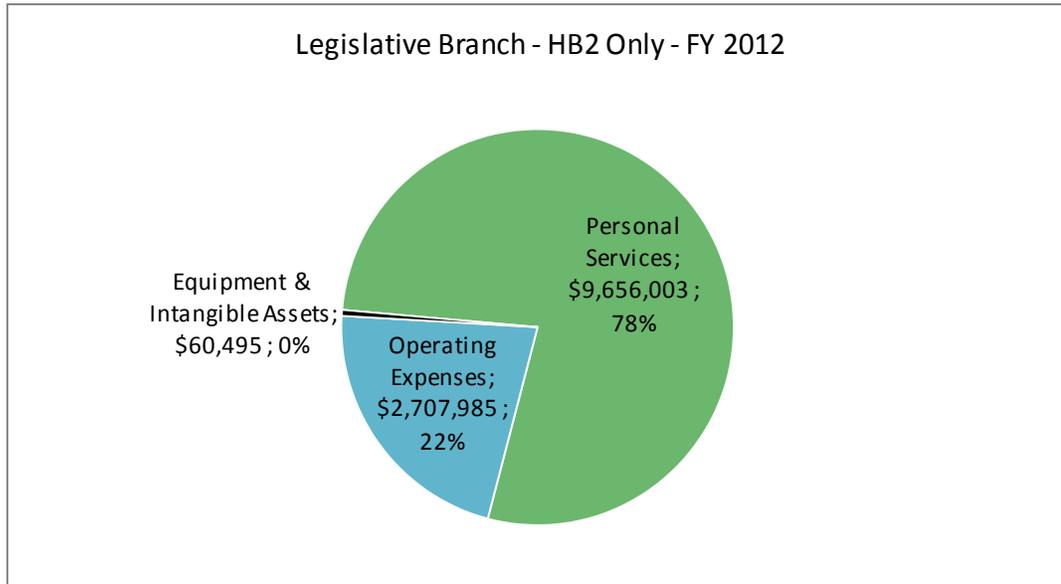
Sources of Spending Authority



The above chart shows the sources of authority for the Legislative Branch. The branch received 87.5% of its spending authority from HB 2 in FY 2012. Of the 2.4% of statutory spending authority, 61.0% is expended from the Legislative Branch Information Technology Reserve Fund, which is funded through unexpended authority from the feed bill. The remaining 39% were expenditures from the Legislative Branch Retirement Reserve. The other 10.1% are legislative appropriations (sometimes called cat and dog bills) including expenditures from HB 1 (the feed bill – 96.8%), HB 642 (the Efficiency in Government Select Committee - 2.6% of other authority), and HB 602, which provided authority for an exempt water well study.

Expenditures

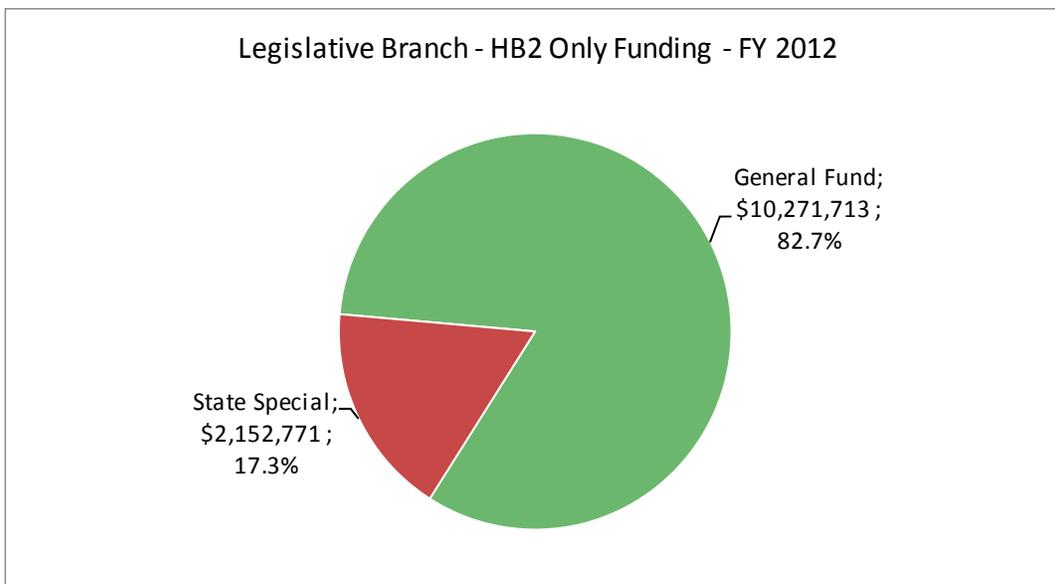
The next chart explains how the HB2 authority is spent.



Disclaimer: These charts match the agency charts found in the 2015 Budget Analysis, but may include some slight rounding errors.

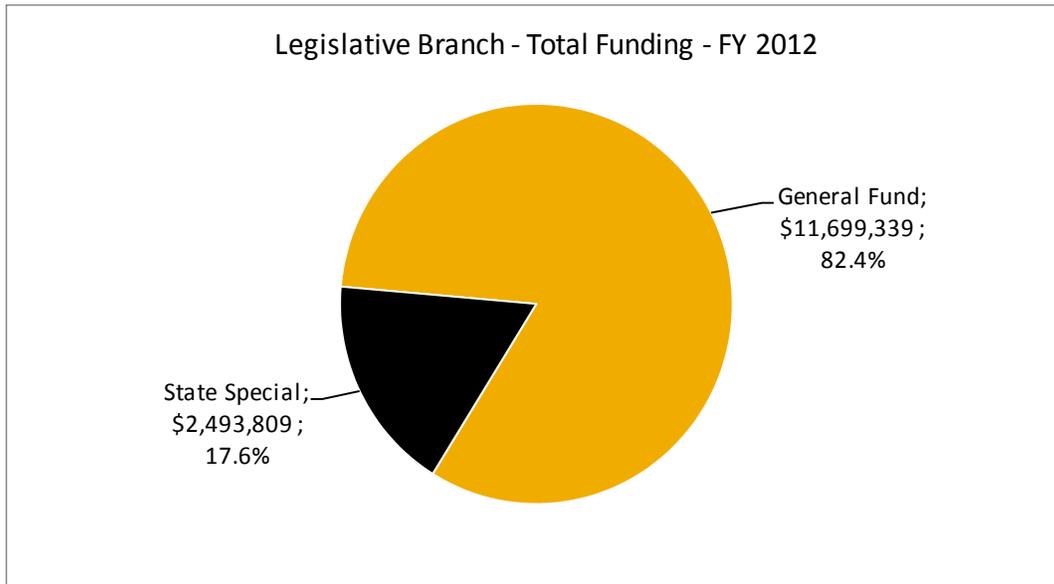
Funding

The following chart shows the agency's HB2 funding authority by fund type.



Funding

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



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

How the 2013 Legislature Can Effect Change

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

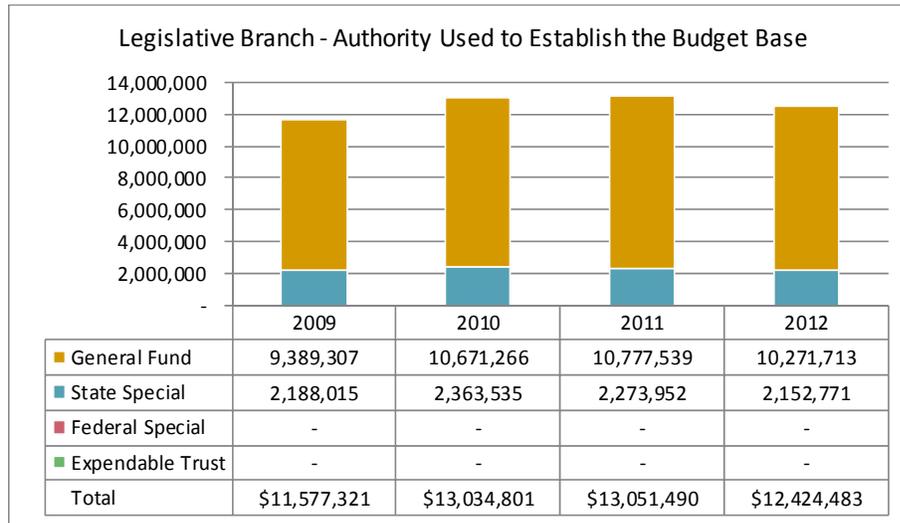
- Governing how the Legislative Branch and its divisions conduct business and respond to legislative requests
- Governing length and frequency of legislative sessions, the number of committees and/or legislative membership size, and the number of bills per session
- Addressing the policy related to “Triggers”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

Major Cost Drivers

<i>Drivers</i>	<i>2002</i>	<i>2012</i>	<i>Significance of Data</i>
Number of Bill Draft Requests	1,732 (2001 session)	2,218 (2011 session)	Illustrates growth in workload
Total FTE	125.27	135.14	The number of staff is representative of workload growth

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

Funding/Expenditure History



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

- Expansion of broadcasting of legislative sessions and interim committee activities (2011 biennium)
- Addition of 4.00 FTE for increased staffing needs and 1.00 FTE for systems analysis (2011 biennium)
- Vacancy savings equal to the costs of 6.00 FTE (2012)
- Committee budget reductions (2012)

Major Legislative Changes in the Last Ten Years

Major Changes in the Last 10 Years :

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

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	134.97	140.14	134.97	140.14	140.14	140.14	0.00	0.00%
Personal Services	9,656,006	11,214,831	10,615,555	10,710,158	20,870,837	21,325,713	454,876	2.18%
Operating Expenses	2,707,982	3,305,252	3,757,535	3,526,011	6,013,234	7,283,546	1,270,312	21.13%
Equipment & Intangible Assets	60,495	89,505	75,000	50,000	150,000	125,000	(25,000)	(16.67%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$12,424,483	\$14,609,588	\$14,448,090	\$14,286,169	\$27,034,071	\$28,734,259	\$1,700,188	6.29%
General Fund	10,271,712	12,309,086	11,883,974	12,238,304	22,580,798	24,122,278	1,541,480	6.83%
State Special	2,152,771	2,300,502	2,564,116	2,047,865	4,453,273	4,611,981	158,708	3.56%
Total Funds	\$12,424,483	\$14,609,588	\$14,448,090	\$14,286,169	\$27,034,071	\$28,734,259	\$1,700,188	6.29%

Mission Statement

The mission of the Legislature is to exercise the legislative power of state government vested in the Legislature by The Constitution of the State of Montana. The mission of the Legislative Branch, i.e., the consolidated legislative agency, is to provide the administrative structure to support accomplishment of the mission of the Legislature.

There is additional, more detailed information about the department in the agency profile. For additional information, please refer to the agency profile.

Agency Highlights

Legislative Branch Major Budget Highlights
<ul style="list-style-type: none"> ◆ Operating expenses would increase due to: <ul style="list-style-type: none"> ● Present law requests of \$927,544 for cyclical adjustments related to the 2015 Legislative Session ● Information technology cost increases of \$225,000 ● A new proposal to continue enhancements of Television MT, \$275,000 ◆ Personal service increases are primarily due to: <ul style="list-style-type: none"> ● Present law adjustments in the Legislative Audit Division related to significant vacancies in FY 2012 ● A new proposal of \$173,468 that would bring branch-wide staff up to 87.0% of market pay, in line with the executive branch ◆ All appropriations of the branch are biennial

Program Discussion

Agency Personal Services

The Legislative Branch utilizes a pay philosophy that employs career ladders and in some cases merit pay. The philosophy will remain the same, although promotion increases may not be awarded if it results in a division exceeding its approved budget. Some pertinent attributes of personal services in the branch include:

- o The legislature directed the agency to leave sufficient positions open to achieve a 2% vacancy savings. When comparing budgeted to utilized hours, the actual rate was 9.7% for the branch compared to the directed 2%. No vacancy savings rate is applied in the 2015 biennium
- o No general pay increases were provided in the 2013 biennium
- o The Legislative Branch typically hires at entry level; however, the Legislative Audit Division hires positions at 95% of the 2012 market to contend with competing industry
- o The branch has 60 staff, 32.6% of total staff, eligible for either early or regular retirement as of July 31, 2012

Common Decision Packages

The following proposals have common decision packages in several programs across the agency.

All divisions of the Legislative Branch make requests for cyclical adjustments. The adjustments are typically needed because costs of operations for the legislative session do not fall in the base year. As seen in the figure below, the total cyclical adjustments are \$927,544 and make up 46.0% of the “other present law adjustments”.

Legislative Branch Cyclical Adjustments for the 2015 Biennium										
Division	Decision Package Number	FY 2014				FY 2015				2015
		General Fund	State Special	Federal Special	Total	General Fund	State Special	Federal Special	Total	Biennium Total
20 - Legislative Services	DP 20001	\$448,210	\$47,709	\$0	\$495,919	\$496,034	(\$275,652)	\$0	\$220,382	\$716,301
21 - Committees and Activities	DP 21001	60,917	0	0	60,917	53,826	0	0	53,826	114,743
27 - Legislative Fiscal	DP 27001	0	0	0	0	45,000	0	0	45,000	45,000
28 - Legislative Audit	DP 28001	<u>18,900</u>	<u>12,600</u>	<u>0</u>	<u>31,500</u>	<u>5,300</u>	<u>14,700</u>	<u>0</u>	<u>20,000</u>	<u>51,500</u>
Total		<u>\$528,027</u>	<u>\$60,309</u>	<u>\$0</u>	<u>\$588,336</u>	<u>\$600,160</u>	<u>(\$260,952)</u>	<u>\$0</u>	<u>\$339,208</u>	<u>\$927,544</u>

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Legislative Branch has provided recommendations that amount to \$1.2 million. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining
- o Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- o Current plans to address obsolescence

- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Legislative Branch Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$24,122,278	\$0	\$0	\$24,122,278	83.9%
State Special Total	4,611,981	-	-	4,611,981	16.1%
Federal Special Total	-	-	-	-	0.0%
Proprietary Total	-	-	-	-	0.0%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	<u>\$28,734,259</u>	<u>\$0</u>	<u>\$0</u>	<u>\$28,734,259</u>	
Percent - Total All Sources	100.0%	0.0%	0.0%		

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

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

- 1) Legislative Branch reserve account is any portion of unexpended and unencumbered money included in the “feed bill” and remaining carry forward appropriations for the divisions. The funds may be used for major Legislative Branch information technology projects including hardware, software, and consultant services for new initiatives and replacement and upgrading of existing systems. In the 2013 biennium, to the time of this writing, a total of \$272,205 had been expended.
- 2) The retirement reserve account was a one-time-only appropriation of \$400,000 approved by the 2007 Legislature for retirement payouts. A total of \$133,004 was expended in FY 2012, and the fund has been fully expended.
- 3) All money for audits transferred to the legislative auditor must be deposited in a state special revenue fund in the state treasury to the credit of the Office of the Legislative Auditor. The money deposited in excess of general and pay plan appropriations is derived from higher than estimated audit revenues and may be used to pay expenses incurred in auditing state agencies based on an approved operating plan. No funds have been expended through this appropriation since FY 2008.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	10,271,712	10,271,712	20,543,424	85.16%	12,424,483	12,424,483	24,848,966	86.48%
Statewide PL Adjustments	736,657	1,041,525	1,778,182	7.37%	1,106,033	1,215,886	2,321,919	8.08%
Other PL Adjustments	530,282	596,922	1,127,204	4.67%	572,251	317,655	889,906	3.10%
New Proposals	345,323	328,145	673,468	2.79%	345,323	328,145	673,468	2.34%
Total Budget	\$11,883,974	\$12,238,304	\$24,122,278		\$14,448,090	\$14,286,169	\$28,734,259	

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	59.00	64.17	59.00	64.17	64.17	64.17	0.00	0.00%
Personal Services	4,591,142	5,029,041	4,867,717	4,993,564	9,620,183	9,861,281	241,098	2.51%
Operating Expenses	2,040,402	2,551,849	2,943,627	2,758,800	4,592,251	5,702,427	1,110,176	24.17%
Equipment & Intangible Assets	60,495	89,505	75,000	50,000	150,000	125,000	(25,000)	(16.67%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$6,692,039	\$7,670,395	\$7,886,344	\$7,802,364	\$14,362,434	\$15,688,708	\$1,326,274	9.23%
General Fund	5,905,206	7,308,112	7,001,417	7,437,071	13,213,318	14,438,488	1,225,170	9.27%
State Special	786,833	362,283	884,927	365,293	1,149,116	1,250,220	101,104	8.80%
Total Funds	\$6,692,039	\$7,670,395	\$7,886,344	\$7,802,364	\$14,362,434	\$15,688,708	\$1,326,274	9.23%

Program Description

The Legislative Services Division provides objective research, reference, legal, technical, information technology, and business services to the House, Senate, and other divisions of the Legislative Branch. Division services include: 1) bill and amendment drafting, preparation of bills for introduction, and engrossing and enrolling bills; 2) publication of legislative documents of record; 3) provision of legislative research and reference services; 4) legal counseling on legislative matters and agency legal support; 5) personnel and business services; 6) planning, installation, and maintenance of agency information technology; 7) legislative committee staffing and support; 8) preparation, publication, and distribution of the Montana Code Annotated text and annotations; 9) review of the text of proposed ballot measures; 10) broadcasting of state government and public policy events; and 11) provision of legislative information to the public. The Legislative Council provides policy guidance to the Legislative Services Division.

Program Highlights

Legislative Services Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The budget would increase primarily due to present law adjustments, which include: <ul style="list-style-type: none"> • Cyclical operational adjustments for session related costs • Increased information technology costs and maintenance for the LAWS system • Funding for participation in subscription services for Federal Funds Information for the States ◆ New proposals for technology upgrades and market pay adjustments are requested ◆ The budget would include a net reduction in the cyclical costs of production of the Montana Code Annotated

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$14,438,488	\$0	\$0	\$14,438,488	92.0%		
State Special Total	\$1,250,220	\$0	\$0	\$1,250,220	8.0%		
02800 Reimbursable Activities	\$1,173,695	\$0	\$0	\$1,173,695	7.5%		
02985 State Government Broadcasting	\$76,525	\$0	\$0	\$76,525	0.5%		
Total All Funds	\$15,688,708	\$0	\$0	\$15,688,708	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	5,905,206	5,905,206	11,810,412	81.80%	6,692,039	6,692,039	13,384,078	85.31%
Statewide PL Adjustments	292,678	697,686	990,364	6.86%	343,063	551,798	894,861	5.70%
Other PL Adjustments	458,210	506,034	964,244	6.68%	505,919	230,382	736,301	4.69%
New Proposals	345,323	328,145	673,468	4.66%	345,323	328,145	673,468	4.29%
Total Budget	\$7,001,417	\$7,437,071	\$14,438,488		\$7,886,344	\$7,802,364	\$15,688,708	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					218,752					286,777
Inflation/Deflation					265					483
Fixed Costs					124,046					264,538
Total Statewide Present Law Adjustments		\$292,678	\$50,385	\$0	\$343,063		\$697,686	(\$145,888)	\$0	\$551,798
DP 20001 - LSD Cyclical & Operational Adjustments	0.00	448,210	47,709	0	495,919	0.00	496,034	(275,652)	0	220,382
DP 20002 - Leg Branch FFIS Professional Resources	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
Total Other Present Law Adjustments	0.00	\$458,210	\$47,709	\$0	\$505,919	0.00	\$506,034	(\$275,652)	\$0	\$230,382
Grand Total All Present Law Adjustments	0.00	\$750,888	\$98,094	\$0	\$848,982	0.00	\$1,203,720	(\$421,540)	\$0	\$782,180

DP 20001 - LSD Cyclical & Operational Adjustments - This proposal addresses increases related to several functions:

- o Contracted services to produce, broadcast, and stream the legislature during session and the interim (TVMT), a general fund increase of \$120,342
- o Increased costs to print the Montana Codes Annotated (all state special revenue) in FY 2011 of \$35,000, with a reduction in FY 2013 of \$318,712 related to the production and publication of the Codes.
- o Increased costs related to supporting the legislative session in the second year of the biennium. Such costs include temporary staff support of House and Senate secretaries, contracted services for support of the LAWS system, session network buildup, and computer-related assistance to legislators. This biennium differs from previous biennia as increases in ITSD rates and costs to address IT related projects that have been deferred offset the impact of cyclical costs. The biennial general fund adjustment related to all other division operations is a reduction of \$13,396

DP 20002 - Leg Branch FFIS Professional Resources - This proposal adds budget authority for participation in subscription services for Federal Funds Information for the States. This subscription provides up-to-date information regarding the status of federal funding, grants, and other research material not available elsewhere. Services would be managed through the Legislative Reference Center for the Branch.

New Proposals

New Proposals											
	-----Fiscal 2014-----					-----Fiscal 2015-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 20003 - LSD Television MT Phase II OTO	20	0.00	175,000	0	0	175,000	0.00	100,000	0	0	100,000
DP 20004 - LSD Info Technology Upgrade, Replacements OTO	20	0.00	112,500	0	0	112,500	0.00	112,500	0	0	112,500
DP 20005 - Leg. Branch Discretionary Market Adjustments	20	0.00	57,823	0	0	57,823	0.00	115,645	0	0	115,645
Total	0.00	\$345,323	\$0	\$0	\$345,323	0.00	\$328,145	\$0	\$0	\$328,145	

DP 20003 - LSD Television MT Phase II OTO - TVMT Phase II would provide for replacement, upgrade, and maintenance of Television MT infrastructure to allow the Media Center to complete a high-definition upgrade as time and budget allow. Phase I (completed in October, 2012) began the replacement and upgrade of 11-year old equipment in the Senate, a compatible workstation, and one House committee room. This Phase II infrastructure upgrade would allow the future support and replacement of new high-definition workstations and cameras as necessary.

DP 20004 - LSD Info Technology Upgrade, Replacements OTO - This new proposal covers costs for hardware and software replacement, training, and consulting and professional services in information technology for the Legislative Branch, including maintenance of the LAWS system, that have been deferred and are not expected to be recurring costs.

DP 20005 - Leg. Branch Discretionary Market Adjustments - This new proposal is designed to raise the average target market ratio of the Legislative Branch employees equal to that of the Executive Branch (87%) at the end of FY 2012, assuming that the negotiated pay raise (in HB13) passes. These funds would be used by the division managers to work toward achieving target market ratios for employees who are significantly below entry or market and who have acceptable performance appraisals. The total cost of the proposal for the Legislative Branch is \$173,468, all general fund. The funds would be attached to Program 20, Legislative Services Division, for administrative purposes, to be distributed between the divisions as necessary in FY 2014 and FY 2015.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	0.97	0.97	0.97	0.97	0.97	0.97	0.00	0.00%
Personal Services	93,257	80,661	97,264	67,221	173,918	164,485	(9,433)	(5.42%)
Operating Expenses	477,176	450,736	585,892	506,003	927,912	1,091,895	163,983	17.67%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$570,433	\$531,397	\$683,156	\$573,224	\$1,101,830	\$1,256,380	\$154,550	14.03%
General Fund	570,433	531,397	683,156	573,224	1,101,830	1,256,380	154,550	14.03%
Total Funds	\$570,433	\$531,397	\$683,156	\$573,224	\$1,101,830	\$1,256,380	\$154,550	14.03%

Program Description

The Legislative Committees and Activities Program supports the activities of standing and interim legislative committees that are conducted during the interim between legislative sessions. Program expenditures support: 1) interim study activities as defined in 5-5-202 through 5-5-217, MCA; 2) cooperative interstate, international and intergovernmental activities as outlined in 5-11-303 through 5-11-305, MCA; and 3) other legislative activities for which appropriations are made.

Program Highlights

Legislative Committees & Activities Major Budget Highlights	
◆	The budget would increase from the 2013 biennium primarily due to present law adjustments, which include an increase in costs for the emerging issues discretionary fund
◆	Increases are offset with a reduction of base costs associated with the completion of work by the Districting and Apportionment Commission

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Legislative Branch Funding by Source of Authority 2015 Biennium Budget - Legis. Committees & Activities							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,256,380	\$0	\$0	\$1,256,380	100.0%		
Total All Funds	\$1,256,380	\$0	\$0	\$1,256,380	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

Legislative Committees and Activities are entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	570,433	570,433	1,140,866	90.81%	570,433	570,433	1,140,866	90.81%
Statewide PL Adjustments	38,181	(60,120)	(21,939)	(1.75%)	38,181	(60,120)	(21,939)	(1.75%)
Other PL Adjustments	74,542	62,911	137,453	10.94%	74,542	62,911	137,453	10.94%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$683,156	\$573,224	\$1,256,380		\$683,156	\$573,224	\$1,256,380	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					38,192					(60,222)
Inflation/Deflation					(11)					102
Total Statewide Present Law Adjustments		\$38,181	\$0	\$0	\$38,181		(\$60,120)	\$0	\$0	(\$60,120)
DP 21001 - Interim Comm, Activities Cyclical & Operational	0.00	60,917	0	0	60,917	0.00	53,826	0	0	53,826
DP 21002 - Interim Committees Additional Meetings	0.00	13,625	0	0	13,625	0.00	9,085	0	0	9,085
Total Other Present Law Adjustments	0.00	\$74,542	\$0	\$0	\$74,542	0.00	\$62,911	\$0	\$0	\$62,911
Grand Total All Present Law Adjustments	0.00	\$112,723	\$0	\$0	\$112,723	0.00	\$2,791	\$0	\$0	\$2,791

DP 21001 - Interim Comm, Activities Cyclical & Operational - Adjustments from base include: re-establishment of the Legislative Council’s discretionary fund of \$45,000 for emerging issues that was not expended in the base year; cyclical adjustment for travel related to participation in organizational activities not expended in the base year (NCSL, CSG, etc.); rate adjustment for increase in personal car mileage; increase in cost of organizational dues above base expenditures; and a decrease of \$60,599 for the Districting & Apportionment Commission which completed its decennial work at the end of FY2013.

DP 21002 - Interim Committees Additional Meetings - This proposal includes personal services and operational costs related to adjustments of certain interim committee work schedules as each committee deems necessary. The total increase is \$22,710 in general fund.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	20.50	20.50	20.50	20.50	20.50	20.50	0.00	0.00%
Personal Services	1,700,358	1,738,464	1,805,868	1,803,141	3,438,822	3,609,009	170,187	4.95%
Operating Expenses	38,651	79,699	43,064	87,140	118,350	130,204	11,854	10.02%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$1,739,009	\$1,818,163	\$1,848,932	\$1,890,281	\$3,557,172	\$3,739,213	\$182,041	5.12%
General Fund	1,739,009	1,818,163	1,848,932	1,890,281	3,557,172	3,739,213	182,041	5.12%
State Special	0	0	0	0	0	0	0	n/a
Total Funds	\$1,739,009	\$1,818,163	\$1,848,932	\$1,890,281	\$3,557,172	\$3,739,213	\$182,041	5.12%

Program Description

The Legislative Fiscal Division provides the legislature with objective fiscal information and analysis relevant to Montana public policy and budget determination. Division services include: 1) fiscal analysis of state government and the furnishing of information bearing upon the financial matters of the state; 2) identification of ways to effect economy and efficiency in state government; 3) estimation of revenue and analysis of tax policy; 4) analysis of the executive budget; 5) compiling and analyzing fiscal information for legislators and legislative committees; and 6) staffing and support for legislative committees, including the preparation and processing of the appropriation bills for the legislative, judicial, and executive agencies. The Legislative Finance Committee provides guidance to the Legislative Fiscal Division.

Program Highlights

Fiscal Analysis & Review Major Budget Highlights
<ul style="list-style-type: none"> ◆ The increase in the budget would result primarily from: <ul style="list-style-type: none"> • Present law adjustments to personal services resulting from reclassification of 1.50 FTE and career ladder pay increases for 2.50 FTE, and elimination of vacancy savings • A request to increase travel funds for members of the interim Legislative Finance Committee • Cyclical adjustments for session costs

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Legislative Branch Funding by Source of Authority 2015 Biennium Budget - Fiscal Analysis & Review							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$3,739,213	\$0	\$0	\$3,739,213	100.0%		
Total All Funds	\$3,739,213	\$0	\$0	\$3,739,213	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The division is funded entirely with general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,739,009	1,739,009	3,478,018	93.01%	1,739,009	1,739,009	3,478,018	93.01%
Statewide PL Adjustments	105,966	103,303	209,269	5.60%	105,966	103,303	209,269	5.60%
Other PL Adjustments	3,957	47,969	51,926	1.39%	3,957	47,969	51,926	1.39%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$1,848,932	\$1,890,281	\$3,739,213		\$1,848,932	\$1,890,281	\$3,739,213	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					105,510					102,783
Inflation/Deflation					(22)					20
Fixed Costs					478					500
Total Statewide Present Law Adjustments		\$105,966	\$0	\$0	\$105,966		\$103,303	\$0	\$0	\$103,303
DP 27001 - LFD Cyclical Operations	0.00	0	0	0	0	0.00	45,000	0	0	45,000
DP 27002 - Legislative Finance Committee - Travel	0.00	3,957	0	0	3,957	0.00	2,969	0	0	2,969
Total Other Present Law Adjustments	0.00	\$3,957	\$0	\$0	\$3,957	0.00	\$47,969	\$0	\$0	\$47,969
Grand Total All Present Law Adjustments	0.00	\$109,923	\$0	\$0	\$109,923	0.00	\$151,272	\$0	\$0	\$151,272

DP 27001 - LFD Cyclical Operations - This proposal increases the FY 2015 budget by \$45,000 general fund in the categories of printing, photocopy, and other office operations due to cyclical legislative session costs that are not captured in the base year. This is the same amount approved in the previous two biennia, and is not an increase when comparing biennium to biennium.

DP 27002 - Legislative Finance Committee - Travel - This proposal increases the travel budget of the Legislative Finance Committee to account for a wider geographical disbursement of members. During the 2013 biennium, members were not geographically disbursed, resulting in lower than normal travel costs. In addition, this decision package would provide additional funds to hold committee or subcommittee meetings outside of Helena.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	54.50	54.50	54.50	54.50	54.50	54.50	0.00	0.00%
Personal Services	3,271,249	4,366,665	3,844,706	3,846,232	7,637,914	7,690,938	53,024	0.69%
Operating Expenses	151,753	222,968	184,952	174,068	374,721	359,020	(15,701)	(4.19%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$3,423,002	\$4,589,633	\$4,029,658	\$4,020,300	\$8,012,635	\$8,049,958	\$37,323	0.47%
General Fund	2,057,064	2,651,414	2,350,469	2,337,728	4,708,478	4,688,197	(20,281)	(0.43%)
State Special	1,365,938	1,938,219	1,679,189	1,682,572	3,304,157	3,361,761	57,604	1.74%
Total Funds	\$3,423,002	\$4,589,633	\$4,029,658	\$4,020,300	\$8,012,635	\$8,049,958	\$37,323	0.47%

Program Description

The Legislative Audit Division conducts independent audits and provides factual and objective information to the legislative and executive managers of the public trust. Division services include: 1) conducting and reporting of biennial financial-compliance audits, performance audits, information systems audits, and special audits of state agency operations; 2) reporting of violation of penal statutes, instances of misfeasance, malfeasance, or nonfeasance, and shortages discovered in an audit that are covered by surety; 3) auditing records of entities under contract with the state; and 4) assisting the legislature, its committees, and its members by providing information related to the fiscal affairs of state government. The Legislative Auditor consults with the Legislative Audit Committee.

Program Highlights

Audit & Examination Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The total budget request is unchanged from the 2013 budget ◆ The Audit and Examination Division has experienced challenges in staff retention

Program Discussion

The Legislative Audit Division (LAD) experienced an higher than average rate of turnover in the base year, with a vacancy rate, based on position usage, of 19.1% in FY 2012. The division notes a turnover of 14 audit positions in FY 2012 for the following reasons:

- 2.00 FTE left for reasons of retirements
- 8.00 FTE left for executive branch management positions with salary increases ranging from 21-42%
- 3.00 FTE left to private CPA firms for pay rate reasons
- LAD continues to actively recruit for the vacant positions

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Legislative Branch Funding by Source of Authority 2015 Biennium Budget - Audit & Examination							
Funds	Non-		Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
	HB 2	Budgeted Proprietary					
General Fund	\$4,688,197	\$0	\$0	\$4,688,197	58.2%		
State Special Total	\$3,361,761	\$0	\$0	\$3,361,761	41.8%		
02042 Legislative Audit	\$3,361,761	\$0	\$0	\$3,361,761	41.8%		
Total All Funds	\$8,049,958	\$0	\$0	\$8,049,958	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	2,057,064	2,057,064	4,114,128	87.76%	3,423,002	3,423,002	6,846,004	85.04%
Statewide PL Adjustments	299,832	300,656	600,488	12.81%	618,823	620,905	1,239,728	15.40%
Other PL Adjustments	(6,427)	(19,992)	(26,419)	(0.56%)	(12,167)	(23,607)	(35,774)	(0.44%)
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$2,350,469	\$2,337,728	\$4,688,197		\$4,029,658	\$4,020,300	\$8,049,958	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					617,124					618,590
Inflation/Deflation					(126)					(30)
Fixed Costs					1,825					2,345
Total Statewide Present Law Adjustments		\$299,832	\$318,991	\$0	\$618,823		\$300,656	\$320,249	\$0	\$620,905
DP 28001 - LAD Cyclical Program Operations	0.00	18,900	12,600	0	31,500	0.00	5,300	14,700	0	20,000
DP 28002 - LAD Personal Services Reduction	0.00	(25,327)	(18,340)	0	(43,667)	0.00	(25,292)	(18,315)	0	(43,607)
Total Other Present Law Adjustments	0.00	(\$6,427)	(\$5,740)	\$0	(\$12,167)	0.00	(\$19,992)	(\$3,615)	\$0	(\$23,607)
Grand Total All Present Law Adjustments	0.00	\$293,405	\$313,251	\$0	\$606,656	0.00	\$280,664	\$316,634	\$0	\$597,298

DP 28001 - LAD Cyclical Program Operations - This proposal includes changes from the adjusted base for cyclical costs associated with a Peer Review required by Governmental Auditing Standards, Legislative Branch audit, auditor travel, and contract services for the potential use of actuarial expertise on the division’s audits of the retirement systems, Montana State Fund, and health care benefits.

DP 28002 - LAD Personal Services Reduction - This proposal reduces FTE by 0.75 to reflect a reorganization in the administrative functions of LAD.

Total Legislative Branch Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$24,122,278	\$0	\$0	\$24,122,278	83.9%
State Special Total	\$4,611,981	\$0	\$0	\$4,611,981	16.1%
02042 Legislative Audit	\$3,361,761	\$0	\$0	\$3,361,761	11.7%
02800 Reimbursable Activities	\$1,173,695	\$0	\$0	\$1,173,695	4.1%
02985 State Government Broadcasting	\$76,525	\$0	\$0	\$76,525	0.3%
Total All Funds	\$28,734,259	\$0	\$0	\$28,734,259	100.0%
Percent - Total All Sources	100.0%	0.0%	0.0%		

Program Level Decision Package Detail Report

Department: 1104 LEGISLATIVE BRANCH
Version: 2015-1104-B01

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Date: 12/4/2012
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Program: 20 - LEGISLATIVE SERVICES DIVISION	DP Type: NP	DP Status: Not Included
Sub-Program: n/a	DP Number: 20006	Bill Number: n/a
Reporting Level:n/a		
DP Category: None		
DP Description: LSD 5% Reduction Plan, 17-7-111, MCA		

Request Expenditures

	<u>FY14</u>	<u>FY15</u>	<u>Biennium Total</u>
61000 Personal Services	(\$169,620)	(\$169,358)	(\$338,978)
First Level Subtotal	<u>(\$169,620)</u>	<u>(\$169,358)</u>	<u>(\$338,978)</u>
62000 Operating Expenses	(\$164,982)	(\$165,244)	(\$330,226)
First Level Subtotal	<u>(\$164,982)</u>	<u>(\$165,244)</u>	<u>(\$330,226)</u>
Total Request Expenditures	<u>(\$334,602)</u>	<u>(\$334,602)</u>	<u>(\$669,204)</u>

Request Funding

	<u>Line</u>	<u>FY14</u>		<u>FY15</u>		<u>Biennium Total</u>	
	<u>Item</u>	<u>Funding and Percents</u>		<u>Funding and Percents</u>		<u>Funding and Percents</u>	
01100 General Fund	No	(\$334,602)	100.00%	(\$334,602)	100.00%	(\$669,204)	100.00%
Fund Type Subtotal		<u>(\$334,602)</u>	<u>100.00%</u>	<u>(\$334,602)</u>	<u>100.00%</u>	<u>(\$669,204)</u>	<u>100.00%</u>
Total Request Funding		<u>(\$334,602)</u>		<u>(\$334,602)</u>		<u>(\$669,204)</u>	

Description and Justification

Unless otherwise allocated across the Branch, the LSD would reduce general fund operations by \$330,226 and \$338,978 of personal services through imposed vacancy savings each year of the biennium. This imposed vacancy savings would be an impediment to succession planning. Decreases in operations related to Info Technology would have Branchwide impact, further delaying the replacement of hardware and software. Other operational reduction include a decrease in contracted services for TVMT and the elimination of funds for a Federal Funds Information for States biennial subscription.

Program Level Decision Package Detail Report

Department: 1104 LEGISLATIVE BRANCH
 Version: 2015-1104-B01

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 Date: 12/4/2012
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Program: 21 - LEGIS. COMMITTEES & ACTIVITIES	DP Type: NP	DP Status: Not Included
Sub-Program: n/a	DP Number: 21003	Bill Number: n/a
Reporting Level:n/a		
DP Category: None		
DP Description: Interim Comm 5% Reduction Plan, 17-7-111, MCA		

Request Expenditures

	<u>FY14</u>	<u>FY15</u>	<u>Biennium Total</u>
61000 Personal Services	(\$3,959)	(\$2,640)	(\$6,599)
First Level Subtotal	<u>(\$3,959)</u>	<u>(\$2,640)</u>	<u>(\$6,599)</u>
62000 Operating Expenses	(\$24,563)	(\$25,882)	(\$50,445)
First Level Subtotal	<u>(\$24,563)</u>	<u>(\$25,882)</u>	<u>(\$50,445)</u>
Total Request Expenditures	<u>(\$28,522)</u>	<u>(\$28,522)</u>	<u>(\$57,044)</u>

Request Funding

	<u>Line Item</u>	<u>FY14 Funding and Percents</u>	<u>FY15 Funding and Percents</u>	<u>Biennium Total Funding and Percents</u>
01100 General Fund	No	(\$28,522) 100.00%	(\$28,522) 100.00%	(\$57,044) 100.00%
Fund Type Subtotal		<u>(\$28,522) 100.00%</u>	<u>(\$28,522) 100.00%</u>	<u>(\$57,044) 100.00%</u>
Total Request Funding		<u>(\$28,522)</u>	<u>(\$28,522)</u>	<u>(\$57,044)</u>

Description and Justification

Unless otherwise allocated across the Branch, the Interim Committees & Activities program would reduce operations by \$50,445 and personal services by \$6,599. This reduction includes removing \$2,000 from each of 10 interim committee budgets, as well as reducing the Legislative Council's emerging issues fund and general program support by \$20,200. Reducing committee funds places a budgetary restriction on the scope of the committee's work and its ability to fulfill its statutory requirements.

Program Level Decision Package Detail Report

Department: 1104 LEGISLATIVE BRANCH
 Version: 2015-1104-B01

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 Date: 12/4/2012
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Program: 27 - FISCAL ANALYSIS & REVIEW	DP Type: NP	DP Status: Not Included
Sub-Program: n/a	DP Number: 27005	Bill Number: n/a
Reporting Level: n/a		
DP Category: None		
DP Description: LFD 5% Reduction Plan (17-7-11, MCA)		

Request Expenditures

	<u>FY14</u>	<u>FY15</u>	<u>Biennium Total</u>
61000 Personal Services	(\$85,390)	(\$85,390)	(\$170,780)
First Level Subtotal	<u>(\$85,390)</u>	<u>(\$85,390)</u>	<u>(\$170,780)</u>
62000 Operating Expenses	(\$1,560)	(\$1,560)	(\$3,120)
First Level Subtotal	<u>(\$1,560)</u>	<u>(\$1,560)</u>	<u>(\$3,120)</u>
Total Request Expenditures	<u>(\$86,950)</u>	<u>(\$86,950)</u>	<u>(\$173,900)</u>

Request Funding

	<u>Line Item</u>	<u>FY14 Funding and Percents</u>	<u>FY15 Funding and Percents</u>	<u>Biennium Total Funding and Percents</u>
01100 General Fund	No	(\$86,950) 100.00%	(\$86,950) 100.00%	(\$173,900) 100.00%
Fund Type Subtotal		<u>(\$86,950) 100.00%</u>	<u>(\$86,950) 100.00%</u>	<u>(\$173,900) 100.00%</u>
Total Request Funding		<u>(\$86,950)</u>	<u>(\$86,950)</u>	<u>(\$173,900)</u>

Description and Justification

Unless otherwise allocated across the branch, the LFD would reduce operations by \$1,560 and \$85,390 of personal services through imposed vacancy savings or position elimination each year of the biennium.

Program Level Decision Package Detail Report

Department: 1104 LEGISLATIVE BRANCH
 Version: 2015-1104-B01

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 Date: 12/4/2012
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Program: 28 - AUDIT & EXAMINATION	DP Type: NP	DP Status: Not Included
Sub-Program: n/a	DP Number: 28004	Bill Number: n/a
Reporting Level:n/a		
DP Category: None		
DP Description: LAD 5% Reduction Plan (17-7-11, MCA)		

Request Expenditures

	<u>FY14</u>	<u>FY15</u>	<u>Biennium Total</u>
61000 Personal Services	(\$170,400)	(\$170,400)	(\$340,800)
First Level Subtotal	<u>(\$170,400)</u>	<u>(\$170,400)</u>	<u>(\$340,800)</u>
Total Request Expenditures	<u>(\$170,400)</u>	<u>(\$170,400)</u>	<u>(\$340,800)</u>

Request Funding

	<u>Line Item</u>	<u>FY14 Funding and Percents</u>	<u>FY15 Funding and Percents</u>	<u>Biennium Total Funding and Percents</u>
01100 General Fund	No	(\$98,832) 100.00%	(\$98,832) 100.00%	(\$197,664) 58.00%
Fund Type Subtotal		<u>(\$98,832) 58.00%</u>	<u>(\$98,832) 58.00%</u>	<u>(\$197,664) 100.00%</u>
02042 Legislative Audit	No	(\$71,568) 100.00%	(\$71,568) 100.00%	(\$143,136) 42.00%
Fund Type Subtotal		<u>(\$71,568) 42.00%</u>	<u>(\$71,568) 42.00%</u>	<u>(\$143,136) 100.00%</u>
Total Request Funding		<u>(\$170,400)</u>	<u>(\$170,400)</u>	<u>(\$340,800)</u>

Description and Justification

Unless otherwise allocated across the branch, the LAD would reduce personal services by \$170,400 through imposed vacancy savings or position elimination each year of the biennium.

Legislative Branch

Mission, Goals, and Objectives

2013 Biennium

October 2012

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I. Mission of the Legislature and Legislative Branch

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

The consolidated Legislative Branch entities include the Senate and the House of Representatives (which together compose the Legislature), the Legislative Council, the Legislative Services Division, the Legislative Finance Committee, the Legislative Fiscal Division, the Legislative Audit Committee, and the Legislative Audit Division.

II. Description of the Legislative Branch

Montana Senate

The Senate consists of 50 members representing single-member districts composed of two House districts. Senators are elected for 4-year terms with half the members elected every 2 years. The Senate serves as an equal partner with the House of Representatives in the consideration of most matters related to the exercise of the legislative power of the state. The unique functions of the Senate include confirming gubernatorial appointments and conducting trials of impeachment.

The officers of the Senate are the President, the President pro tempore, the majority and minority floor leaders, and the majority and minority whips. The President of the Senate is the presiding officer and budget-approving authority for the Senate.

Montana House of Representatives

The House of Representatives consists of 100 members representing single-member districts. Representatives are elected to 2-year terms. The House of Representatives serves as an equal partner with the Senate in the consideration of most matters related to the exercise of the legislative power of the state. The unique functions of the House of Representatives include the introduction of appropriations measures and the bringing of impeachment.

The officers of the House of Representatives are the Speaker, the Speaker pro tempore, the majority and minority floor leaders, and the majority and minority whips. The Speaker of the House is the presiding officer and the budget-approving authority for the House of Representatives.

Legislative Services Division

The Legislative Services Division, headed by the Executive Director, works within policy set by the 12-member bipartisan Legislative Council. The Council is composed of the Speaker of the House, the President of the Senate, the majority and minority leaders of each house, and four additional members from each house.

Legislative Services Division employees provide objective and nonpartisan research, reference, legal, technical, information technology, communications and information, and management and business support services to the House, Senate, and divisions of the Legislative Branch. Principal statutory authority for the Division is found in Title 1, chapter 11, and Title 5, chapters 5 and 11, MCA.

Division services include:

- bill and amendment drafting, preparation of bills for introduction, and the engrossing and enrolling of bills;
- publication of legislative documents of record;
- provision of legislative research and reference services;
- legal counseling on legislative matters, agency legal support, and support for the functions of code commissioner;
- review of the text of proposed ballot measures;
- agency business management and human resource services;
- committee services and staffing for standing and select committees, and interim legislative committees;
- broadcasting of state government and public policy events in accordance with Title 5, chapter 11, part 11;
- provision of legislative information and communications to the public;
- preparation, publication, and distribution of the Montana Code Annotated text and annotations; and
- planning, installation, and maintenance of branch information technology resources.

Legislative Fiscal Division

The Legislative Fiscal Division, headed by the Legislative Fiscal Analyst, works within policy set by the 12-member bipartisan Legislative Finance Committee. The committee is composed of four members of the House Appropriations Committee, four members of the Senate Finance and Claims Committee, and two members appointed at large from each house.

Legislative Fiscal Division employees provide the Legislature with objective fiscal information and analysis relevant to Montana public policy and budget determination. Principal statutory authority is found in The Legislative Finance Act (Title 5, Chapter 12, MCA).

Division services include:

- fiscal analysis of state government and the furnishing of information bearing upon the financial matters of the state;
- identification of ways to affect economy and efficiency in state government;
- estimation of revenue and analysis of tax policy;
- analysis of the executive budget;
- compiling and analyzing fiscal information for legislators and legislative committees; and
- staffing and support for legislative committees, including the preparation and processing of the appropriation bills for the legislative, judicial, and executive agencies.

Legislative Audit Division

The Legislative Audit Division, headed by the Legislative Auditor, works within policy set by the 12-member bipartisan Legislative Audit Committee.

The mission of the Legislative Audit Division is to provide government leaders and citizens, through a disciplined approach and an independent and objective manner, reliable information to improve accountability, efficiency, effectiveness, and compliance and to promote financial and operational integrity of operations of state agencies, the judicial branch and higher education institutions.

Article V, Section 10(4) of the 1972 Montana Constitution mandates a legislative post-audit function.

The Legislative Audit Act (Title 5, Chapter 13, MCA) governs the Legislative Audit Division and directs that each agency of state government be audited for the purpose of furnishing the legislature with factual information vital to the discharge of its legislative duties.

III. Goals and Measurable Objectives

Legislative Services Division

1. Provide the Legislature with effective, high-quality support services within the areas of responsibility assigned by 5-11-112, MCA.

Objectives:

- The division employs and retains well-qualified professional staff.
 - Division services are provided in an objective, non-partisan manner.
 - Services are provided collaboratively across legislative divisions whenever the efficient operation of the Legislative Branch is served.
2. Support effective policy development by the Legislative Council.

Objectives:

- A committee strategic planning session is held each interim.
 - Notice of current and emerging issues is provided to committee members with sufficient opportunity to formulate well-considered policy.
 - Information provided is accurate and timely and suggests decision-making options.
 - Committee policy is incorporated into division budget development.
3. Support effective and efficient completion of duties assigned to the Code Commissioner in Title 1, chapter 11, parts 1 and 2, MCA.

Objectives:

- The Montana Code Annotated statute text is codified, indexed, updated, published and distributed by required deadlines.
 - Annotations to the code, a legislative review, and additional publications meet defined requirements.
4. Support interim activity of the Legislature's interim committees and other statutory and study committees established by legislative action.

Objectives:

- Committee work plans respond to the statutory responsibilities assigned to the committee (5-5-215, MCA) and to required deadlines.
 - Staff members produce well-researched reports and meeting materials which support committee work on policy issues.
 - Public notice of hearings and meetings is provided as required by statute through electronic postings, electronic and traditional mailings, and scheduling public comment at each meeting of the committee.
 - Findings and recommendations of the committee, including issues requiring legislative action, are clearly expressed in publications and electronic postings.
 - Accurate records of committee activities and proceedings are maintained and published to the Legislative Branch website.
5. Provide information and notices to the public about the Legislature, the legislative process, state law, and state government.

Objectives:

- The state broadcasting service (TVMT) provides citizen access as required by Title 5, chapter 11, part 11, MCA, through a public affairs television and internet broadcasting service.
- The Interim newsletter reports legislative activities and is published and distributed each

- month of the interim between regular legislative sessions.
- The workflow of the drafting of legislation through the publication of law is managed by automated systems and provides user-friendly public access to information throughout the process.
- Information complies with the right-of-participation and the right-to-know requirements of Article II and Article V of the Montana Constitution, and Title 5, MCA.

Legislative Services Division, Interim Committees and Activities Program

1. Support Legislative Council efforts to promote and develop mutually constructive contact and relations with interstate, international and intergovernmental entities.

Objectives:

- To the extent appropriations are provided for dues and travel expenses, legislators participate in interstate organizations and conferences with peers.
- To the extent appropriations are provided, legislators participate in the formulation of policy statements of interstate legislative organizations.
- To the extent appropriations are provided, legislators participate in activities promoting cooperation and information exchange between international and intergovernmental entities.

2. Accomplish duties assigned to interim committees under Title 5, chapter 5, part 3, MCA. *(Note: staff support of interim committees is provided under the Legislative Services Division program)*

Objectives:

- Committee members adopt and follow a work plan, fulfill their statutory duties, including administrative rule review, conduct interim studies as assigned, monitor the operation of assigned executive branch agencies, and provide public notice and participation in each committee meeting.
- To the extent appropriations are provided, legislator salaries and expenses and related costs of conducting interim studies are paid.
- Funding is allocated efficiently among committees and activities; funding includes a reserve for emerging issues of statewide importance.

Legislative Fiscal Division

In order to deliver the best services possible to the Legislature, the Legislative Fiscal Division has identified the following goals:

1. Smooth Transition as Staff Retire

Objectives:

- Provide each staff member with at least one item of professional development as articulated on their individual professional development plan in their performance appraisal.
- Develop training or cross training plans as part of a transition plan for each retirement-eligible employee's position.
- Further develop documentation of all processes in the office to maintain continuity.

2. Continual Improvement of Internal Communication

Objectives:

- Develop tools necessary to fully communicate job expectations and performances so that a merit based pay system can be in place for the 2017 biennium.
- Develop "tips and tricks" discussion opportunities for staff to learn tools and share ideas.
- Restructure management to have a position responsible for office organization and communication.
- Repeat the communication project in the 2015 biennium to determine what further steps need to be taken.

3. Improved Training/Education/Documents for Legislature

Objectives:

- January educational tools and training provided by the Legislative Fiscal Division will be surveyed after presentation at the 2013 and 2015 sessions. Survey results will improve.
- The Budget Analysis provided by the Legislative Fiscal Division will be surveyed after presentation at the 2013 and 2015 sessions. Survey results will improve.
- Continued improvement of the website and the chart of the week or month. The objective is to increase web hits by 10% from FY 2012 to FY 2014, and from FY 2013 to FY 2015.
- Explore other types of training technologies.

4. Better Relations with Those Outside the Branch

Objectives:

- When an agency has an item on the meeting agenda, that agency will receive a personal invitation from the Legislative Fiscal Analyst to attend the meeting.
- Analysts will organize meetings between the Legislative Fiscal Analyst and the leadership of each agency on an annual basis to build relationships and improve communication.

Legislative Audit Division

The goal of the Legislative Audit Division is to conduct timely and responsive audits and analyses while considering the effectiveness of risk management, control, and governance processes for recommending purposeful change.

Objectives:

- Determine whether an audited agency's financial operations, in relation to generally accepted accounting principles, are properly conducted; the financial reports are presented fairly; and the agency has complied with applicable laws and regulations;
- Determine whether an audited activity, in relation to the principles of proper management, is accomplishing its purposes and whether those purposes can be achieved with greater efficiency and economy; and
- Determine whether controls exist and are operating to provide assurance over the accuracy, reliability, and integrity of the financial and management information processed and reported.

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The Legislative Fiscal Division Presents an Agency Profile of: The Montana Consumer Counsel

Contact: Cathy Duncan, Senior Fiscal Analyst
Room 117, State Capitol Building
Phone: 444-4580
e-mail: cduncan@mt.gov

Updated November 2012

Definition of Terms

Agency Description

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

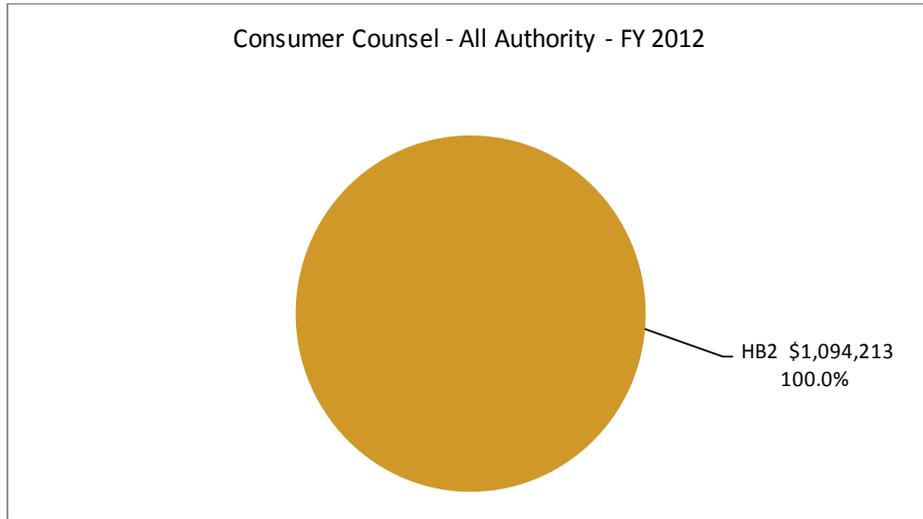
How Services are Provided

The Montana Consumer Counsel provides services through one program and the use of outside consulting services to bring expertise for regulatory issues as they arise. The Consumer Counsel participates in activities that will help develop competitive markets in restructured utility industries and monitors proposed legislation and participates in the legislative process before the Montana Legislature and U.S. Congress for Montana consumers. The Consumer Counsel also represents Montana consumers in:

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

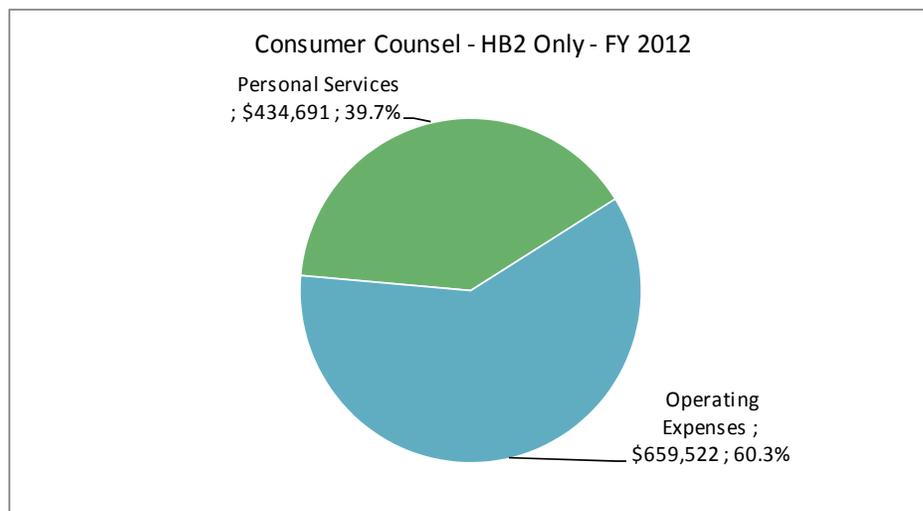
Sources of Spending Authority

The chart shows the sources of authority for the Montana Consumer Counsel. While not depicted on the chart, the legislature provided the Consumer Counsel with one off base appropriation, a \$250,000 one-time only annual caseload contingency. The accounting term, off base, refers to one-time only-spending (OTO) and non-budgeted items. The contingency funds were not expended in FY 2012 and are not depicted on the chart. For a more detailed description of accounting terminology, please refer to the definition of terms.



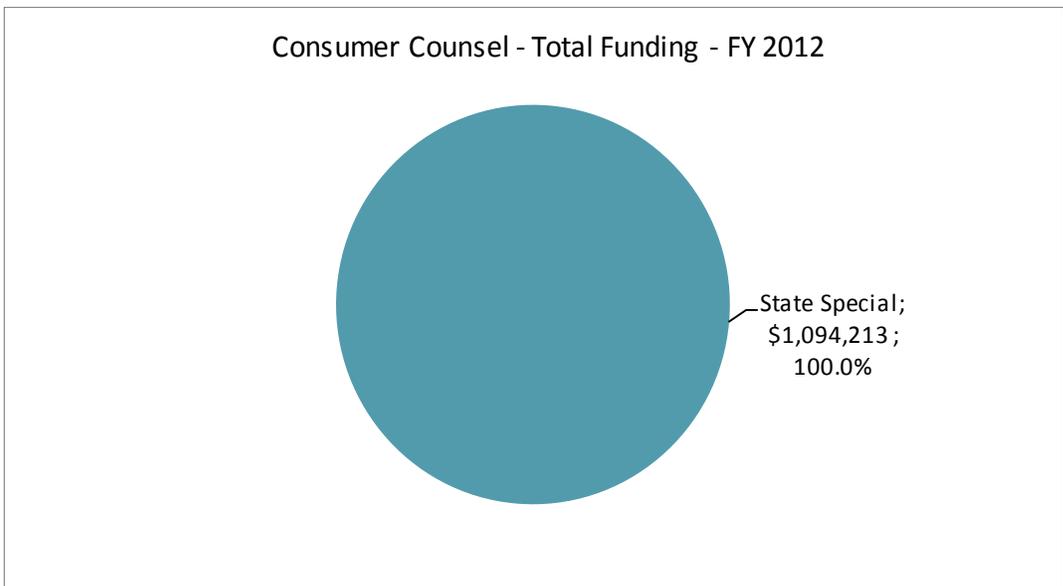
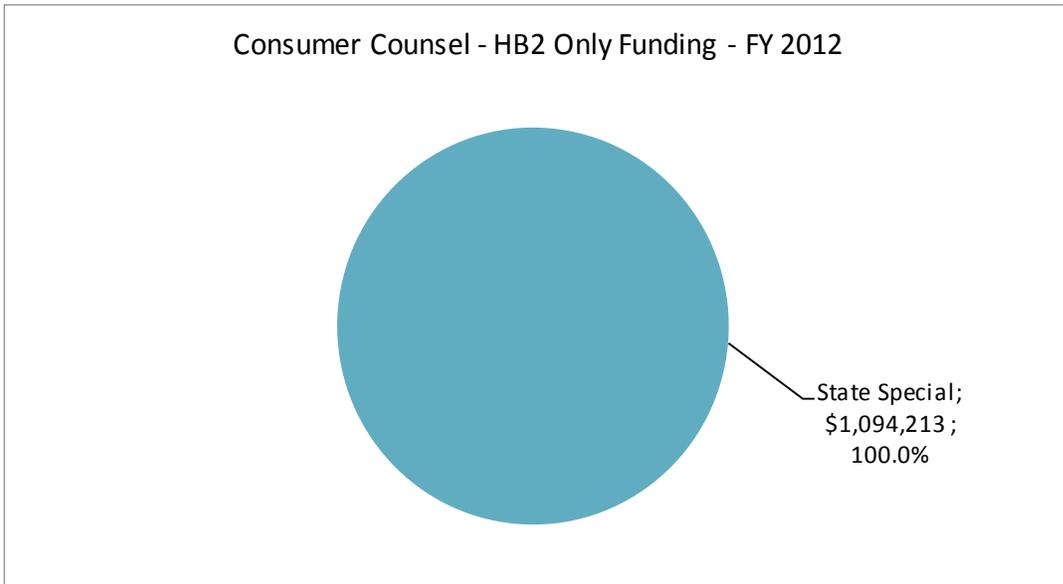
Expenditures

The chart below explains how HB 2 authority is spent. Of the total spending authority in FY 2012, 40% is spent on personal services and 60% on operating expenditures. This chart matches the agency base expenditures found in the Budget Analysis. Therefore, it does not include one-time-only or other funds that are removed from total expenditures to derive the budget base.



Funding

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



How the 2013 Legislature Can Effect Change

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

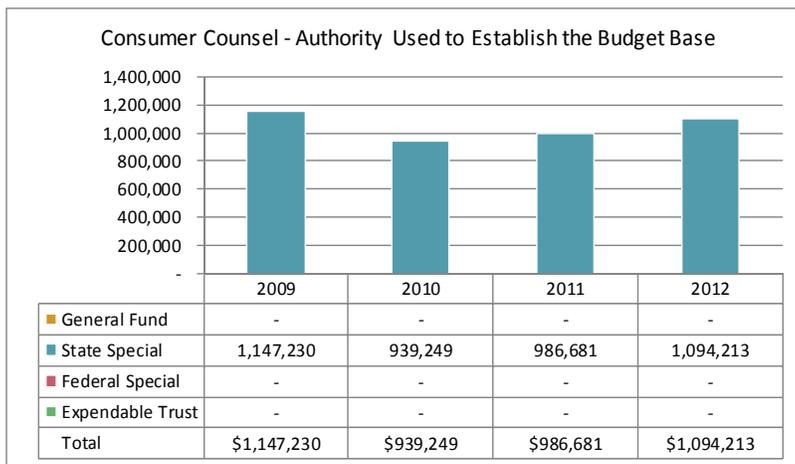
- Impact the rates, reporting process, and fees or taxes charged to regulated utilities
- Govern which agency, if any, monitors regulated utilities (through changes to the Constitution)
- Govern agency participation in regional and/or national issues

Major Cost Drivers

Driver	2002	2012	Significance of Data
Contractor Fees	\$168.30	\$181.70	The Consumer Counsel primarily makes use of three contractors for the analysis of utility cases/issues. This is a mean average of the three contractors' hourly costs and is not a weighted average. This factor influences contracting costs
Calendar Year Dockets Before Montana Public Service Commission	160	94-YTD	As the number of dockets change, so changes the number of cases that the Consumer Counsel is likely to intervene on. (Data includes all dockets of the PSC regardless of intervention). This factor influences contracting costs

The table above provides some cost drivers that can indirectly impact the operating costs of the Montana Consumer Counsel. One inconsistent cost driver for the Montana Consumer Counsel is bankruptcies of public utility companies. While public utility bankruptcies happen infrequently, the costs of interceding on behalf of the public can be significant.

Funding/Expenditure History



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

- Number of annual contracts
- Complexity of interventions

Note: The table at left does not include expenditures from the Montana Consumer Counsel caseload contingency appropriation. Expenditures were made from the caseload contingency appropriation in FY 2009 and FY 2011.

Major Legislative Changes in the Last Ten Years

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

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

Montana Consumer Counsel

111 North Last Chance Gulch, Suite 1B

Helena, MT 59620-1703

phone: (406) 444-2771

web: <http://leg.mt.gov/css/Committees/Administration/Consumer%20Counsel/>

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	52.00	52.00	56.50	56.50	52.00	56.50	4.50	8.65%
Personal Services	2,934,154	3,330,923	3,906,085	3,906,222	6,265,077	7,812,307	1,547,230	24.70%
Operating Expenses	3,753,374	6,998,401	7,059,324	7,227,876	10,751,775	14,287,200	3,535,425	32.88%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Grants	10,039,832	17,837,755	19,304,505	17,926,870	27,877,587	37,231,375	9,353,788	33.55%
Benefits & Claims	183,921	0	358,921	358,921	183,921	717,842	533,921	290.30%
Total Costs	\$16,911,281	\$28,167,079	\$30,628,835	\$29,419,889	\$45,078,360	\$60,048,724	\$14,970,364	33.21%
General Fund	3,166,889	3,204,433	6,859,281	5,859,717	6,371,322	12,718,998	6,347,676	99.63%
State Special	3,556,214	8,193,567	6,162,775	5,735,329	11,749,781	11,898,104	148,323	1.26%
Federal Special	10,188,178	16,769,079	17,606,779	17,824,843	26,957,257	35,431,622	8,474,365	31.44%
Total Funds	\$16,911,281	\$28,167,079	\$30,628,835	\$29,419,889	\$45,078,360	\$60,048,724	\$14,970,364	33.21%

Agency Description

Agency Mission: The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana’s positive national and international image. The Department of Commerce will enhance and sustain a healthy economy so Montana businesses, communities, and people can prosper.

For additional information please refer to the agency profile.

Agency Highlights

Department of Commerce Major Budget Highlights
<ul style="list-style-type: none"> ◆ The overall budget increases 29.3%, or \$13.2 million including \$4.6 million in general fund. Increased general fund is primarily due to continued funding of programs that had been funded as one-time-only in previous biennia: <ul style="list-style-type: none"> ● Indian county economic development ● Main Street Program ● Primary business sector training ◆ Federal grant funding requests increase \$8.5 million including: <ul style="list-style-type: none"> ● Community Development Block Grants ● Emergency Home Loan Program ● Home grants ● Board of Housing Foreclosure Mitigation
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Ongoing programs continue to be designated as one-time-only ◆ Statutory appropriations for research and development are appropriated twice

Agency Discussion

In FY 2012 the agency expended \$150.4 million, of which \$16.9 million or 11.2% was included as part of HB 2 appropriations as shown in the agency budget comparison. Figure 1 shows the expenditures and funding sources, including statutory appropriations and non-budgeted proprietary funds, in FY 2012 for the agency.

Figure 2

Approximately \$70 million or 50% of the funding was spent in FY 2012 on benefits and claims, grants, and local assistance. Benefits and claims includes:

- \$16.5 million in Section 8 housing vouchers
- \$18.9 million in Section 8 project claims

Grants include support for:

- \$1.6 million in Coal Board project grants
- \$3.0 million in community development block grant projects
- \$0.8 million in Treasure State Endowment projects
- \$3.1 million in neighborhood stabilization projects
- \$5.8 million in housing project grants
- \$4.4 million for quality school projects
- \$0.3 million in hard rock mining grants
- \$0.7 million for tribal economic development
- \$0.2 million for new worker training

\$5.0 million in local assistance was provided to support regional and local tourism and marketing efforts.

Agency Personal Services

The personal services budget for the 2015 biennium increases due to :

- An overall vacancy savings rate of 5.7% compared to a budgeted 4% vacancy rate
- Annualization of broadband pay increases that were granted throughout FY 2012. The total annual cost of salaries from all funding sources, both HB 2 and non-budgeted proprietary funds, is about \$1.2 million. The agency moved employees to the minimum of their salary range after review and amendment of the position salary ranges for individuals in pay bands 2, 3, 4, 5, and 6. Employees in pay bands 7, 8, and 9 were granted a 7.5% adjustment as the agency was unable to afford to pay the minimum of the newly adopted salary ranges for the positions in these pay bands
- As of November 30, 2012 there were 8 positions that have been vacant for longer than six months, the majority of them student interns hired during the summer months

Department of Commerce indicates that about 9.8% of the employees are currently eligible for either early or full retirement. In FY 2012 the agency paid \$0.2 million in retirement and sick leave payouts that are not included as part of the 2015 biennium personal services funding.

5% Reduction Plan

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

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- New
- Emerging
- Mature
- Declining

Department of Commerce FY 2012		
Budget Item	FY 2012	% of Total
Expenditures		
Personal Services	\$12,711,185	8.45%
Operating Expenses	38,009,802	25.28%
Equipment	74,008	0.05%
Local Assistance	5,031,750	3.35%
Grants	24,129,097	16.05%
Benefits and Claims*	37,838,153	25.16%
Transfers Out	1,416,419	0.94%
Bonds	30,919,526	20.56%
Other Post Employment Benefits	251,837	0.17%
Total Expenditures	\$150,381,777	100.00%
Funding		
General Fund	\$6,374,270	4.24%
State Special Revenue	35,341,257	23.50%
Federal Special Revenue	24,220,504	16.11%
Long Range Building	201,927	0.13%
Proprietary	84,243,819	56.02%
Total Funding	\$150,381,777	100.00%

*Excluding STIP distributions and disbursements

- Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- Current plans to address obsolescence
- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$12,718,998	\$0	\$9,500,000	\$22,218,998	8.8%
State Special Total	11,898,104	-	65,111,869	77,009,973	30.6%
Federal Special Total	35,431,622	-	2,140,402	37,572,024	14.9%
Proprietary Total	-	112,303,720	2,939,462	115,243,182	45.7%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	\$60,048,724	\$112,303,720	\$79,691,733	\$252,044,177	
Percent - Total All Sources	23.8%	44.6%	31.6%		

Over 75% of the overall funding for the Department of Commerce is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as a statutory appropriation. Within HB 2, the Governor proposes restoring several programs that were funded with one-time-only general fund appropriations by the 2011 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections. The Governor proposes restoring the programs as listed below:

- Primary Business Sector Training – OTO - \$2.0 million for the 2015 biennium
- Main Street – OTO - \$0.3 million for the 2015 biennium
- Tribal Economic Development – \$1.6 million for the 2015 biennium

General fund also supports the Census and Economic Information Center, Regional Development Bureau, trade and international relations activities, Entrepreneur Development Program /NxLevel, and the Made in Montana program; and provides match for the federal Community Development Block Grant. \$9.5 million of general fund is statutorily appropriated for the Research and Commercialization Program. This is discussed as an issue in the program narrative for the Business Resources Division.

State special revenues support the Montana Promotion Division, the Microbusiness Loan Program, research and commercialization, the Treasure State Endowment Program, the Coal Board, the Hard Rock Mining Board, Distressed Wood Products Program, quality school project grants and the Montana Heritage Commission. The Montana Heritage Commission is funded with \$400,000 in lodging use facility taxes received each year, a portion of light vehicle registrations, and revenues generated by Virginia and Nevada cities as well as Reeder’s Alley. The funding supports 12.00 FTE and the operational costs of operating the historic properties.

Federal special revenues include the Community Development Block Grant, Small Business Development Centers, and various programs for housing.

A significant portion of the funding for the agency is non-budgeted proprietary funding. Proprietary funds are discussed in detail in the narrative sections of each program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	3,166,889	3,166,889	6,333,778	49.80%	16,911,281	16,911,281	33,822,562	56.33%
Statewide PL Adjustments	362,802	358,993	721,795	5.67%	738,472	685,937	1,424,409	2.37%
Other PL Adjustments	154,695	158,940	313,635	2.47%	9,804,933	9,648,522	19,453,455	32.40%
New Proposals	3,174,895	2,174,895	5,349,790	42.06%	3,174,149	2,174,149	5,348,298	8.91%
Total Budget	\$6,859,281	\$5,859,717	\$12,718,998		\$30,628,835	\$29,419,889	\$60,048,724	

The statewide present law adjustments provide for personal service adjustments including:

- o Refunding vacancy savings, minus 4%
- o Annualization of broadband pay plan increases
- o Funding statutorily required increases for longevity

The adjustments also include increases for both fixed costs such as State Information Technology Services (SITSD), insurance and bonds, messenger services, SABHRS and HRIS fees, and warrant writing services and decreases for gasoline, statewide indirect costs and workers’ compensation management fees.

Other present law adjustments include administrative and federal grant adjustments. New proposals include requests to restore one-time-only funding for the primary business sector training and tribal economic development.

Total Consumer Council Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
State Special Total	\$2,782,556	\$0	\$0	\$2,782,556	100.0%
02801 Dep Rev Consumer Cncl Tax	\$2,782,556	\$0	\$0	\$2,782,556	100.0%
Total All Funds	\$2,782,556	\$0	\$0	\$2,782,556	100.0%
Percent - Total All Sources	100.0%	0.0%	0.0%		

CONSUMER COUNCIL

Represent Montana consumers in utility and transportation proceedings before the Public Service Commission.

Represent Montana consumers in appropriate proceedings before the Federal Energy Regulatory Commission, Federal Communications Commission and other federal administrative agencies.

Represent Montana consumers in appropriate state and federal court proceedings.

Monitor proposed legislation and participate in the legislative process before the Montana Legislature and U.S. Congress for Montana consumers.

Participate in activities that will help develop competitive markets in restructured utility industries.

The Legislative Fiscal Division Presents an Agency Profile of: Governor's Office

Contact: Cathy Duncan, Senior Fiscal Analyst
Room 117, State Capitol Building
Phone: 444-4580
e-mail: cduncan@mt.gov

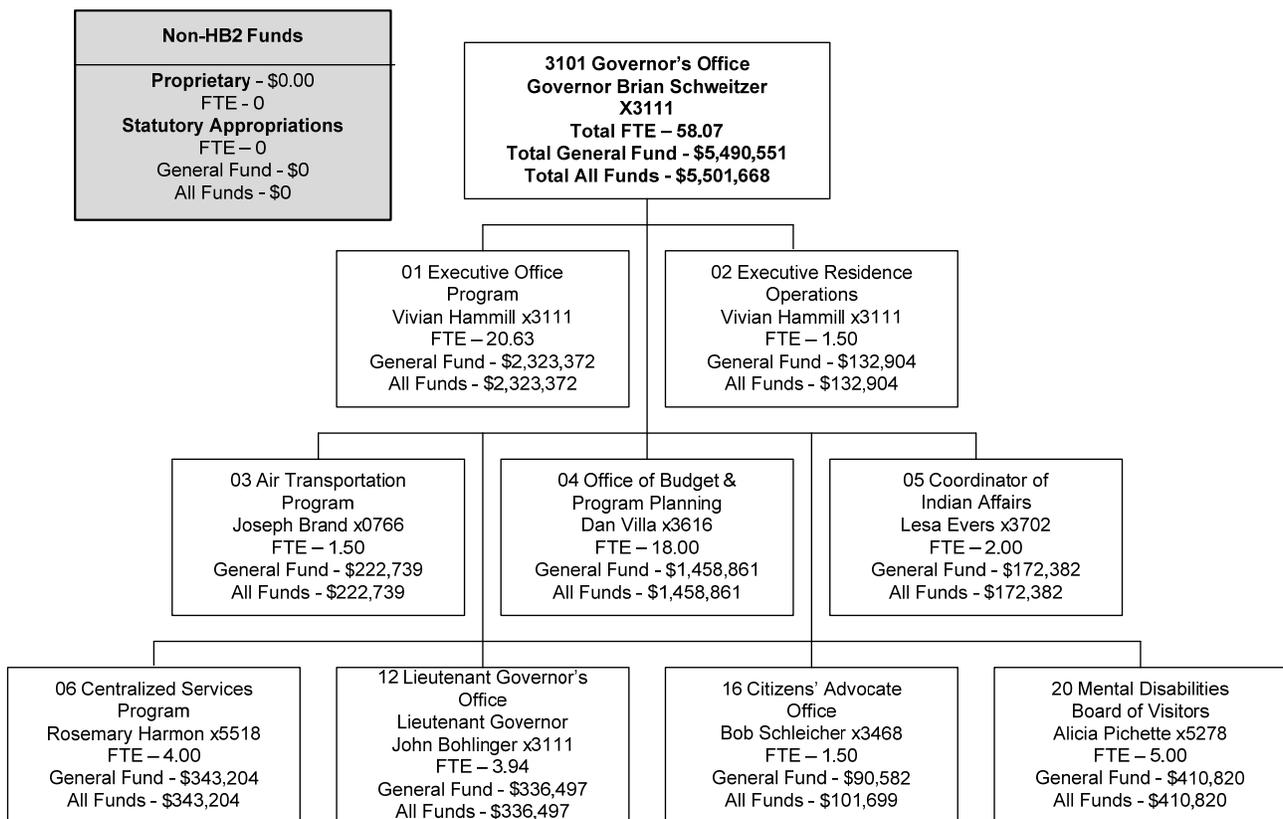
Updated October 2012

Agency Description

Definition of Terms

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

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

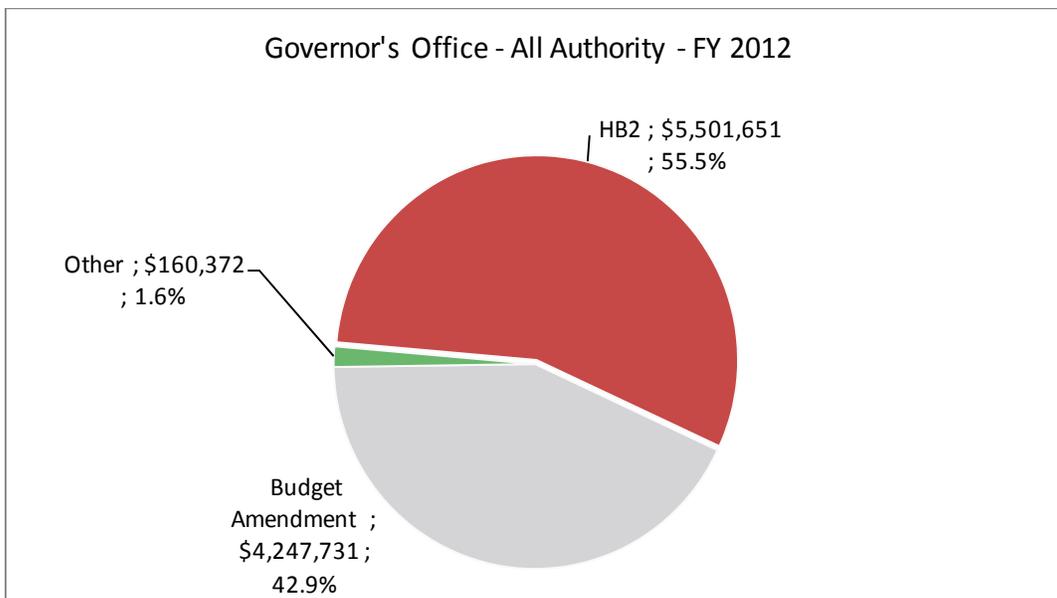


How Services are Provided

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

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

Sources of Spending Authority

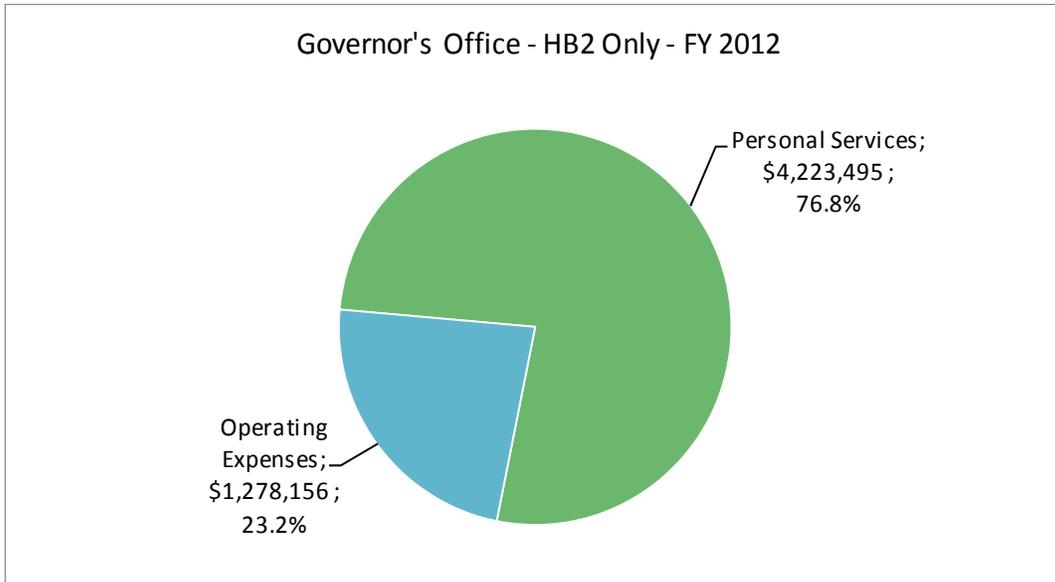


The above chart shows the sources of authority for the Governor's Office. Other legislative appropriations (sometimes called cat and dog bills) are included in the above categories as appropriate. For a more detailed description of accounting terminology, please refer to the definition of terms.

In the table above, the budget amendments shown are from a federal grant for small business development. Of the \$4.2 million shown, most was transferred to the Department of Commerce to provide grants. The other category included in the chart includes the allowable budget carry forward from FY 2011 (21%) and transferred authority from the Department of Labor and Industry for the Governor's initiatives on math and science and workforce development.

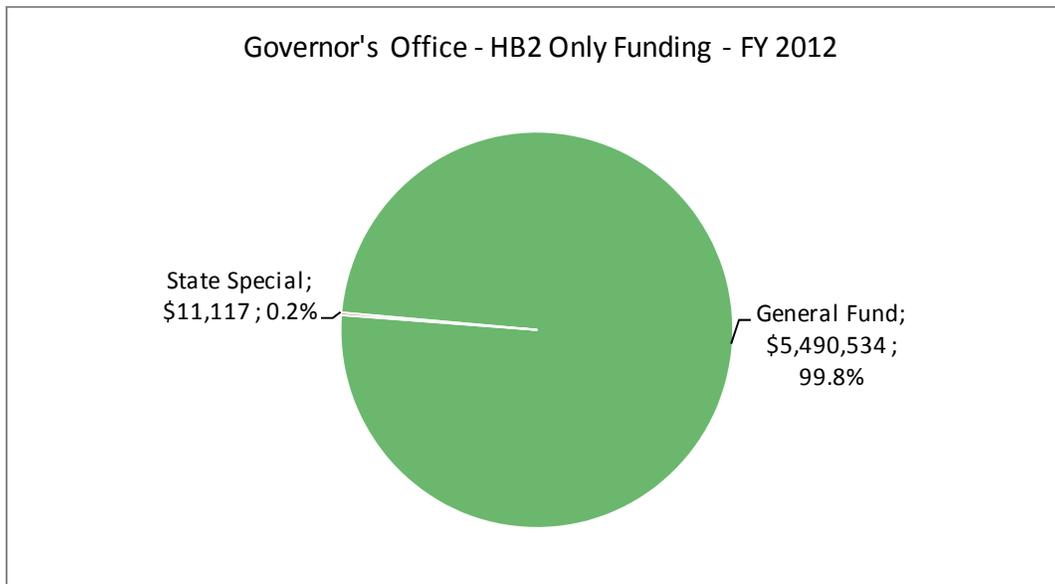
Expenditures

The next chart explains how the HB 2 authority is spent. Of the total authority, 76.8% was spent on personal service expenses and 23.2% on operating expenses. This chart matches the agency base expenditures found in the 2015 Budget Analysis.



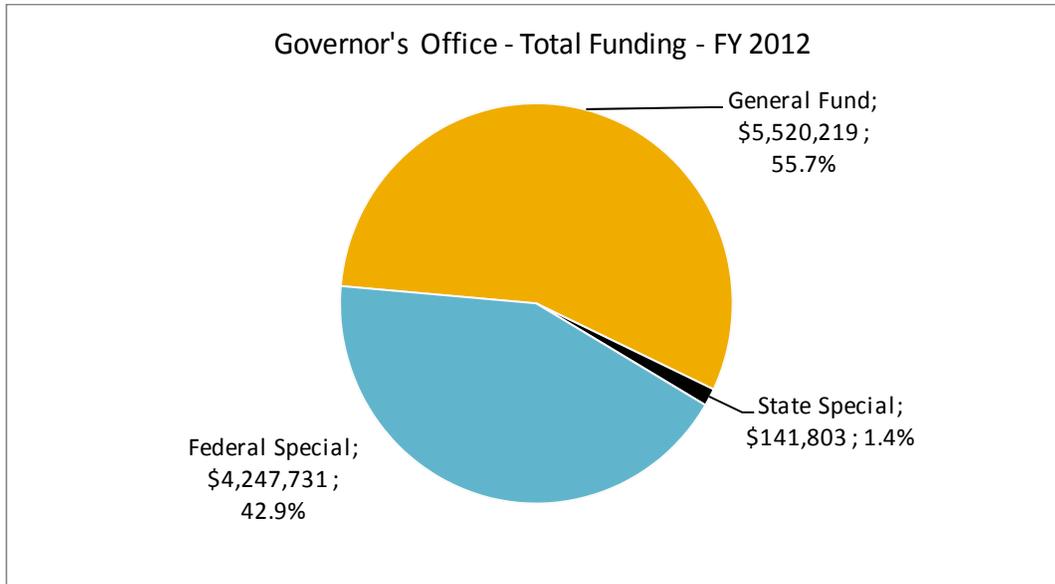
Funding

The following chart shows the agency's HB 2 funding authority by fund. The Governor's Office is funded primarily with general fund. The state special revenue account funding is derived from charges by the Citizens' Advocate Office to the Department of Public Health and Human Services for telephone calls that the advocate handles on behalf of the department.



Funding cont.

The following additional chart shows the agency's all sources of its total funding authority. Total funding was increased in FY 2012 by a small business development grant from the federal government to assist the state in increasing the amount of capital made available by private lenders to small businesses.



Major Cost Drivers

Driver	2002	2012	Significance of Data
Total FTE	57.00	58.07	The executive branch helps the Governor and Lieutenant Governor carry out the statutorily defined duties of their offices. In 1976 there were 103.00 FTE

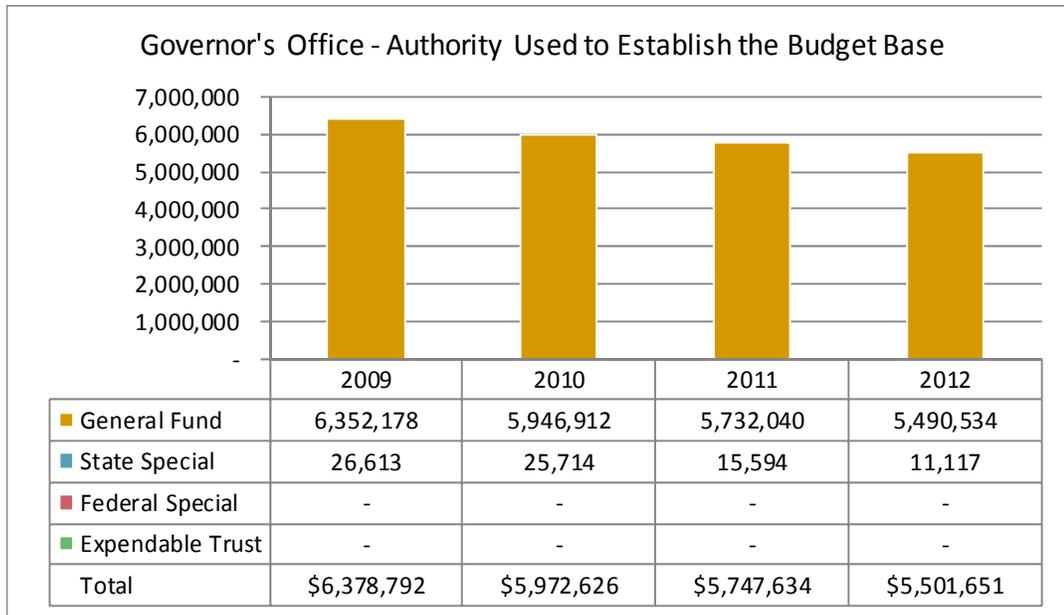
As seen in the table above, services are provided through staff directly employed in the office. Personal service costs are therefore the primary factor that drives expenditures. Some of the factors that drive these costs include the state pay plan and benefits, workers' compensation, and unemployment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

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

Funding/Expenditure History

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

- Vacancy savings increased to 7%, reducing personal services funding (2011 biennium)
- Reduction of 2.00 FTE (FY 2012)
- Legislative approval of agency provided 5% reduction plans (FY 2012)



Major Legislative Changes in the Last Ten Years

- 2007 Session – The function of executive protection was transferred from the Governor’s Office to the Department of Justice
- 2003 Session –
 - ◇ Federal funding was provided for the costs of the Mental Health Ombudsman for one session only. It was later determined that the program was ineligible for Medicaid funding
 - ◇ The Consensus Council was moved to the Department of Administration and the budget removed from the Governor’s Office
 - ◇ The statutory appropriation for the Office of Economic Development was eliminated
 - ◇ The Flathead Basin Commission is transferred from the Governor’s Office to the Department of Natural Resources and Conservation

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

Office of the Governor

P.O. Box 200801

Helena MT 59620-0801

Phone: (406) 444-3111 FAX (406) 444-5529

For more information: <http://governor.mt.gov/>

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	20.63	20.63	20.63	20.63	20.63	20.63	0.00	0.00%
Personal Services	1,586,727	1,601,945	1,673,051	1,678,738	3,188,672	3,351,789	163,117	5.12%
Operating Expenses	736,645	984,210	759,306	756,448	1,720,855	1,515,754	(205,101)	(11.92%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$2,323,372	\$2,586,155	\$2,432,357	\$2,435,186	\$4,909,527	\$4,867,543	(\$41,984)	(0.86%)
General Fund	2,323,372	2,586,155	2,432,357	2,435,186	4,909,527	4,867,543	(41,984)	(0.86%)
State Special	0	0	0	0	0	0	0	n/a
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	\$2,323,372	\$2,586,155	\$2,432,357	\$2,435,186	\$4,909,527	\$4,867,543	(\$41,984)	(0.86%)

Program Description

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

Program Highlights

Executive Office Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Executive Office Program budget requests a reduction of 0.9% from the previous biennium. <ul style="list-style-type: none"> • Personal services are requested to increase by 5.1%, primarily due to raises provided in the base year • Pay rate increases for staff of this program averaged 8.8% • Requested reductions in operational costs of 11.6%, which include a transfer of Professional Development Training costs to the Centralized Services Division, offset the increases in personal services

Program Discussion

The 2015 biennium Executive Office Program budget is requested at a reduced level for the second consecutive biennium. The requested personal service increase of 5.1% is the result of raises provided in the base year and is offset by requested reductions in operating expenses, including a reduction or transfer of Professional Development Center training costs to the Centralized Services Division. If this transfer was not included, operating expenses would increase slightly. The reduction in operating expenses also reflects the wind down of program costs from the Schweitzer administration.

LFD COMMENT	<p>Increased Pay Rates All exempt staff members in the Executive Office Program, which are often appointed positions, were given raises in FY 2012 that averaged 8.8%. Raises were provided as a flat amount, but as percentages the increases varied from a low of 3.6% to a high of 23.6%. Therefore, personal services funding for the exempt staff of the incoming administration reflect the higher salaries. The agency noted that pay increases were made for retention purposes.</p>
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Executive Office Program							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$4,867,543	\$0	\$0	\$4,867,543	100.0%		
Total All Funds	\$4,867,543	\$0	\$0	\$4,867,543	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Executive Office Program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	2,323,372	2,323,372	4,646,744	95.46%	2,323,372	2,323,372	4,646,744	95.46%
Statewide PL Adjustments	106,790	109,340	216,130	4.44%	106,790	109,340	216,130	4.44%
Other PL Adjustments	2,470	2,749	5,219	0.11%	2,470	2,749	5,219	0.11%
New Proposals	(275)	(275)	(550)	(0.01%)	(275)	(275)	(550)	(0.01%)
Total Budget	\$2,432,357	\$2,435,186	\$4,867,543		\$2,432,357	\$2,435,186	\$4,867,543	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					150,436					156,359
Vacancy Savings					(64,112)					(64,348)
Inflation/Deflation					(185)					102
Fixed Costs					20,651					17,227
Total Statewide Present Law Adjustments		\$106,790	\$0	\$0	\$106,790		\$109,340	\$0	\$0	\$109,340
DP 105 - Motor Pool Leased Vehicle	0.00	2,470	0	0	2,470	0.00	2,749	0	0	2,749
Total Other Present Law Adjustments	0.00	\$2,470	\$0	\$0	\$2,470	0.00	\$2,749	\$0	\$0	\$2,749
Grand Total All Present Law Adjustments	0.00	\$109,260	\$0	\$0	\$109,260	0.00	\$112,089	\$0	\$0	\$112,089

DP 105 - Motor Pool Leased Vehicle - The executive requests at the recommendation of the Department of Justice a large utility vehicle to replace the smaller vehicle currently leased from the Motor Pool for the Governor’s transportation. The larger vehicle would allow the transportation of dignitaries, staff, and guests in a single vehicle, and provide anonymity for the vehicle carrying the elected official. The motor pool lease rates for larger vehicles are greater than the small vehicle now in use by the agency.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	01	0.00	(275)	0	0	(275)	0.00	(275)	0	0	(275)
Total	0.00	(\$275)	\$0	\$0	(\$275)	0.00	(\$275)	\$0	\$0	(\$275)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an adjustment for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request transfers funding for PDC costs to the Centralized Services Program. For a discussion of the executive’s proposal to make PDC a fixed cost, see the narrative for the Department of Administration.

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	58.07	58.07	58.07	58.07	58.07	58.07	0.00	0.00%
Personal Services	4,223,496	4,325,707	4,544,347	4,555,633	8,549,203	9,099,980	550,777	6.44%
Operating Expenses	1,278,172	1,592,220	1,464,675	1,340,669	2,870,392	2,805,344	(65,048)	(2.27%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$5,501,668	\$5,917,927	\$6,009,022	\$5,896,302	\$11,419,595	\$11,905,324	\$485,729	4.25%
General Fund	5,490,551	5,906,804	6,000,613	5,887,956	11,397,355	11,888,569	491,214	4.31%
State Special	11,117	11,123	8,409	8,346	22,240	16,755	(5,485)	(24.66%)
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	\$5,501,668	\$5,917,927	\$6,009,022	\$5,896,302	\$11,419,595	\$11,905,324	\$485,729	4.25%

Mission Statement

The Governor’s Office mission is to oversee and direct the activities of the Executive Branch of Montana state government, consistent with statutory and constitutional mandates, in a manner that provides necessary and affordable services to the citizens of Montana. There is additional, more detailed information about the department in the agency profile.

For additional information, please refer to the agency profile.

Agency Highlights

Governor’s Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ The 2015 biennium Governor’s Office budget would increase 4.3% from the 2013 biennium budget ◆ Personal Service costs would increase by 6.4% primarily as a result of pay rate increases provided in the base year, FY 2012

Agency Discussion

The 2015 biennium budget request for the Governor’s Office would be a 4.3% increase from the 2013 biennium, due to increased costs in personal services. The Governor’s Office is principally a service oriented agency and its main functions are to promote and manage the business of state government. As a result, the Governor’s Office budget is heavily weighted in personal services.

- o The agency had an FTE use rate of 94.2%, providing a vacancy rate of 5.8 %of total budgeted FTE in FY 2012.
- o Pay increases averaging 7.0% were given to numerous staff in FY 2012, as discussed below. Annualized, these increases add about \$191,391 to personal service costs, not including the associated increase in taxes and insurance.

Agency Personal Services

Personal services are 77.0% of the requested Governor’s Office budget. In FY 2012, the agency provided exempt employee and strategic pay increases to 47 staff. The raises were given as a flat amount and ranged from 3.0% to 23.6% of pay rates, but as stated averaged 7.0%. The pay rate increases were funded with vacancy savings.

- o 20 broadband employees received average pay increases of 5.5%

- o 27 exempt employees received pay increases averaging 8.0%
- o There were 7 vacancies in the Governor’s Office just after FY 2012 year end

According to information from the Public Employees Retirement System 23 staff, or 39% of total FTE, were eligible for either early or regular retirement as of July 31, 2012. No retirements are anticipated in the 2015 biennium and the executive is not requesting additional funding for retirement payouts, other than \$384,693 to fund the severance costs for the departing elected officials and exempt staff that will be included in the requested supplemental appropriations bill.

With 39% of the staff directly appointed by the Governor, the agency does not experience a high frequency of recruitment issues compared to other agencies.

LFD
ISSUE

Pay Rate Increases

The Governor’s Office provided pay rate increases across all FTE at a fixed amount beginning in December of 2011. The increases were accomplished through vacancy savings in FY 2012. According to the agency, the pay rate increases were provided to address retention issues. However, the pay increases result in an increase to the base funding of personal services for the incoming administration.

Pay Plan Philosophy

The Governor’s Office is under new administration and as a consequence of the change the agency’s pay philosophy for the 2015 biennium is not known. The last administration made use of higher entry pay rates for new employees, training assignments, reclassifications, and pay adjustments for favorable performance evaluations for recruitment and retention. However, there is no certainty that these practices will continue in the future.

Agency Wide Decision Packages

As seen in the figure below, the Governor’s Office budget includes several decision packages related to the development of a Professional Development Center (PDC) fixed cost fee based on the number of FTE in the agency. In the past, the agency funded training through the PDC in the respective program budgets. Now the PDC trainings would be entirely funded in the Centralized Services Division. As part of this change, the executive requests base reductions to any programs that incurred training costs in FY 2012. For a further discussion, see the narrative for the Department of Administration.

Agency-Wide Request - Professional Development Center Training Fee				
Program	Decision Package	General Fund		
		FY 2014 Adjustment	FY 2015 Adjustment	Biennium Total
Executive Office Program	DP 6010	(\$275)	(\$275)	(\$550)
Ofc Budget & Program Planning	DP 6010	(1,064)	(1,064)	(\$2,128)
Coordinator of Indian Affairs	DP 6010	(105)	(105)	(\$210)
Centralized Services	DP 6010	1,863	1,863	\$3,726
Mental Disabilities Bd Visitors	DP 6010	(75)	(75)	(\$150)
Total		<u>\$344</u>	<u>\$344</u>	<u>\$688</u>

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor’s Office submitted a plan reducing \$257,852 of general fund expenditures. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining
- o Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- o Current plans to address obsolescence
- o Costs to replace the system
- o Costs of maintaining the current system
- o Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and Objectives for the agency can be found in the appendix.

Funding

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

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$11,888,569	\$0	\$0	\$11,888,569	99.9%
State Special Total	16,755	-	-	16,755	0.1%
Federal Special Total	-	-	-	-	0.0%
Proprietary Total	-	-	-	-	0.0%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	<u>\$11,905,324</u>	<u>\$0</u>	<u>\$0</u>	<u>\$11,905,324</u>	
Percent - Total All Sources	100.0%	0.0%	0.0%		

The Governor's Office budget is funded primarily with general fund. Of the total agency funding, 0.1% is state special revenue that supports services in the Citizen's Advocate Program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	5,490,551	5,490,551	10,981,102	92.37%	5,501,668	5,501,668	11,003,336	92.42%
Statewide PL Adjustments	372,682	324,887	697,569	5.87%	369,974	322,116	692,090	5.81%
Other PL Adjustments	98,479	21,567	120,046	1.01%	98,479	21,567	120,046	1.01%
New Proposals	38,901	50,951	89,852	0.76%	38,901	50,951	89,852	0.75%
Total Budget	\$6,000,613	\$5,887,956	\$11,888,569		\$6,009,022	\$5,896,302	\$11,905,324	

Supplemental Appropriations

The Governor’s Office requests a supplemental appropriation of \$384,639 in HB 3, the supplemental appropriations bill. The purpose of the requested supplemental appropriation is the payouts of exempt staff resulting from the change in administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	1.50	1.50	1.50	1.50	1.50	1.50	0.00	0.00%
Personal Services	76,168	57,451	72,126	72,686	133,619	144,812	11,193	8.38%
Operating Expenses	55,926	50,167	57,347	57,988	106,093	115,335	9,242	8.71%
Total Costs	\$132,094	\$107,618	\$129,473	\$130,674	\$239,712	\$260,147	\$20,435	8.52%
General Fund	132,094	107,618	129,473	130,674	239,712	260,147	20,435	8.52%
Total Funds	\$132,094	\$107,618	\$129,473	\$130,674	\$239,712	\$260,147	\$20,435	8.52%

Program Description

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

Program Highlights

Executive Residence Operations Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Executive Residence Operations Program budget request is 8.5% greater than the 2013 biennium <ul style="list-style-type: none"> • A budget shortfall of 23% in FY 2012 required a program transfer to cover personal service and maintenance costs and drives the increases in operational expenses • The increase in personal services results from raises provided to staff in lower pay brackets

Program Discussion

The requested increase in the Executive Residence Program results from actions taken by the administration in FY 2012. In the base year, transfers were made to the program to fund certain maintenance projects for safety purposes (gates, fences, hedges). The ongoing increase in program operating costs is primarily related to inflation and fixed cost increases. Additionally, personal service costs would be increased by 8.4%, primarily due to pay rate increases for 1.50 FTE. Because flat amount raises were provided to comparatively low pay rate staff, the pay increases averaged 18.2%.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Executive Residence Operations							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$260,147	\$0	\$0	\$260,147	100.0%		
Total All Funds	\$260,147	\$0	\$0	\$260,147	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	132,094	132,094	264,188	101.55%	132,094	132,094	264,188	101.55%
Statewide PL Adjustments	(2,621)	(1,420)	(4,041)	(1.55%)	(2,621)	(1,420)	(4,041)	(1.55%)
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$129,473	\$130,674	\$260,147		\$129,473	\$130,674	\$260,147	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(1,037)					(453)
Vacancy Savings					(3,005)					(3,029)
Inflation/Deflation					961					1,704
Fixed Costs					460					358
Total Statewide Present Law Adjustments		(\$2,621)	\$0	\$0	(\$2,621)		(\$1,420)	\$0	\$0	(\$1,420)
Grand Total All Present Law Adjustments	0.00	(\$2,621)	\$0	\$0	(\$2,621)	0.00	(\$1,420)	\$0	\$0	(\$1,420)

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	1.50	1.50	1.50	1.50	1.50	1.50	0.00	0.00%
Personal Services	93,971	119,417	117,762	117,593	213,388	235,355	21,967	10.29%
Operating Expenses	128,768	202,156	216,614	128,056	330,924	344,670	13,746	4.15%
Total Costs	\$222,739	\$321,573	\$334,376	\$245,649	\$544,312	\$580,025	\$35,713	6.56%
General Fund	222,739	321,554	334,376	245,649	544,293	580,025	35,732	6.56%
State Special	0	19	0	0	19	0	(19)	(100.00%)
Total Funds	\$222,739	\$321,573	\$334,376	\$245,649	\$544,312	\$580,025	\$35,713	6.56%

Program Description

The Air Transportation Program provides the Governor with air transportation.

Program Highlights

Air Transportation Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Air Transportation Program budget request is a total increase of 6.6% from the 2013 biennium <ul style="list-style-type: none"> • Operating expenses would increase by 4.2% primarily due to a new proposal for aircraft maintenance costs • Personal services would increase by 10.3% from the base due to a vacancy in the base year and pay rate increases
Major LFD Issues
<ul style="list-style-type: none"> ◆ Initially, the budget request for this program was constructed from historically low aircraft maintenance expenses, but the December 15 executive recommendation provided additional funding to address aircraft maintenance costs

Program Discussion

The executive requests 2015 biennium budget increases of 6.6% in the Air Transportation Program when compared to the 2013 biennium budget. In FY 2012 maintenance of the executive aircraft was 55% lower than the historic levels of expenditure. The executive budget request includes a present law proposal that would increase the maintenance to an amount closer to average maintenance expenditures. Personal service costs would increase by 10.3%, which primarily results from a strategic pay adjustment for one staff of 13.8%, which is annualized to \$8,151 not including the increased costs of the associated taxes and insurance.

LFD ISSUE	<p><u>Aircraft Maintenance</u></p> <p>Aircraft maintenance expenditures of about \$61,000 in FY 2012 were about 80% of the nine year average. In addition, a portion of these expenditures were from a language appropriation that was removed from the base for budgeting purposes and does not continue in the 2015 biennium. Consequently, the maintenance expenses requested in the budget are about 55% of the historic average expenditures. The agency notes that aircraft maintenance is highly variable and costs are directly related to use. In the base year FY 2012, the Governor relied more heavily on commercial travel and less on the use of the agency plane. If operating expenses for this program remain at the requested level, there could be a need for program transfers in the 2015 biennium to address maintenance costs. The legislature may want to ask the program representatives if adjustments are needed in operational expenses.</p> <p>Note: this issue was addressed in the December 15 executive recommendation.</p>
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Air Transportation Program							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$580,025	\$0	\$0	\$580,025	100.0%		
Total All Funds	\$580,025	\$0	\$0	\$580,025	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Air Transportation Program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	222,739	222,739	445,478	76.80%	222,739	222,739	445,478	76.80%
Statewide PL Adjustments	21,637	22,910	44,547	7.68%	21,637	22,910	44,547	7.68%
Other PL Adjustments	90,000	0	90,000	15.52%	90,000	0	90,000	15.52%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$334,376	\$245,649	\$580,025		\$334,376	\$245,649	\$580,025	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					28,698					28,522
Vacancy Savings					(4,907)					(4,900)
Inflation/Deflation					(5,711)					(3,860)
Fixed Costs					3,557					3,148
Total Statewide Present Law Adjustments		\$21,637	\$0	\$0	\$21,637		\$22,910	\$0	\$0	\$22,910
DP 1 - Airplane Maintenance Expenses - OTO	0.00	90,000	0	0	90,000	0.00	0	0	0	0
Total Other Present Law Adjustments	0.00	\$90,000	\$0	\$0	\$90,000	0.00	\$0	\$0	\$0	\$0
Grand Total All Present Law Adjustments	0.00	\$111,637	\$0	\$0	\$111,637	0.00	\$22,910	\$0	\$0	\$22,910

DP 1 – Airplane Maintenance Expenses - OTO - The executive requests one-time-only funding to address anticipated expenses in accordance with FAA requirements for the executive airplane.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	18.00	18.00	18.00	18.00	18.00	18.00	0.00	0.00%
Personal Services	1,256,263	1,406,015	1,454,600	1,455,111	2,662,278	2,909,711	247,433	9.29%
Operating Expenses	202,598	171,968	214,488	208,027	374,566	422,515	47,949	12.80%
Total Costs	\$1,458,861	\$1,577,983	\$1,669,088	\$1,663,138	\$3,036,844	\$3,332,226	\$295,382	9.73%
General Fund	1,458,861	1,577,983	1,669,088	1,663,138	3,036,844	3,332,226	295,382	9.73%
Total Funds	\$1,458,861	\$1,577,983	\$1,669,088	\$1,663,138	\$3,036,844	\$3,332,226	\$295,382	9.73%

Program Description

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

Program Highlights

Office of Budget and Program Planning Major Budget Highlights
<ul style="list-style-type: none"> ◆ The personal services proposal is an increase of 9.3% <ul style="list-style-type: none"> • Average pay rate increases of 4.0% were provided to the non-management staff • Two positions were unfilled in FY 2012 • Transfer of PDC training costs to the Central Services Division reduces operational costs

Program Discussion

The executive budget request for OBPP shows a personal service increase of 9.3% from the 2013 biennium primarily due to two factors:

- o The program had two unfilled positions for the entire base budget year
- o Annualized costs of pay rate increases provided to staff in March 2012

Pay increases for staff, not including management and appointed officials, averaged 4.0%, and brought staff up to an average of 87% of the 2012 market rate survey provided by the Department of Administration. In addition, operating expenses would be increased by \$47,949, or 12.8%. In the base year FY 2012, the Office of Budget and Program Planning transferred appropriation authority from personal services to cover the costs of office supplies and fixed costs of the State Information Technology Services Division.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Ofc Budget & Program Planning							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$3,332,226	\$0	\$0	\$3,332,226	100.0%		
Total All Funds	\$3,332,226	\$0	\$0	\$3,332,226	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,458,861	1,458,861	2,917,722	87.56%	1,458,861	1,458,861	2,917,722	87.56%
Statewide PL Adjustments	209,620	191,160	400,780	12.03%	209,620	191,160	400,780	12.03%
Other PL Adjustments	1,671	14,181	15,852	0.48%	1,671	14,181	15,852	0.48%
New Proposals	(1,064)	(1,064)	(2,128)	(0.06%)	(1,064)	(1,064)	(2,128)	(0.06%)
Total Budget	\$1,669,088	\$1,663,138	\$3,332,226		\$1,669,088	\$1,663,138	\$3,332,226	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					258,946					259,477
Vacancy Savings					(60,609)					(60,629)
Inflation/Deflation					(36)					(23)
Fixed Costs					11,319					(7,665)
Total Statewide Present Law Adjustments		\$209,620	\$0	\$0	\$209,620		\$191,160	\$0	\$0	\$191,160
DP 103 - Global Insight Contract and Session Costs	0.00	1,671	0	0	1,671	0.00	14,181	0	0	14,181
Total Other Present Law Adjustments	0.00	\$1,671	\$0	\$0	\$1,671	0.00	\$14,181	\$0	\$0	\$14,181
Grand Total All Present Law Adjustments	0.00	\$211,291	\$0	\$0	\$211,291	0.00	\$205,341	\$0	\$0	\$205,341

DP 103 - Global Insight Contract and Session Costs - The executive requests increased funding for subscription and publication costs. In FY 2013 OBPP will enter into a new contract for the subscription to Global Insight (GI), an economic data service, on behalf of the Legislative Fiscal Division, Department of Transportation, and themselves. The request anticipates a cost increase under a new contract of 5.0% each year. This decision package includes a cyclical adjustment in FY 2015 to cover the increased costs related to the preparation and publication of the executive budget.

New Proposals

New Proposals											
-----Fiscal 2014-----											
-----Fiscal 2015-----											
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation											
04	0.00	(1,064)	0	0	(1,064)	0.00	(1,064)	0	0	(1,064)	
Total	0.00	(\$1,064)	\$0	\$0	(\$1,064)	0.00	(\$1,064)	\$0	\$0	(\$1,064)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests to transfer Professional Development Center (PDC) costs from this program to the Centralized Services Program. For a discussion of the executive’s proposal to make PDC a fixed cost, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	2.00	2.00	2.00	2.00	2.00	2.00	0.00	0.00%
Personal Services	154,974	146,635	154,366	154,128	301,609	308,494	6,885	2.28%
Operating Expenses	17,408	25,820	19,153	18,963	43,228	38,116	(5,112)	(11.83%)
Total Costs	\$172,382	\$172,455	\$173,519	\$173,091	\$344,837	\$346,610	\$1,773	0.51%
General Fund	172,382	172,455	173,519	173,091	344,837	346,610	1,773	0.51%
Total Funds	\$172,382	\$172,455	\$173,519	\$173,091	\$344,837	\$346,610	\$1,773	0.51%

Program Description

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

Program Highlights

Coordinator of Indian Affairs Major Budget Highlights	
◆	The budget proposal for the Coordinator of Indian Affairs would essentially be unchanged from the 2013 biennium budget

Program Discussion

While provided at a flat rate, pay increases given in the base year averaged 5.1% and the costs are annualized in developing the personal services present law adjustment. Operating expenses in FY 2012 were lower than the budgeted amount as a result of savings in purchases of supplies and materials and conference costs.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Office Of Indian Affairs							
Funds	Non-Budgeted HB 2	Statutory Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$346,610	\$0	\$0	\$346,610	100.0%		
Total All Funds	\$346,610	\$0	\$0	\$346,610	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	172,382	172,382	344,764	99.47%	172,382	172,382	344,764	99.47%
Statewide PL Adjustments	1,242	814	2,056	0.59%	1,242	814	2,056	0.59%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(105)	(105)	(210)	(0.06%)	(105)	(105)	(210)	(0.06%)
Total Budget	\$173,519	\$173,091	\$346,610		\$173,519	\$173,091	\$346,610	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					5,824					5,576
Vacancy Savings					(6,432)					(6,422)
Inflation/Deflation					(33)					(19)
Fixed Costs					1,883					1,679
Total Statewide Present Law Adjustments		\$1,242	\$0	\$0	\$1,242		\$814	\$0	\$0	\$814
Grand Total All Present Law Adjustments	0.00	\$1,242	\$0	\$0	\$1,242	0.00	\$814	\$0	\$0	\$814

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----					
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
	DP 6101 - Professional Development Center Fee Allocation	05	0.00	(105)	0	0	(105)	0.00	(105)	0	0	(105)
	Total	0.00	(\$105)	\$0	\$0	(\$105)	0.00	(\$105)	\$0	\$0	\$0	(\$105)

DP 6101 - Professional Development Center Fee Allocation - The executive requests to transfer Professional Development Center (PDC) costs from this program to the Centralized Services Program For a discussion of the executive’s proposal to make PDC a fixed cost see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	3.94	3.94	3.94	3.94	3.94	3.94	0.00	0.00%
Personal Services	316,309	302,244	316,603	320,858	618,553	637,461	18,908	3.06%
Operating Expenses	20,188	23,021	22,171	22,467	43,209	44,638	1,429	3.31%
Total Costs	\$336,497	\$325,265	\$338,774	\$343,325	\$661,762	\$682,099	\$20,337	3.07%
General Fund	336,497	325,265	338,774	343,325	661,762	682,099	20,337	3.07%
Total Funds	\$336,497	\$325,265	\$338,774	\$343,325	\$661,762	\$682,099	\$20,337	3.07%

Program Description

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

Program Highlights

<p>Office of the Lieutenant Governor Major Budget Highlights</p>
<ul style="list-style-type: none"> ◆ Pay rate increases of an average of 6.0% drive the increase in personal service costs

Program Discussion

The proposed budget for the Office of the Lieutenant Governor would be an increase of 3.1% from the 2013 biennium budget. The increase in personal services is primarily due to annualized pay raises provided in FY 2012, which averaged 6.0%.

LFD COMMENT	<p><u>Increased Pay Rates</u></p> <p>The raises given to exempt staff in this office were provided as a flat amount. As percentages, the increases varied from a low of 3.6% to a high of 8.3%. Therefore, personal services funding for the exempt staff of the incoming administration will reflect the higher salaries. The agency noted that pay increases were made for retention purposes</p>
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Lieutenant Governor'S Office							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$682,099	\$0	\$0	\$682,099	100.0%		
Total All Funds	\$682,099	\$0	\$0	\$682,099	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	336,497	336,497	672,994	98.67%	336,497	336,497	672,994	98.67%
Statewide PL Adjustments	33	4,285	4,318	0.63%	33	4,285	4,318	0.63%
Other PL Adjustments	2,244	2,543	4,787	0.70%	2,244	2,543	4,787	0.70%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$338,774	\$343,325	\$682,099		\$338,774	\$343,325	\$682,099	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					8,941					13,374
Vacancy Savings					(8,647)					(8,825)
Inflation/Deflation					(220)					(148)
Fixed Costs					(41)					(116)
Total Statewide Present Law Adjustments		\$33	\$0	\$0	\$33		\$4,285	\$0	\$0	\$4,285
DP 110 - Motor Pool Leased Vehicle	0.00	2,244	0	0	2,244	0.00	2,543	0	0	2,543
Total Other Present Law Adjustments	0.00	\$2,244	\$0	\$0	\$2,244	0.00	\$2,543	\$0	\$0	\$2,543
Grand Total All Present Law Adjustments	0.00	\$2,277	\$0	\$0	\$2,277	0.00	\$6,828	\$0	\$0	\$6,828

DP 110 - Motor Pool Leased Vehicle - The executive requests, at the recommendation of the Department of Justice, a large utility vehicle to replace the smaller vehicle currently leased from the Motor Pool for the Lieutenant Governor's transportation. The larger vehicle would allow the transportation of dignitaries, staff, and guests in a single vehicle, and provide anonymity for the vehicle carrying the elected official. The motor pool lease rates for larger vehicles are greater than the small vehicle now in use by the agency.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	290,508	278,634	303,945	304,042	569,142	607,987	38,845	6.83%
Operating Expenses	52,696	51,057	107,762	81,240	103,753	189,002	85,249	82.17%
Total Costs	\$343,204	\$329,691	\$411,707	\$385,282	\$672,895	\$796,989	\$124,094	18.44%
General Fund	343,204	329,691	411,707	385,282	672,895	796,989	124,094	18.44%
Total Funds	\$343,204	\$329,691	\$411,707	\$385,282	\$672,895	\$796,989	\$124,094	18.44%

Program Description

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

Program Highlights

The Centralized Services Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The budget proposal is higher than the 2013 biennium primarily because: <ul style="list-style-type: none"> • Personal services are recommended to be increased by 6.8% as a result of pay increases amounting to an average of 5.3%, and the reclassification of one FTE that increased the pay rate by 35.5% ◆ Operating expenses would increase by about half, which is related to funding the agency PDC trainings in this program

Program Discussion

The executive budget request for the Centralized Services Division in the 2015 biennium would be increased by 18.4% from the 2013 biennium. Most of the change results from new proposals that would provide computer replacement and centralize the new fixed cost for the Department of Administration Professional Development Center (PDC) training courses for the entire agency within the program. Over 76.2% of the Centralized Services Program budget is personal services. The program includes the agency's two information technology staff and one fiscal/budget staff. Three of the staff received pay raises in December of FY 2012 and the fourth staff member was reclassified, receiving a sizable pay rate increase. The 6.8% personal services increase requested in the budget is related to these actions.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Centralized Services Division						
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference Category
General Fund	\$796,989	\$0	\$0	\$796,989	100.0%	
Total All Funds	\$796,989	\$0	\$0	\$796,989	100.0%	
Percent - Total All Sources	100.0%	0.0%	0.0%			

The Central Services Program is entirely funded with general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	343,204	343,204	686,408	86.13%	343,204	343,204	686,408	86.13%
Statewide PL Adjustments	40,640	2,165	42,805	5.37%	40,640	2,165	42,805	5.37%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	27,863	39,913	67,776	8.50%	27,863	39,913	67,776	8.50%
Total Budget	\$411,707	\$385,282	\$796,989		\$411,707	\$385,282	\$796,989	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				26,102					26,203
Vacancy Savings				(12,665)					(12,669)
Inflation/Deflation				3					5
Fixed Costs				27,200					(11,374)
Total Statewide Present Law Adjustments		\$40,640	\$0	\$0	\$40,640	\$2,165	\$0	\$0	\$2,165
Grand Total All Present Law Adjustments	0.00	\$40,640	\$0	\$0	\$40,640	\$2,165	\$0	\$0	\$2,165

New Proposals

New Proposals											
-----Fiscal 2014-----											
-----Fiscal 2015-----											
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 102 - Computer Equipment Replacement	06	0.00	26,000	0	0	26,000	0.00	38,050	0	0	38,050
DP 6101 - Professional Development Center Fee Allocation	06	0.00	1,863	0	0	1,863	0.00	1,863	0	0	1,863
Total	0.00	\$27,863	\$0	\$0	\$27,863	0.00	\$39,913	\$0	\$0	\$39,913	

DP 102 - Computer Equipment Replacement - The executive requests replacement costs for the computer equipment used within the Governor's Office but not included in the base budget. The program has implemented a five year replacement schedule for such equipment.

LFD COMMENT	<u>Actions of the 2011 Legislature</u>
	In the 2011 Legislative session, the Centralized Services Division made a request for computer replacement that was similar to DP 102. The legislature chose to make the request a one-time-only appropriation.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	1.50	1.50	1.50	1.50	1.50	1.50	0.00	0.00%
Personal Services	93,318	89,200	94,764	94,631	182,518	189,395	6,877	3.77%
Operating Expenses	8,381	10,394	8,409	8,346	18,775	16,755	(2,020)	(10.76%)
Total Costs	\$101,699	\$99,594	\$103,173	\$102,977	\$201,293	\$206,150	\$4,857	2.41%
General Fund	90,582	88,490	94,764	94,631	179,072	189,395	10,323	5.76%
State Special	11,117	11,104	8,409	8,346	22,221	16,755	(5,466)	(24.60%)
Total Funds	\$101,699	\$99,594	\$103,173	\$102,977	\$201,293	\$206,150	\$4,857	2.41%

Program Description

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

Program Highlights

Citizens' Advocate Office Major Budget Highlights	
◆	The increase in proposed expenditures is primarily due to increases in personal service costs related to the pay rate increases provided in FY 2012

Program Discussion

The budget increase proposed for the Citizens' Advocate Office is primarily due to pay rate increases provided in FY 2012 that averaged 7.4%. The annualized increase in pay rates drives the increase of 3.8% for the office.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Citizens' Advocate Office							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$189,395	\$0	\$0	\$189,395	91.9%		
State Special Total	\$16,755	\$0	\$0	\$16,755	8.1%		
Total All Funds	\$206,150	\$0	\$0	\$206,150	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

In the 2015 biennium, the Citizens' Advocate Office budget proposal is funded 91.9% with general fund and 8.1% with state special revenue. The state special revenue account is funded through charges by the Citizens' Advocate to the Department of Public Health and Human Services (DPHHS) for the telephone calls that the office handles on behalf of DPHHS, as they are the initial point of contact for many DPHHS programs.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	90,582	90,582	181,164	95.65%	101,699	101,699	203,398	98.67%
Statewide PL Adjustments	4,182	4,049	8,231	4.35%	1,474	1,278	2,752	1.33%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$94,764	\$94,631	\$189,395		\$103,173	\$102,977	\$206,150	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----			
	FTE	General Fund	State Special	Federal Special Total Funds	FTE	General Fund	State Special	Federal Special Total Funds
Personal Services				5,395				5,256
Vacancy Savings				(3,949)				(3,943)
Fixed Costs				28				(35)
Total Statewide Present Law Adjustments		\$4,182	(\$2,708)	\$0		\$4,049	(\$2,771)	\$0
Grand Total All Present Law Adjustments	0.00	\$4,182	(\$2,708)	\$0	0.00	\$4,049	(\$2,771)	\$0

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	355,258	324,166	357,130	357,846	679,424	714,976	35,552	5.23%
Operating Expenses	55,562	73,427	59,425	59,134	128,989	118,559	(10,430)	(8.09%)
Total Costs	\$410,820	\$397,593	\$416,555	\$416,980	\$808,413	\$833,535	\$25,122	3.11%
General Fund	410,820	397,593	416,555	416,980	808,413	833,535	25,122	3.11%
Total Funds	\$410,820	\$397,593	\$416,555	\$416,980	\$808,413	\$833,535	\$25,122	3.11%

Program Description

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

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

Program Highlights

Mental Disabilities Board of Visitors	
Major Budget Highlights	
◆	The 2015 biennium budget for the Mental Disabilities Board of Visitors would be a 3.1% increase from the 2013 biennium <ul style="list-style-type: none"> • Increased costs in personal services result primarily from adjustments due to a vacancy in the base year and a reclassification

Program Discussion

The executive proposal for the Mental Disabilities Board of Visitors budget would increase by 3.1% from the 2013 biennium budget. Personal service increases include a base adjustment shown as a new proposal that would provide sufficient funding for one position that was vacant in the base year and one position that was reclassified in FY 2013.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Governor's Office Funding by Source of Authority 2015 Biennium Budget - Mental Disabilities Bd Visitrs							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$833,535	\$0	\$0	\$833,535	100.0%		
Total All Funds	\$833,535	\$0	\$0	\$833,535	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Base Budget	410,820	410,820	821,640	98.57%	410,820	410,820	821,640	98.57%
Statewide PL Adjustments	(8,841)	(8,416)	(17,257)	(2.07%)	(8,841)	(8,416)	(17,257)	(2.07%)
Other PL Adjustments	2,094	2,094	4,188	0.50%	2,094	2,094	4,188	0.50%
New Proposals	12,482	12,482	24,964	2.99%	12,482	12,482	24,964	2.99%
Budget Summary by Category								
	-----General Fund-----				-----Total Funds-----			
Budget Item	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Total Budget	\$416,555	\$416,980	\$833,535		\$416,555	\$416,980	\$833,535	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					3,673					4,417
Vacancy Savings					(14,358)					(14,386)
Inflation/Deflation					(93)					(59)
Fixed Costs					1,937					1,612
Total Statewide Present Law Adjustments		(\$8,841)	\$0	\$0	(\$8,841)		(\$8,416)	\$0	\$0	(\$8,416)
DP 104 - Motor Pool Leased Vehicle	0.00	2,094	0	0	2,094	0.00	2,094	0	0	2,094
Total Other Present Law Adjustments	0.00	\$2,094	\$0	\$0	\$2,094	0.00	\$2,094	\$0	\$0	\$2,094
Grand Total All Present Law Adjustments	0.00	(\$6,747)	\$0	\$0	(\$6,747)	0.00	(\$6,322)	\$0	\$0	(\$6,322)

DP 104 - Motor Pool Leased Vehicle - The executive requests the acquisition of a small leased vehicle from the state motor pool for use by the staff of the Board of Visitors.

New Proposals

New Proposals										
	-----Fiscal 2014-----					-----Fiscal 2015-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2001 - Board of Visitors Pay Discrepancy										
20	0.00	12,557	0	0	12,557	0.00	12,557	0	0	12,557
DP 6101 - Professional Development Center Fee Allocation										
20	0.00	(75)	0	0	(75)	0.00	(75)	0	0	(75)
Total	0.00	\$12,482	\$0	\$0	\$12,482	0.00	\$12,482	\$0	\$0	\$12,482

DP 2001 - Board of Visitors Pay Discrepancy - The executive requests an adjustment in personal service costs. The increase would fully fund two paralegal positions that were partially vacant in FY 2012 and a position reclassification.

DP 6101 - Professional Development Center Fee Allocation - The executive requests to transfer Professional Development Center (PDC) costs from this program to the Centralized Services Program For a discussion of the executive’s proposal to make PDC a fixed cost see the narrative for the Department of Administration.

Total Governor's Office Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$11,888,569	\$0	\$0	\$11,888,569	99.9%
State Special Total	\$16,755	\$0	\$0	\$16,755	0.1%
02253 Citizen's Advocate State Special Re	\$16,755	\$0	\$0	\$16,755	0.1%
Total All Funds	\$11,905,324	\$0	\$0	\$11,905,324	100.0%
Percent - Total All Sources	100.0%	0.0%	0.0%		

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

AGENCY CODE & NAME:

31010 Governor's Office

Minimum Requirement

		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 257,852	\$ 556
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Reduce Economic Development contracts	\$ 176,000	
2	Reduction of agency travel expenses	\$ 20,254	
3	Reduce cell phone usage by 25%	\$ 4,325	
4	Eliminate 0.50 FTE from Citizen's Advocate	\$ 30,600	\$ 556
5	Eliminate 0.50 FTE from Mental Health Ombudsman	\$ 26,673	
6			
7			
8			
9			
10			
11			
	TOTAL SAVINGS	\$ 257,852	\$ 556
	DIFFERENCE		0

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010
 Governor's
 Office

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

The Governor's Office of Economic Development would contract for fewer services which could potentially help spur economic growth within the state.

#2 THE SAVINGS THAT ARE EXPECTED:

\$176,000.00

Loss of the contractors' services to the Governor's Office could negatively impact the development of new business and economic growth within the state.

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

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

The economic vitality of Montana could be affected by this reduction.

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

No

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010
Governor's
Office

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

Reduce agency travel expenses up to 20 percent.

#2 THE SAVINGS THAT ARE EXPECTED:

\$20,254.00

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

There would be less face to face contact with partners, other agencies, and professional organizations. Networking opportunities would be reduced.

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

Constituents may not receive the kind of service and opportunity to voice their concerns that they expect. Staff may experience less opportunities for training which enhance their ability to effectively and efficiently perform their tasks.

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

No.

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010 Governor's
Office

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

Reduce the number of cell phones carried by staff members

#2 THE SAVINGS THAT ARE EXPECTED: \$4,325.00

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

Staff members may not be as easily reachable regardless of where they are conducting business.

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

Staff may not be as readily informed regarding important business matters.

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

No.

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010 Governor's Office

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

Eliminate the 0.50 FTE from the Citizen's Advocate Office

#2 THE SAVINGS THAT ARE EXPECTED: \$30,600.00

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

The Citizen's Advocate Office would not be able to field as many phone calls or letters from constituents. Potentially, the office would not be covered during all business hours.

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

A 0.50 staff member would be laid-off. Constituents may not receive as prompt and thorough services from the Citizen's Advocate.

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

No.

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

Eliminate the 0.50 FTE from the Mental Health Ombudsman

#2 THE SAVINGS THAT ARE EXPECTED: \$26,673

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

The Mental Health Ombudsman would have to conduct all the office's administrative and secretarial tasks as well as fulfill all tasks required of their position.

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

The Ombudsman may not be as available to the constituents if significant time is required for administrative tasks. The 0.50 FTE staff member would be laid-off.

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

No

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

Eliminate the 0.50 FTE from the Mental Health Ombudsman

#2 THE SAVINGS THAT ARE EXPECTED: \$26,673

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

The Mental Health Ombudsman would have to conduct all the office's administrative and secretarial tasks as well as fulfill all tasks required of their position.

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

The Ombudsman may not be as available to the constituents if significant time is required for administrative tasks. The 0.50 FTE staff member would be laid-off.

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

No

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Executive Office of the Governor

The Governor will carry out the executive power vested by the Montana Constitution and see that the laws of the state are faithfully executed.

The Governor will appoint and supervise the directors of each executive department. The Governor's cabinet will continue to meet regularly as a team. Directors will meet with the Governor and Chief of Staff to develop and execute consistent management for the effective and efficient delivery of services to the citizens of the State of Montana.

In accordance with constitutional and statutory requirements, the Governor will submit to the legislature a budget detailing expenditures and revenues. That budget will permit the State of Montana to continue to live within its means and will offer sustainable solutions to fund state services. It will continue to emphasize the state's responsibility to the least and the last of its citizens and provide for the fair and consistent collection of state tax revenues.

The Governor, as mandated by the Constitution, will give information to the legislature and recommend measures he considers needed and suitable. Those measures will be founded on the principles of sustainability, efficiency and effectiveness.

The Governor will sign, issue amendatory vetoes or veto legislation presented by the Legislature. He will convene the Legislature in special session if necessary.

The Governor will carry out the duties of commander-in-chief of the militia forces of the state and, if necessary, call out any part of those forces as prescribed by the Constitution and statutes. The Governor will advocate at executive and congressional levels on behalf of Montana's National Guard and its missions at home and abroad.

The Governor will make appointments to Boards and Commissions as required by law and establish those advisory councils he deems necessary. The Governor will continue to make appointments that ensure a diversity of membership that appropriately reflects the population demographics of Montana at large.

The Office will advise the Governor on policy issues related to economic development; assist the Governor in accomplishing his economic development initiatives; lead the state's business recruitment, retention, and expansion efforts; coordinate the development and distribution of a statewide coordinated strategic economic development marketing plan; and serve as the state's primary economic development liaison between federal, state, and local agencies, Montana tribal governments, private, nonprofit economic development organizations, and the private sector. In doing so, the office will focus on infrastructure development, technology development, workforce development, marketing and recruitment, permitting and regulatory issues, energy development and capital development.

Program: Office of the Lieutenant Governor

The Office of the Lieutenant Governor will carry out the duties prescribed in Montana's Constitution and statutes. He will continue to represent and assist the Governor at his request.

Program: Office of Budget and Program Planning

The Office of Budget and Program Planning will plan a sustainable budget for the 2017 biennium in detail and 2019 biennium at a high level and meet the following objectives:

1. Track and manage general fund cash and fund balance through the 2015 biennium
2. Evaluate expenditures and revenues for sustainability into the future
3. Evaluate all policy issues and concerns for fiscal implications

Program: Office of the Citizens' Advocate

The Citizens' Advocate will continue to be the open door to ease Montanans' access to their government, its programs, its administrators and its documents. Access will continue to be offered in person, by toll-free telephone, and by internet access through a website. The staff of the office will timely respond to Montanans and, as appropriate, "advocate" on behalf of citizens experiencing difficulty in their dealings with agencies or departments of state government.

Program: Office of Indian Affairs

The Director of Indian Affairs serves as the Governor's Ambassador to the Tribal Nations of Montana. The Director will assist the Governor in developing and implementing the policies of the executive branch in its relationships with the Tribal Nations. The Director will advise the Governor and the members of Montana's congressional delegation, if requested, on matters relating to Tribal Nations and act as a spokesperson for Montana's Indian people when requested.

Program: Governor's Residence Maintenance

The Governor's residence will be properly managed, maintained, equipped, and stocked for the Governor, his family, and the official public functions hosted there.

Program: Air Transportation Program

The Governor will be provided with the necessary air transportation for the safe and efficient performance of his public duties.

Program: Mental Health Ombudsman

The Mental Health Ombudsman will continue to work to improve Montana citizens' access to public mental health services and to services provided when citizens are transitioning from public to private services. The ombudsman will provide an annual report to the Governor and to the Legislature, and may make recommendations regarding the mental health system.

Program: Mental Disabilities Board of Visitors

To meet the statutory requirements assigned to the Board of Visitors the following are the goals of the Board and its staff will:

- actively engage with Montana's mental health facilities and with the Montana Developmental Center through site reviews and ongoing dialogue regarding treatment improvement.
- actively support consumers and family members in their requests for assistance.
- participate in activities that promote mental health system transformation.

The Legislative Fiscal Division Presents an Agency Profile of: Secretary of State

Contact: Kris Wilkinson, Senior Fiscal Analyst
Rm. 131, State Capitol Building
Phone: (406) 444-2722
E-mail: kwilkinson@mt.gov

Updated December 2012

Agency Description

Definition of Terms

The Office of the Secretary of State:

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

Total FY 2012 FTE: 57.25 FTE, 1.85 FTE funded with federal funds, 55.40 funded with proprietary funds

How Services are Provided

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

Administration Division

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

Records and Information Management Division

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

Business Services Division

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

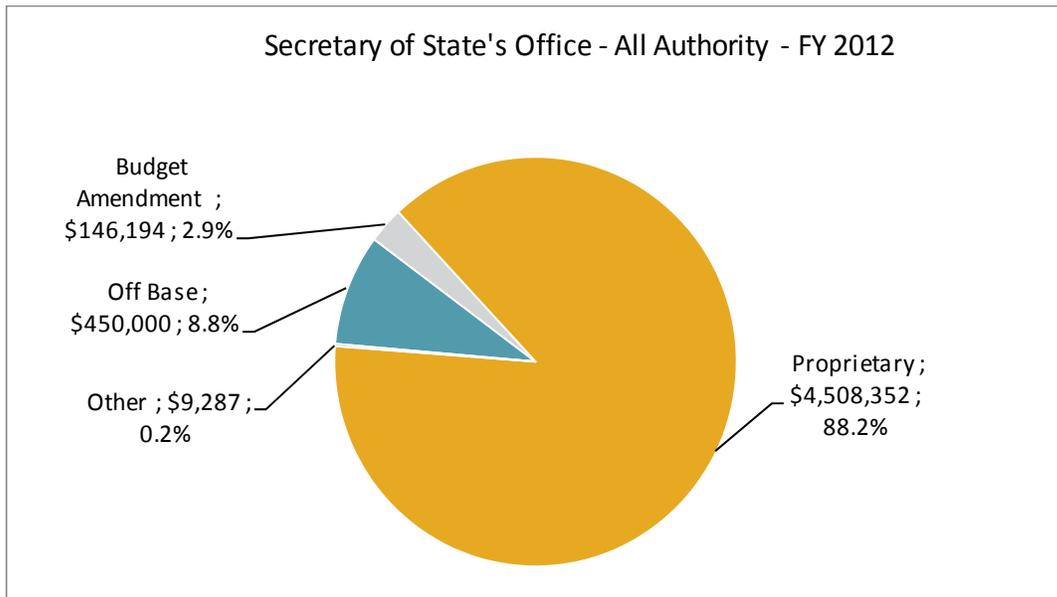
Elections and Government Division

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

Administrative Rules of Montana and Notary Certification Division

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

Sources of Spending Authority



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

In the table above, the budget amendments shown are from federal grants mainly for the Help America Vote Act of 2002.

The off-base funding is for a one-time-only biennial appropriations included in the 2013 budget. Because the appropriations are considered one-time-only, these expenditures were removed from the base and therefore no base exists.

Expenditures

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

Funding

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

How the 2013 Legislature Can Effect Change

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

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

Major Cost Drivers

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

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

Division		FY 2008	FY 2012	Significance of Data
Business Services Division	Documents processed for registration of new Montana domestic corporations	5,625 New Filings 52,661 Annual Reports	2,278 New Filings 53,396 Annual Reports	Workload
	Documents process ofr registration of new Montana foreign corporations	1,652 New Filings 12,497 Annual Reports	1,829 New Filings 14,314 Annual Reports	Workload
	Documents processd for registration of new Montana domestic limited liability corporations	8,840 New Filings 47,628 Annual Reports	8,301 New Filings 54,947 Annual Reports	Workload
	Documents processed for registration of new Montana foreign limited liability companies	1,072 New Filings 4,301 Annual Reports	1,454 New Filings 6,239 Annual Reports	Workload
	Average document processing turnaround time	10 days	4 to 7 days	Efficiency (if documents processed accurately)
	Customer services telephone wait time	3 minutes	20 seconds	Efficiency of electronic phone system
	Online services available	17	14 Only BSD Services	Accessibility of information through electronic means

Funding/Expenditure History

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

Major Legislative Changes in the Last Ten Years

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

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

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

Total Secretary Of State's Office Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$1,384,658	\$0	\$0	\$1,384,658	100.0%
Total All Funds	\$1,384,658	\$0	\$0	\$1,384,658	100.0%
Percent - Total All Sources	100.0%	0.0%	0.0%		

Goals and Objectives

GOAL: The Secretary of State will enhance services to the public utilizing technology throughout all divisions to improve the user's ability to receive information and access services provided by this office.

- **Digitized Ballot Creation:** Create a uniform and digitized precinct level ballot creation mechanism for all 56 counties – easing the work load for County Clerks and Recorders and Election Administrators and providing the public a downloadable sample ballot to preview before Election Day.
- **Expanded E-Notification Service for Annual Report Filers:** Continue to expand the use of e-notifications for Annual Report filing reminders – reducing costs by decreasing the number of paper filings and encouraging greater use of the office's online filing services.
- **Improved Notarial Training:** Provide professional online and in-person training for notaries public to provide easily accessible and valuable training for all notaries in Montana.
- **Modernized Election Night Reporting:** Implement a customized "Follow this Contest" election reporting function, allowing any online user on Election Night to create an individualized page detailing and displaying statewide, county, and precinct level results for the user's selected election contests.
- **Local Election Results:** Implement results for local election races (County Commissioner, Clerk and Recorder, Justice of the Peace, etc.) and make available online through the statewide election night reporting system.
- **Improved Online Business Services:** Enhance online business forms through ongoing web and business system development to improve online services and ensure user-friendly computer formatting for our business services customers.
- **Personalized Absentee Ballot Tracking:** Support the personalized absentee ballot tracking function that will allow a voter visiting sos.mt.gov to check and see if their absentee ballot was sent and received. The service will provide peace of mind for absentee voters and reduce calls to the county election offices.
- **Online Training for Records and Information Management:** Implement new training and information services to help state agencies with Records Management components, such as retention schedule creation and a web-enabled records management system to help track storage measurements for state and local agencies.

- **Digitizing Ballot Initiative Signature Sheets:** Scan and digitize submitted, and county approved, ballot initiative petition sheets – making them available to interested parties earlier and in a secure manner for future election cycles.
- **Modernized Businesses Information System:** Modernize the office’s outdated, 30 plus-year-old business information system. SOS will support and upgrade existing systems while implementing a new information system for the office. The first phase includes the new UCC Lien Filing application and office accounting application. The following phases will replace the corporate filing system, notary filing system, and other smaller legacy applications.
- **Electronic Voting for Absent Military and Overseas Citizen Voters:** Implement a system for voters covered under the Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA) to be able to receive, mark, and transmit a ballot for state and federal elections in a seamless, electronic process.
- **Enhance the Online Administrative Rules System:** Host and maintain the program in-house, and resolve unsettled programming errors that occurred during system development in 2007 and 2008.
- **Electronic transmission of Voter Registration records from MT Motor Vehicle Division:** Evaluate resources and refine technology upgrade plan to transmit voter registration information and electronic signature from MVD to the Secretary of State VR database.
- **State-to-state voter registration data sharing initiative:** Join a national effort to compare VR information between states to help with VR list maintenance and to identify eligible but not registered individuals.
- **Provide mobile access to SOS services:** Develop application to allow mobile devices access to My Voter Page and other SOS services.
- **Enhance Information Technology Support:** Develop in-house IT staff capacity with up-to-date skill sets, depth of knowledge, cross-training to support agency IT applications and customer needs while ensuring compliance with state security and continuity of government policies.

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	0.00	0.00	1.00	1.00	0.00	1.00	1.00	n/a
Personal Services	0	0	59,376	59,374	0	118,750	118,750	n/a
Operating Expenses	0	0	1,104,253	594,655	0	1,698,908	1,698,908	n/a
Equipment & Intangible Assets	0	0	40,000	40,000	0	80,000	80,000	n/a
Grants	0	0	0	0	0	0	0	n/a
Total Costs	\$0	\$0	\$1,203,629	\$694,029	\$0	\$1,897,658	\$1,897,658	n/a
General Fund	0	0	690,629	694,029	0	1,384,658	1,384,658	n/a
Federal Special	0	0	513,000	0	0	513,000	513,000	n/a
Total Funds	\$0	\$0	\$1,203,629	\$694,029	\$0	\$1,897,658	\$1,897,658	n/a

Agency Description

Agency Mission: It is the mission of the Secretary of State (SOS) to improve services to Montana’s voters, business community, and governmental agencies through open communications, effective use of technology, and transparent accountability.

For additional information please refer to the agency profile.

Agency Highlights

Secretary of State’s Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ No base funding exists for the office as the 2011 Legislature designated the \$1.1 million in federal Help America Vote Act funds appropriated for the 2013 biennium as one-time-only ◆ HB 2 funding consists of a request to fund operating costs associated with the Statewide Voter Registration System (SVRS) with the remaining HAVA funds ◆ The remainder of the office funding is derived from non-budgeted proprietary funds
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Almost \$0.3 million of Help America Vote Act funds are available to support SVRS in FY 2015 and can be used to reduce proposals to provide general fund support ◆ A growing fund balance in the enterprise fund is available to fund the SVRS eliminating the need for general fund support as proposed by the executive

Agency Discussion

In the 2013 biennium the legislature provided a biennial appropriation of \$1.1 million from the federal Help America Vote Act (HAVA) funds to provide grants to counties for continued voting equipment improvements. HAVA was passed by Congress in the wake of the controversial 2000 presidential election in Florida. The 2011 Legislature designated the HAVA funds one-time-only for the 2013 biennium. As a result, the table on the previous page does not reflect FY 2012 base spending for the agency.

In FY 2012 SOS used HAVA funds to meet federal requirements included in the federal act. The act requires states to improve their federal elections processes. As part of the improvements the state is required to maintain a state-wide voter file as a uniform, official, centralized, interactive computerized system. Montana has developed the Statewide Voter Registration System (SVRS) to serve this purpose. In addition, SOS maintains the electronic statewide election reporting system (eSERS) used for election night reporting at the precinct level, and to prepare the county and statewide canvass reports. In the event of a recount, the system is also used to complete a recount canvass report. Other uses of the federal funds in FY 2012 included post-election audits of voting results, county election training, and support for 1.00 FTE to support these functions.

The executive is requesting:

- o \$1.3 million in general fund over the 2015 biennium to support SERVS
- o \$0.5 million in federal HAVA funds to provide for eSERS and the other uses of the federal funds outlined above as a one-time-only biennial appropriation

LFD
ISSUE

General Fund Can Be Reduced or Eliminated by Utilizing Federal and Proprietary Funds to Support HAVA Requirements

Use of HAVA Funds

SOS indicates the following costs are included in the proposal for federal HAVA funds in FY 2014:

- o \$50,000 and 1.00 FTE to support the administrative functions associated with HAVA requirements excepting those for the SVRS
- o \$30,000 for eSERS
- o \$20,000 for post-election audits
- o \$30,000 for election training and administration

The office anticipates they will require an additional \$130,000 of HAVA funds in FY 2015 to support these activities or a total of \$260,000 over the 2015 biennium. This figure is \$253,000 below the amount requested, which the office indicated it intends to use in the 2017 biennium.

Figure 1 shows the income statement for the HAVA funds using the entire amount requested by the office in the 2015 biennium.

A review of the income statement for the Help America Vote Act account shows that as proposed by the executive, almost \$443,000 of funds are available at the end of FY 2014:

- o \$190,000 in estimated fund balance
- o \$253,000 in requested authority in FY 2014 that is intended for the 2017 biennium

The legislature may wish to consider supporting SVRS with the available HAVA funds.

Figure 1

Secretary of State Help America Vote Act			
	Actual FY 2012	Budgeted FY 2013	Proposed FY 2014
Income Statement			
Beginning Fund Balance	\$1,846,695	\$1,350,232	\$702,232
Revenues			
Investment Earnings	4,794	2,000	1,000
Expenditures			
Personal Services	107,112	0	0
Operating Expenses	393,862	0	513,000
Grants	<u>28,305</u>	<u>650,000</u>	<u>0</u>
Total Expenditures	529,279	650,000	513,000
Adjustments	28,022	0	
Ending Fund Balance	<u>\$1,350,232</u>	<u>\$702,232</u>	<u>\$190,232</u>

**LFD
ISSUE
CONT.***Use of Proprietary Funds*

As discussed in more detail in the Funding and Proprietary Rates sections, the office is supported by a proprietary fund. According to the SOS, the proprietary fund provides support for the following major functions:

- Election administration
- Registration and document filing of Montana businesses
- Publication and distribution of administrative rules
- Records management of public documents generated by state and local government
- Centralized services for the Secretary of State's Office

The 2013 Biennium Report on Internal Service and Enterprise Funds for the business and government services account in the enterprise fund shows and the last several legislative audits confirm that the fund balance for the enterprise fund used to finance the operations of the Secretary of State is high and fees are not commensurate with costs. The projected ending fund balance at the end of FY 2015 is \$5.3 million.

With a projected ending fund balance of \$5.3 million at the end of FY 2015 it appears the fund could be used for additional election administration costs associated with maintaining the SVRS originally authorized using HAVA funds. Under the previous Secretary of State, the purpose for accumulating the balance was stated as being needed to upgrade the computerized management system used by the office. Furthermore, the office was successful in obtaining general fund from the 2009 Legislature to finance the first of five planned phases for upgrading the office's management system. The current Secretary of State has stated that the balance of the fund is needed to finance costs for the operation of the office. Based on the projected increased fund balance projected for FYE 2015, this does not appear to be the case for the 2015 biennium. The legislature may wish to consider funding costs for SVRS using the proprietary funds allocated to the agency.

Legislative Option

Fund SVRS costs in the 2015 biennium utilizing:

- \$221,500 in HAVA funds each year of the biennium
- \$469,129 in FY 2014 and \$472,529 in FY 2015 from the proprietary fund

*Agency Personal Services*Personal Services Growth

The personal services costs for the agency are included in the proprietary funding of the office. The increases over the 2012 base amount are primarily due to the following factors:

- Pay increases are annualized to full year funding in the 2015 biennium
- Additional FTE requested for the statewide voter registration system

Pay Changes Given in the Base Year

During FY 2012, the agency used funding from vacancies to fund strategic pay adjustments that averaged 1.00% for every position.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Secretary of State is not required to submit a 5% reduction plan as the office has no general fund or state special revenue funds.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining
- o Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- o Current plans to address obsolescence
- o Costs to replace the system
- o Costs of maintaining the current system
- o Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

The following table shows agency funding by source of authority, as proposed by the executive.

Total Secretary Of State's Office Funding by Source of Authority 2015 Biennium Budget - Business & Government Services							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,384,658	\$0	\$0	\$1,384,658	12.4%		
Federal Special Total	\$513,000	\$0	\$0	\$513,000	4.6%		
03715 Elections Federal Grant	\$513,000	\$0	\$0	\$513,000	4.6%		
Proprietary Total	\$0	\$9,311,489	\$0	\$9,311,489	83.1%		
06053 Sec. Of St. Business Services	\$0	\$9,311,489	\$0	\$9,311,489	83.1%		
Total All Funds	\$1,897,658	\$9,311,489	\$0	\$11,209,147	100.0%		
Percent - Total All Sources	16.9%	83.1%	0.0%				

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

The executive is proposing \$1.4 million in general fund to support the statewide voter registration system. See related issues under the Agency Discussion and the “Proprietary Rate” section for LFD issues with this proposal.

In recent years, the federal Help America Vote Act of 2002 (HAVA) has provided federal special revenues for election reform initiatives. Since expenditure of HAVA interest funds in the base were designated as one-time-only, these expenditures were removed from the base and no base exists. Interest accrued on deposit of HAVA funds remains unspent and funding from these funds is proposed for FY 2014.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	0	0	0	0.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	690,629	694,029	1,384,658	100.00%	1,203,629	694,029	1,897,658	100.00%
Total Budget	\$690,629	\$694,029	\$1,384,658		\$1,203,629	\$694,029	\$1,897,658	

As discussed in the Agency Discussion narrative, HAVA funding was designated as one-time-only for FY 2012 resulting in new proposal request to reinstate federal funding for the 2015 biennium. General fund is proposed to support the statewide voter registration system.

New Proposals

Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1501 - Statewide Voter Registration System (SVRS)										
01	1.00	690,629	0	0	690,629	1.00	694,029	0	0	694,029
DP 1503 - HAVA Interest (Biennial) OTO										
01	0.00	0	0	513,000	513,000	0.00	0	0	0	0
Total	1.00	\$690,629	\$0	\$513,000	\$1,203,629	1.00	\$694,029	\$0	\$0	\$694,029

DP 1501 - Statewide Voter Registration System (SVRS) - The executive requests support for 1.00 FTE and operational costs to support the State Wide Voter file that was mandated by the federal Help America Vote Act (HAVA) of 2002. The federal act requires states to maintain a uniform, official, centralized, interactive computerized system. The voter file must be maintained for fixes and enhancements to the system.

LFD ISSUE	See the Agency Discussion section for more information and related LFD issues on this proposal.
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DP 1503 - HAVA Interest - Spending authority is requested for cumulative interest earnings from the Help America Vote Act grant. Authority would be used for related expenses and grants to counties to continue to comply with the act.

**Proprietary Rates
For Business and Government Services (06053)**

Program Description

The Secretary of State’s Office conducts its daily operations through a single program, the Business and Government

Services Program. It provides the following major functions:

- Election administration
- Registration and document filing of Montana businesses
- Publication and distribution of administrative rules
- Records management of public documents generated by state and local government
- Centralized services for the Secretary of State's Office

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services for 55.25 FTE, \$4.7 million over the 2015 biennium
- Operating costs \$9.3 million over the 2015 biennium including:
 - \$0.8 million for e-government transaction fees
 - \$0.5 million for information technology and communication services
 - \$0.4 million for building rent

Revenues

Revenues are received from fees charge to: 1) businesses and corporations for corporate filings, registration of assumed business names, and trademarks; 2) state agencies and users of ARM for publishing and distributing the ARM and the MAR, and storage and management of public documents; 3) candidates who file for elections; 4) Montana citizens who apply to be notaries. Revenues, by source, have been steadily increasing since FY 2009 and are not projected to deviate from this pattern.

Significant Present Law Adjustments

Statewide present law adjustments increase costs to the program by \$123,000 in FY 2014 and \$86,500 in FY 2015. The agency proposes to use proprietary funding to support 1.00 FTE previously supported by HAVA funds at an increased cost of \$102,100 over the 2015 biennium.

Proprietary Rates

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

LFD ISSUE

Fees Not Commensurate with Cost

As discussed in the agency narrative, the fees for the proprietary fund are not commensurate with costs. The legislature may want to discuss plans the office has for addressing fees and operating costs of the office.

Although this fund is an enterprise fund, it functions the same as an internal service fund except that Montana business owners and candidates for office rather than state agencies are paying the fees. LFD consulted with Legislature Services Division legal staff to determine if there were any restrictions that would prohibit the legislature from transferring proprietary funds to the general fund. The legal staff could not find any provisions in the constitution, code, or case law that would prevent the legislature from "sweeping" an enterprise account.

Legislative Options

The legislature does not appropriate the fund, nor does it approve the fees, which are outlined in rule. If the legislature considers in its review of the fund that the fees are not commensurate with costs it can:

- Request that the Secretary of State lower fees to bring fees in line with the costs of the program after factoring in the excess balance over a reasonable reserve in the rate determination; or
- Transfer a portion of the fund to the general fund

The Legislative Fiscal Division Presents an Agency Profile of: Commissioner of Political Practices

Contact: Contact: Kris Wilkinson, Senior Fiscal Analyst
Rm. 131, State Capitol Building
Phone: (406) 444-2722
E-mail: kwilkinson@mt.gov

Updated December 2012

Agency Description

Definition of Terms

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

Total FY 2012 FTE: 7.00 FTE, funded with general funds

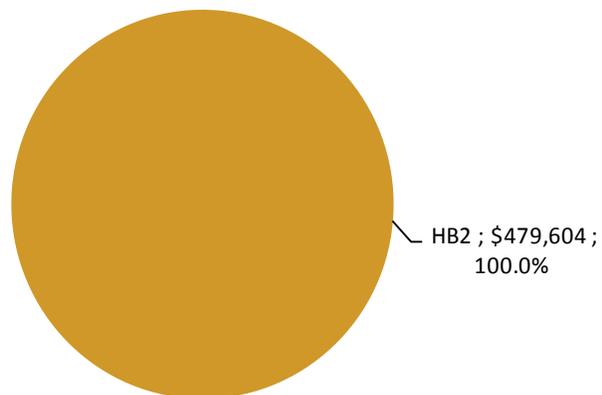
How Services are Provided

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

Sources of Spending Authority

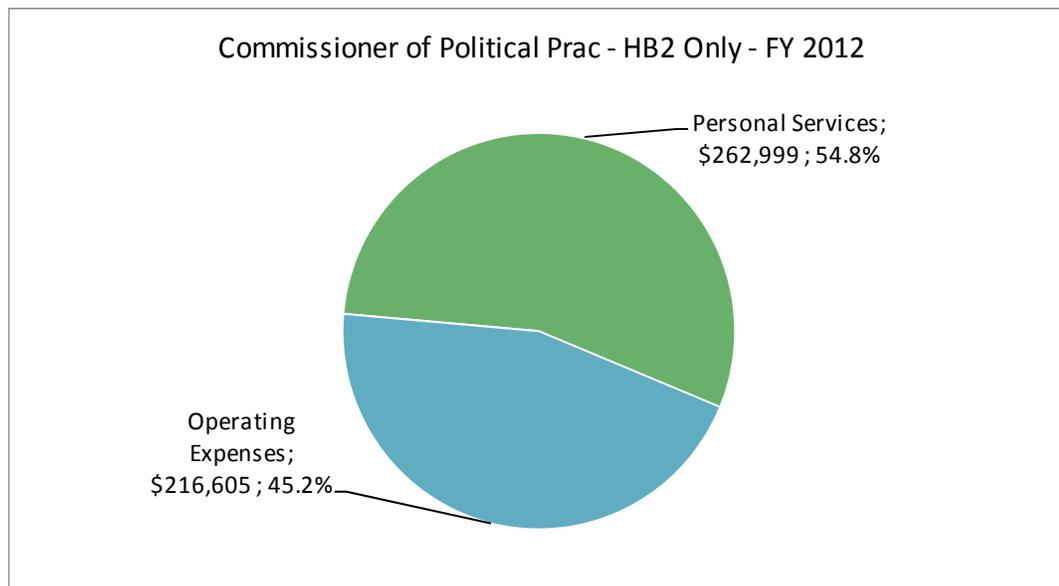
The above chart shows the sources of appropriation authority for the Commissioner of Political Practices. For a more detailed description of accounting terminology, please refer to the definition of terms. The operations of the COPP are entirely funded with general fund. The agency does receive fees for printing and distribution, filing fees from lobbyists, and levies civil penalties for violations of campaign laws. These fees are generally minimal and are deposited into the general fund. A portion of the \$150 lobbyist registration fee is deposited to a state special revenue account and used by the Legislative Branch to support public interest television broadcasts (TVMT). The agency does not have either proprietary funds or statutory appropriations.

Commissioner of Political Prac - All Authority - FY 2012



Expenditures

The next chart explains how the House Bill 2 (HB 2) is spent. Of the total authority, 54.8% was spent on personal services costs and 45.2% on operating expenses. This chart matches the agency base expenditure found in the 2015 Budget Analysis.



Funding

Since the agency's only funding authority is authorized through HB 2 and is general fund, the funding table for this agency is identical to the source of authority table.

How the 2013 Legislature Can Effect Change

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

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

The legislature is less likely to control:

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

Major Cost Drivers

The Commissioner of Political Practices addresses its mandated duties with one appointed official and six staff members. Activity for this agency varies depending upon :

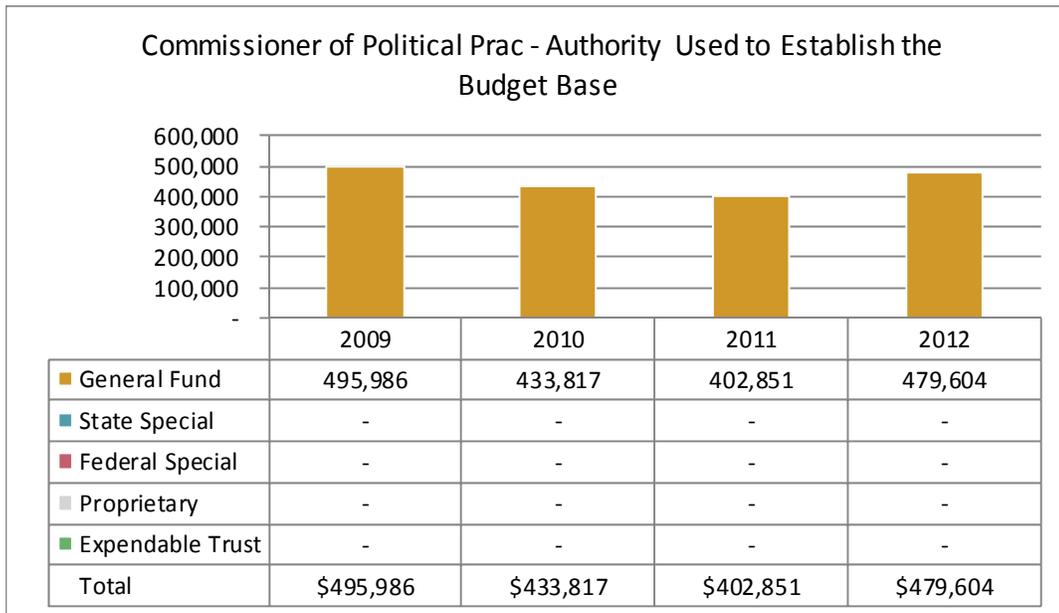
- Elections
- Number of candidates filing for offices
- Level of on-going activity related to campaign
- Level of on-going activity related to ethics issues

Element	2008	2012	Significance of Data
Number of lobbyists	537	692	Decrease in workload
Number of principals	476	493	Increase in workload
Political practice complaints	15	39	Increase in costs and workloads
Lawsuits	-	9	Increase in costs and workloads

Funding/Expenditure History

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

- Variations in the amount of legal costs incurred. In past biennia the agency has contracted with the Department of Justice to provide legal counsel for cases where legal expertise is needed. In November 2012 the agency had seven lawsuits pending



Major Legislative Changes in the Last Ten Years

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

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

Commissioner of Political Practices

1205 8th Ave.

P.O. Box 202401

Helena, MT 59620-2401

Phone: (406) 444-2942

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

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	6.00	6.00	7.00	7.00	6.00	7.00	1.00	16.67%
Personal Services	263,000	306,626	385,271	384,934	569,626	770,205	200,579	35.21%
Operating Expenses	216,605	260,402	202,255	170,872	477,007	373,127	(103,880)	(21.78%)
Total Costs	\$479,605	\$567,028	\$587,526	\$555,806	\$1,046,633	\$1,143,332	\$96,699	9.24%
General Fund	479,605	567,028	587,526	555,806	1,046,633	1,143,332	96,699	9.24%
Total Funds	\$479,605	\$567,028	\$587,526	\$555,806	\$1,046,633	\$1,143,332	\$96,699	9.24%

Agency Description

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

For additional information please refer to the agency profile.

Agency Highlights

Commissioner of Political Practices Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive proposes to add an in-house legal counsel and eliminate contracted legal services reducing general fund for legal costs by \$27,000 over the 2015 biennium ◆ Other increases include statewide present law adjustments for personal services and fixed costs

Agency Discussion

The State Administration and Veteran’s Affairs Interim Committee requested HB 23, an act that:

- Revises ethics violation laws for the Office of Commission of Political Practices (COPP)
- Prohibits the commissioner from engaging in private business during office hours
- Provides for resolution of charges of ethics violations by the COPP

Agency Personal Services

The executive proposes to add 1.00 FTE and general fund support for a legal counsel. The overall impact of the proposal is a reduction of just over \$27,000 in general fund over the 2015 biennium because of an offsetting reduction in current costs to contract for legal representation through the Department of Justice. The personal services budget for the 2015 biennium increases over the FY 2012 base due to:

- An overall vacancy savings rate of 8.3% compared to a budgeted 0% rate
- Annualization of broadband pay increases that were granted at various times in FY 2012

As of December 11, 2012, there was administrative assistance position that has been vacant since May 1, 2007

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The COPP is exempt from this requirement due to its small size as an agency.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining
- o Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- o Current plans to address obsolescence
- o Costs to replace the system
- o Costs of maintaining the current system
- o Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Comm Of Political Practices Funding by Source of Authority 2015 Biennium Budget - Administration							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,143,332	\$0	\$0	\$1,143,332	100.0%		
Total All Funds	\$1,143,332	\$0	\$0	\$1,143,332	100.0%		
Percent - Total All Sou	100.0%	0.0%	0.0%				

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	479,605	479,605	959,210	83.90%	479,605	479,605	959,210	83.90%
Statewide PL Adjustments	87,339	79,064	166,403	14.55%	87,339	79,064	166,403	14.55%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	20,582	(2,863)	17,719	1.55%	20,582	(2,863)	17,719	1.55%
Total Budget	\$587,526	\$555,806	\$1,143,332		\$587,526	\$555,806	\$1,143,332	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					50,768					50,476
Inflation/Deflation					76					153
Fixed Costs					36,495					28,435
Total Statewide Present Law Adjustments		\$87,339	\$0	\$0	\$87,339		\$79,064	\$0	\$0	\$79,064
Grand Total All Present Law Adjustments	0.00	\$87,339	\$0	\$0	\$87,339	0.00	\$79,064	\$0	\$0	\$79,064

Statewide present law adjustments include increases in personal services for the vacant administrative position, annualization of the broadband pay adjustments, and statutorily required longevity.

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----				
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Agency Legal Counsel											
	01	1.00	(13,497)	0	0	(13,497)	1.00	(13,542)	0	0	(13,542)
DP 3 - Change in Agency Location OTO											
	01	0.00	34,630	0	0	34,630	0.00	11,230	0	0	11,230
DP 6101 - Professional Development Center Training											
	01	0.00	(551)	0	0	(551)	0.00	(551)	0	0	(551)
Total		1.00	\$20,582	\$0	\$0	\$20,582	1.00	(\$2,863)	\$0	\$0	(\$2,863)

DP 1 - Agency Legal Counsel - The executive is requesting funding for a 1.00 FTE for a Legal Counsel. COPP receives numerous complaints each year requiring a significant amount of time to resolve. The contracted attorney from the

Department of Justice can't keep up with the investigator. Currently there are 31 cases on the complaint docket. Sixteen cases have been fully investigated and are ready for a decision. In addition to the complaint docket COPP has seven pending lawsuits. The proposal includes a reduction for the cost of the contracted attorney.

**LFD
COMMENT**

The reduction in overall spending is due to elimination of contracted legal services which were charged at a higher rate than the cost of the in-house legal counsel.

DP 3 - Change in Agency Location OTO - The executive is requesting one-time-only funding to move the office in FY 2014. COPP proposes to move to a larger location that will accommodate 7.00 FTE and filing space. In addition, during the busy election season the COPP employs temporary staff to assist with scanning and filing documents.

DP 6101 - Professional Development Center Training - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Total Comm Of Political Practices Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$1,135,647	\$0	\$0	\$1,135,647	100.0%
Total All Funds	\$1,135,647	\$0	\$0	\$1,135,647	100.0%
Percent - Total All Sources	100.0%	0.0%	0.0%		

COMMISSIONER OF POLITICAL PRACTICES

MISSION STATEMENT

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

FY 14 & FY 15 GOALS AND OBJECTIVES

(Revised August, 2012)

GOAL 1: IMPROVE COMPLIANCE

GOAL 1 OBJECTIVES & STATUS

▪ Implement a procedure and seek specific rule authority to allow CPP to formally disband a non-responsive PAC	Target: 6/13
--	--------------

GOAL 2: REDUCE THE RISK OF SYSTEM FAILURE RELATED TO ON-LINE FILING

GOAL 2 OBJECTIVES & STATUS

▪ Develop an updated, user friendly web based on-line filing & publicly available search system for campaign financial reports	Target: 12/13
▪ Secure funding from 2013 Legislature to build new database & online services.	Target: 5/13
▪ Enhance Search & Download services to make information easily available to public	Target: 12/13
▪ Work toward more mandates on electronic filing	Target: 5/13

GOAL 3: UPDATE & ENHANCE IMAGED WEB FACING FORMS

GOAL 3 OBJECTIVES & STATUS

▪ Scan & Filenet C-3's, C-118's, C-118C's & C-8's	Target: 12/13
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▪ Add ethics forms to Filenet search: E-1, and Conflicts of Interest	Target: 12/13
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GOAL 4: EXPEDITE RESOLUTION OF CAMPAIGN PRACTICES COMPLAINTS

GOAL 4 OBJECTIVES & STATUS

▪ Seek funding for full time agency legal counsel.	Target: 5/13
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The Legislative Fiscal Division Presents an Agency Profile of: The State Auditor's Office

Contact: Lois Steinbeck, Senior Fiscal Analyst
Rm. 118, State Capitol Building
Phone: (406) 444-5391 e-mail: lsteinbeck@mt.gov

Updated December 2012

Agency Description

Definition of Terms

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

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

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

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

The Insure Montana program, which funds premium assistance and tax credits for small employers who provide health insurance to their employees, is authorized in 33-22-2006, MCA.

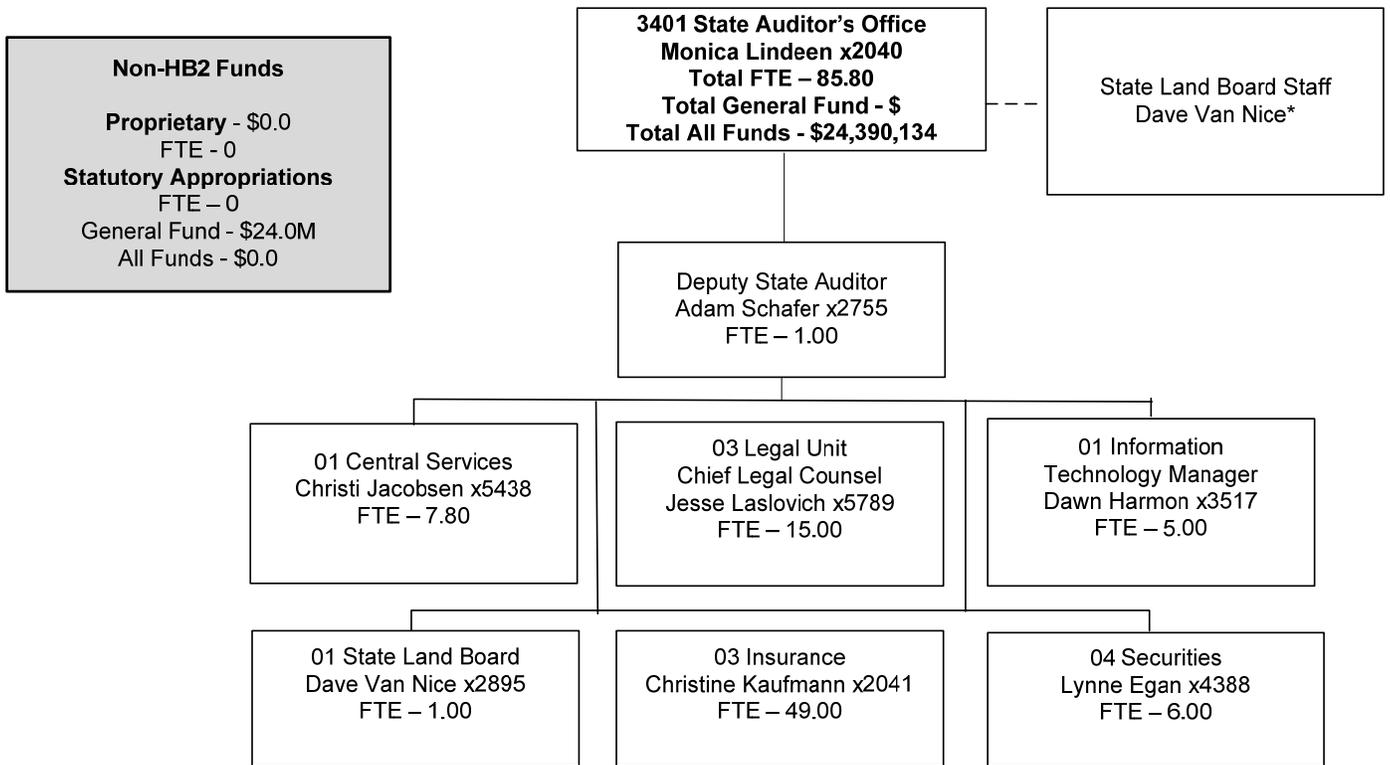
The office manages the Forest Reserve Shared Revenue account under 17-2-211, MCA, and the Fire and Police Retirement Program under 33-2-705, and 50-3-109, MCA, the Tobacco Settlement funds under 17-6-606, MCA.

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

17-6-606, MCA authorizes the Office of the State Auditor's oversight of the Montana Comprehensive Health Association premium assistance program for qualifying, low-income Montanans, which is funded with tobacco settlement fund earnings.

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

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



How Services are Provided

The State Auditor provides these services through a structure consisting of three divisions with the following functions:

- Central Management is responsible for the administrative, personnel, budgeting and accounting functions for the State Auditor’s office. They also provide support in fulfilling the duties as a member of the state land and hail insurance boards, and serve as a conduit for the distribution of a “pass through” program: the Fire and Police Retirement Program.
- The Insurance Division regulates the insurance industry in Montana and oversees two insurance programs, the Montana Comprehensive Health Association premium assistance program for qualifying, low-income Montanans and the Small Business Insurance Pool (Insure Montana). This division has seven sub-divisions:
 - ◇ The Market Compliance Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies.
 - ◇ The Legal unit investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.
 - ◇ The Examinations Bureau monitors the financial solvency of insurance companies operating in Montana through financial analysis and financial examination, and collecting premium taxes and company fees paid by insurance companies operating in Montana.
 - ◇ The Rates Bureau is responsible for reviewing rate filing to ensure compliance with the applicable insurance code
 - ◇ The Forms Bureau is responsible for reviewing form filings to ensure compliance with the applicable insurance code.
 - ◇ The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjustors.
 - ◇ The Insure Montana Program provides health insurance for small business with premium assistance or tax credits for health insurance purchases
- Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and in particular, for the registration of securities issuers, sales people, broker-dealers, investment advisers, and investment adviser representatives. The division is responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets under \$25 million.

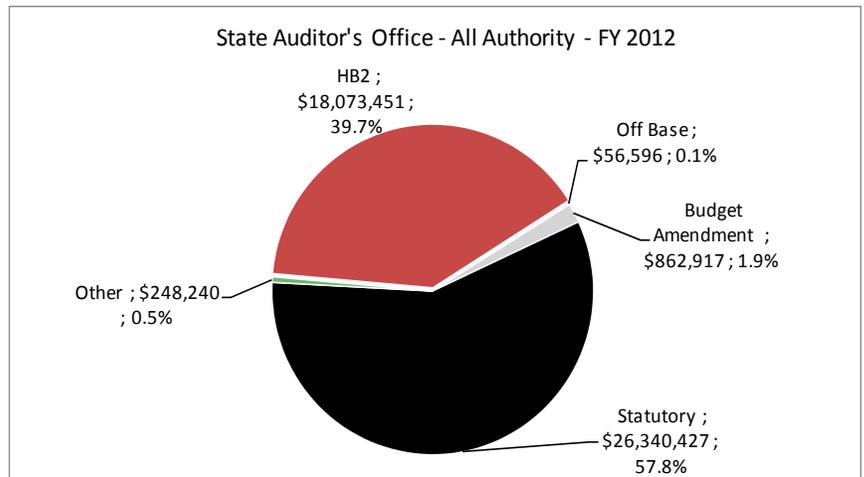
The State Auditor conducts the business of the three divisions through employment of FTE and contracted services. Personal services account for 29% of the \$18.1 million it takes to operate the program.

The State Auditor is also responsible for passing through funding for local police and firefighter retirement programs (Municipal Police Officers’ Retirement System, Firefighters’ Unified Retirement System, the Volunteer Fire Fighters’ Compensation Act, local fire department relief associations, municipalities with police department trust funds, and local police pension funds for supplemental benefits). The retirement programs are funded from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA) - \$27 million in FY 2012. Because these funds are statutorily appropriated, the expenditures are not included in the general appropriations act.

Sources of Spending Authority

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

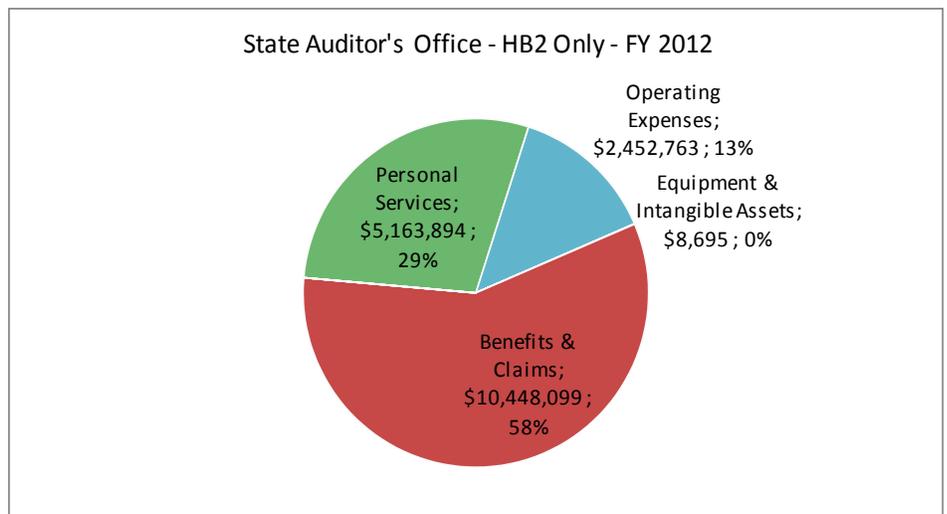
- HB 2 – state special revenue to fund programs administered by the office
- Statutory - primarily distributions of insurance premium taxes to local police and firefighter retirement programs
- Budget Amendment – federal grant funds provided to all states in 2010 for implementation planning for the Patient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



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

Expenditures

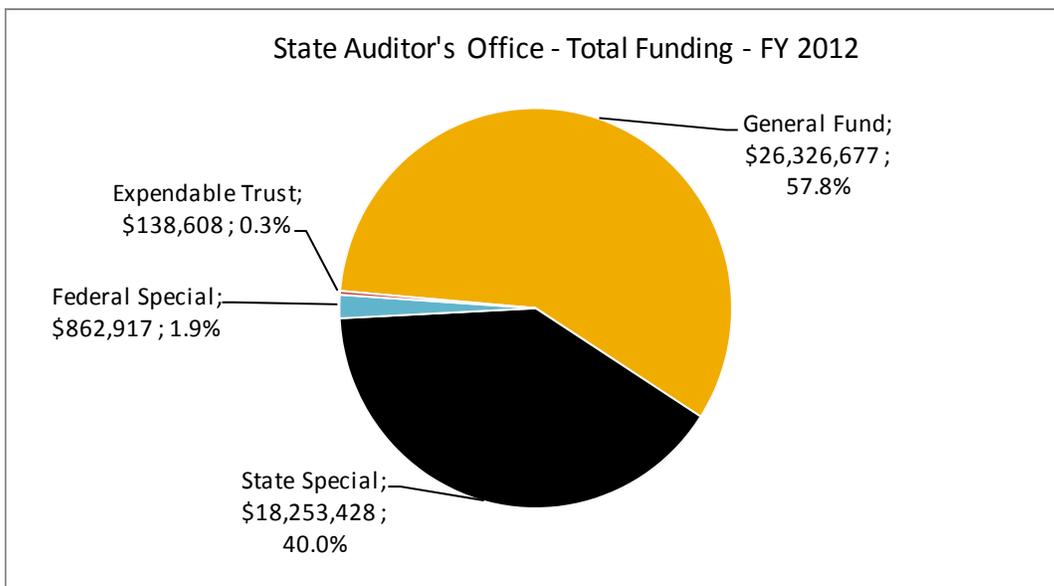
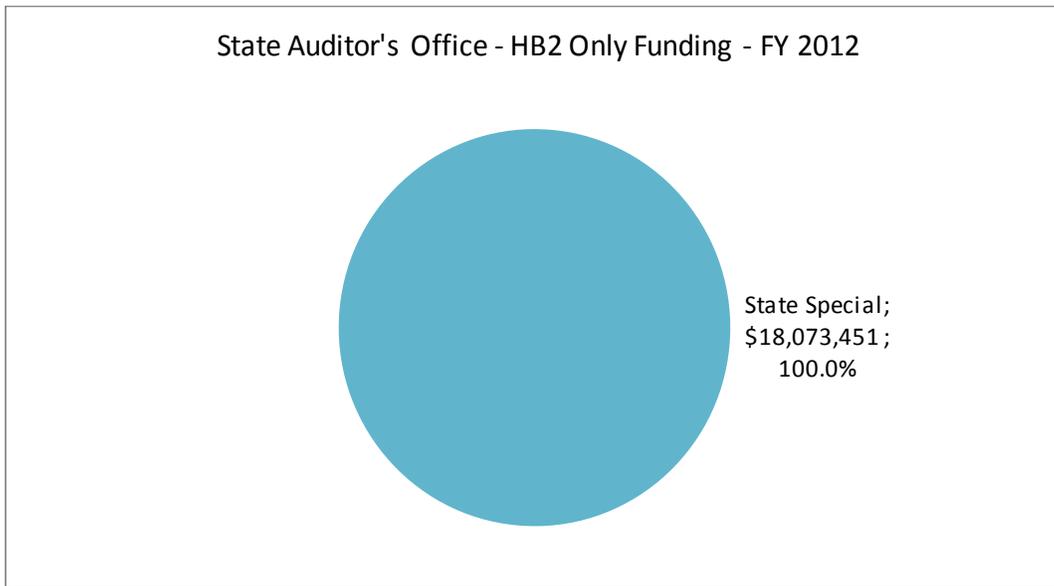
The next chart explains how the HB 2 authority is spent. Of the \$18.1 million of HB 2 authority expended in FY 2012, \$10.5 million, or 58%, was spent on benefits and claims, which consists of premium assistance and tax credits for small employers who provide health insurance to their employees. This chart matches the agency chart found in the 2015 Budget Analysis.



Funding

The following charts show the agency's HB2 funding authority by fund type and all sources of its total funding authority. The Total Funding figure includes several sources of authority not budgeted in HB 2 including:

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



Funding, cont.

Insurance

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

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

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

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

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

Tobacco settlement trust proceeds support the Montana Comprehensive Health Association premium assistance program for qualifying, low-income Montanans.

Health and Medicaid initiatives state special revenue funds support both components of Insure Montana - the small business insurance pool and the health insurance tax credits program. These funds are generated through taxes on cigarettes and other tobacco products.

Securities

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

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

How the 2013 Legislature Can Effect Change

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

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

How the Legislature Can Effect Change, cont.

- Policy on how the agency participates in the Montana Comprehensive Health Association premium assistance program, the Insure Montana program; and
- The code of ethics for insurance and security industries doing business in Montana

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

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

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

- Insurance or securities regulatory policy changes – these policy changes impact staff workload and costs associated with oversight and regulation of the insurance and securities industries in Montana.
- State assistance for purchasing health insurance – the legislature can alter program funding or program characteristics for the Insure Montana program or the Montana Comprehensive Health Association, both of which provide assistance to help persons purchase health insurance

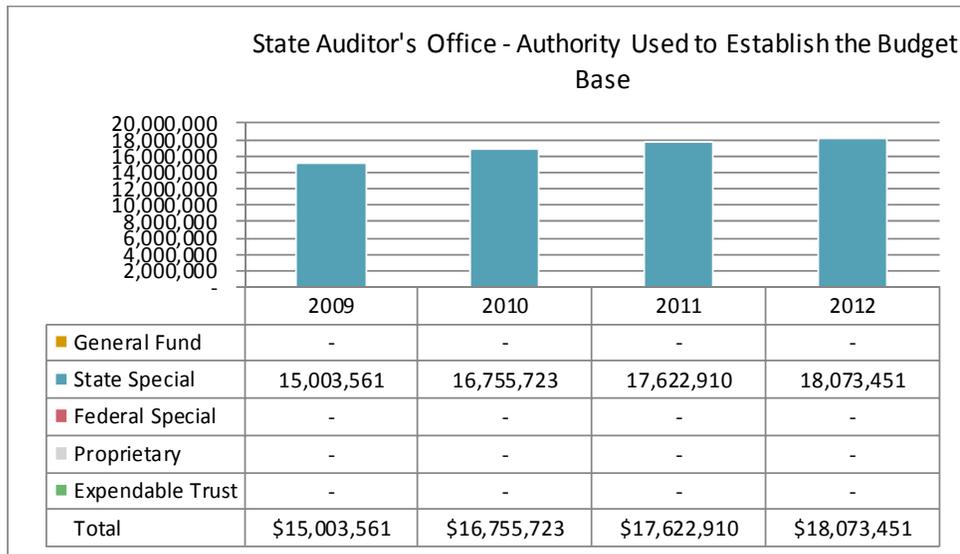
Major Cost Drivers

Major Cost Drivers

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

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

Funding/Expenditure History



The State Auditor’s Office budget has increased about \$3.0 million over the past four years increasing from \$15.0 million in FY 2009 to \$18.1 million in FY 2012. The gradual increase funded growth in financial and market conduct examinations for insurance and security firms, personal services cost increases, and some increase in Insure Montana.

Major Legislative Changes in the Last Ten Years

2011 Legislature

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

2009 Legislature

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

2005 Legislature

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

For further information, please contact the agency:

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

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	85.80	85.80	83.80	79.80	85.80	79.80	(6.00)	(6.99%)
Personal Services	5,163,890	5,228,420	5,414,590	5,214,565	10,392,310	10,629,155	236,845	2.28%
Operating Expenses	2,452,750	2,256,566	3,504,568	3,628,028	4,709,316	7,132,596	2,423,280	51.46%
Equipment & Intangible Assets	8,695	13,751	7,994	7,994	22,446	15,988	(6,458)	(28.77%)
Benefits & Claims	10,448,099	10,678,166	5,686,832	925,563	21,126,265	6,612,395	(14,513,870)	(68.70%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$18,073,434	\$18,176,903	\$14,613,984	\$9,776,150	\$36,250,337	\$24,390,134	(\$11,860,203)	(32.72%)
State Special	18,073,434	18,176,903	14,613,984	9,776,150	36,250,337	24,390,134	(11,860,203)	(32.72%)
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	\$18,073,434	\$18,176,903	\$14,613,984	\$9,776,150	\$36,250,337	\$24,390,134	(\$11,860,203)	(32.72%)

Mission Statement

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

For additional information, please refer to the agency profile.

Agency Highlights

State Auditor's Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ The 2015 biennium Governor's budget for the State Auditor's Office is a net \$11.9 million and 6.00 FTE lower than the 2013 biennium budget due to elimination of the Insure Montana program. Some of the increases that partially offset the reduction are: <ul style="list-style-type: none"> • \$2.0 million for contracted examinations of insurance and security firms • \$0.7 million in net personal services statewide present law adjustments due to increases in pay and longevity, as well as a longer work year • \$0.1 million for continuation of 1.00 FTE funded from a one-time appropriation in the 2013 biennium ◆ The State Auditor has submitted several elected official budget requests that were not included in the executive budget: <ul style="list-style-type: none"> • \$13.3 million, including funding for 7.00 FTE, to continue the Insure Montana program • \$0.8 million to upgrade and maintain information technology systems • \$0.4 million for market pay adjustments in the 2015 biennium • A \$1.0 million reduction to contract examination costs

Major LFD Issues
<ul style="list-style-type: none"> ◆ If the legislature continues funding for the Insure Montana program it may wish to consider how the program could best complement insurance changes that will become effective January 1, 2014 if the Patient Protection and Affordable Care Act (ACA) is implemented without significant changes ◆ The legislature could consider whether to continue the state funding contribution for the state high risk insurance pool (Montana Comprehensive Health Association) if the ACA is implemented without significant changes ◆ The health and Medicaid initiatives account balance is insufficient to fund the executive budget and State Auditor elected official requests

The Governor’s budget includes \$24.4 million for the 2015 biennium, or a reduction of \$11.9 million and 6.00 FTE compared to the 2013 biennium budget. The Governor’s budget eliminates funding for Insure Montana, a state funded program that provides assistance to small employers and their employees to provide health insurance through premium assistance and tax credits. The State Auditor did not include elimination of the program in the agency budget request submitted to the Governor’s budget office. The State Auditor will request that the legislature reinstate funding for the program.

Increases in the Governor’s budget request are:

- \$2.0 million for contracted examinations of insurance and security firms
- \$0.2 million for 1.00 new FTE, which was funded from a one-time appropriation in the 2013 biennium
- \$0.3 million for increases to base pay

The legislative budget analysis contains all elected official requests, which are in addition to budget increases included in the executive budget recommendation. These requests are presented for legislative review and consideration.

Figure 1

Elected Official Request

As a courtesy to elected officials, the LFD Budget Analysis includes any proposals they intend to bring to the legislature that are different and/or excluded from the executive budget. The State Auditor submitted elected official requests that total \$16.0 million, including funding for 8.00 FTE. The majority of the request restores funding for the Insure Montana program. Most of the items included in Figure 1 were included in the State Auditor’s budget request submitted to the Governor’s budget office. Figure 2 shows each request.

State Auditor's Office			
Elected Official Requests not Included in Governor's Budget			
Proposal	FTE	FY 2014	FY 2015
Restore Insure Montana Program Funding*	7.00	5,090,001	10,206,715
Insure Montana 5% Limitation Restoration*		156,181	156,181
IT Decision Package		493,685	276,946
Market Adjustments		183,797	183,797
Market Conduct Staff Continuing Education*		18,800	11,900
Central Management Continuing Education*		33,915	33,915
Insurance Agent Outreach*		15,000	15,000
Captive Insurance FTE*	1.00	64,736	60,091
Biennial Market Conduct Exams		<u>(336,000)</u>	<u>(650,000)</u>
Total	<u>8.00</u>	<u>5,720,115</u>	<u>10,294,545</u>
Biennial Total Elected Official Requests			16,014,660
Total Included in Original Budget Request*			<u>\$15,862,435</u>

*These items were included in the State Auditor's budget request submitted to the Governor's budget office, but were not included in the Governor's budget.

The most significant changes requested by the State Auditor are:

- o \$15.3 million and 7.00 FTE to continue the Insure Montana program
- o \$0.3 million to restore the base level appropriation for Insure Montana since 33-22-2008, MCA requires that businesses may be enrolled in the program up to 95% of the total appropriation
- o \$0.8 million for information technology system improvements
- o \$0.4 million for pay increases to fund market adjustments
- o A reduction in market conduct examination cost increases of \$1.0 million

Each of these requests except pay increases is discussed in the budget request of the division that manages the budget of the respective program. Since the request for pay increases affects all divisions it is discussed in the agency overview.

LFD
ISSUE

Pay Increases

The figure below shows pay increases implemented by the State Auditor during the 2013 biennium by division. 2013 biennium pay increases ranged from an average of 4% in the Insurance Division to 13% in Central Management. Increases to base pay were not uniformly granted to all positions and the amount of pay raise varied among positions. A few of the increases were related to reclassification or changes in duties. The elected official request for market adjustments to pay, would bring all position salary levels to 85% of the market survey.

Figure 2

State Auditor's Office - Change in Salaries* for Present Law FTE

Division	Base		Base Salaries*		Percent Change
	FTE	FY 2013**	FY 2014	Difference	
Central Management	16.80	\$756,316	\$851,731	\$95,415	13%
Insurance Division	58.00	2,642,071	2,741,636	99,565	4%
Securities Division	<u>11.00</u>	<u>518,828</u>	<u>580,706</u>	<u>61,878</u>	<u>12%</u>
Total	<u>85.80</u>	<u>\$3,917,214</u>	<u>\$4,174,073</u>	<u>\$256,859</u>	7%

*Salaries include base pay for the position. Salaries does not include other components of pay - longevity, payroll taxes, and employee benefits.
 **FY 2013 has 2080 work hours while FY 2014 and FY 2015 each have 2,088 or 8 hours more. The FY 2013 total has been adjusted upward by 8 hours so that a valid comparison can be made.

The legislature may wish to consider whether or how much to appropriate for pay increases for the State Auditor’s Office (SAO) in the 2015 biennium. If the legislature approves a pay plan, it may wish consider whether to grant additional HB 2 authority for pay adjustments.

Summary of Issues

Legislative staff has identified several other issues that legislators may want to consider when establishing appropriations for the State Auditor’s Office. These issues are discussed in relationship to division appropriation decisions and are:

- o The legislature may wish to consider how some programs overseen by the State Auditor may be affected by implementation of the Patient Protection and Affordable Care Act (if it remains unchanged) including:
 - o The state high risk pool since all persons will be able to purchase health insurance on the health insurance exchange without regard to health status
 - o If the legislature opts to reinstate funding for Insure Montana, there are federal tax credits for two years for some small employers that provide health insurance to their employees and some low-income employees of small employers can purchase subsidized health insurance on the the individual health insurance exchange without penalties
 - o Expansion of Medicaid - if approved by the legislature – since that would provide health coverage for some low-income persons currently receiving premium assistance through Insure Montana (if the legislature continues the program).

- There is inadequate funding in the health and Medicaid initiatives account to fund the executive budget request and the State Auditor’s elected official proposals

Agency Personal Services Narrative

The pay philosophy followed by the office is:

- Providing funding is available, the State Auditor will attempt to place new hires at 95% of market based on the benchmarks

The State Auditor was able to place about 40% of new hires at 95% of market.

Some of the challenges faced are:

- There is not a sufficient career track in the programs to enable a career track for advancement
- Entry level positions have the highest turnover as employees move up in this agency, move to another state agency, or leave for more pay in the private sector.
- When entry level positions are vacant, for any amount of time, it results in increased workloads for other employees, as well as desirable but optional tasks being delayed in completion
- There are six employees in the Insurance Division who could retire by the end of the 2015 biennium

Funding

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

Total State Auditor's Office Funding by Source of Authority 2015 Biennium Budget					
Funds	Non-		Statutory Appropriation	Total All Sources	% Total All Funds
	HB 2	Budgeted Proprietary			
General Fund	\$0	\$0	\$58,177,683	\$58,177,683	70.0%
State Special Total	24,390,134	-	582,500	24,972,634	30.0%
Federal Special Total	-	-	-	-	0.0%
Proprietary Total	-	-	-	-	0.0%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	<u>\$24,390,134</u>	<u>\$0</u>	<u>\$58,760,183</u>	<u>\$83,150,317</u>	
Percent - Total All Sources	29.3%	0.0%	70.7%		

The State Auditor’s Office is funded entirely by state special revenue from:

- Fees paid by insurance companies and security firms for insurance and security oversight
- Tobacco tax revenues for Insure Montana
- Tobacco settlement funds the state high risk pool (Montana Comprehensive Health Association)

Some of the fee revenue collected by the office is transferred to the general fund via a statutory appropriation, while revenue remaining in selected state special revenue accounts is transferred to the general fund at fiscal yearend .

The SAO received some federal grant funds that are not ongoing in the 2015 biennium.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the 2015 biennium 5% plan submitted for this agency is in the appendix and totals \$51,735. Refer to the appendix.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	18,073,434	18,073,434	36,146,868	148.20%
Statewide PL Adjustments	0	0	0	0.00%	417,122	382,547	799,669	3.28%
Other PL Adjustments	0	0	0	0.00%	1,211,977	1,525,432	2,737,409	11.22%
New Proposals	0	0	0	0.00%	(5,088,549)	(10,205,263)	(15,293,812)	(62.70%)
Total Budget	\$0	\$0	\$0		\$14,613,984	\$9,776,150	\$24,390,134	

The Governor’s budget lowers total spending for the State Auditor’s Office by \$15.3 million due to the elimination of funding for the Insure Montana program. Present law adjustments fund insurance market and security firm examination costs and funding to continue an FTE funded from one-time appropriations in the last two biennia.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	16.80	16.80	16.80	16.80	16.80	16.80	0.00	0.00%
Personal Services	1,002,552	1,013,391	1,114,298	1,114,587	2,015,943	2,228,885	212,942	10.56%
Operating Expenses	213,439	204,282	229,951	221,856	417,721	451,807	34,086	8.16%
Equipment & Intangible Assets	1,683	2,800	1,683	1,683	4,483	3,366	(1,117)	(24.92%)
Total Costs	\$1,217,674	\$1,220,473	\$1,345,932	\$1,338,126	\$2,438,147	\$2,684,058	\$245,911	10.09%
State Special	1,217,674	1,220,473	1,345,932	1,338,126	2,438,147	2,684,058	245,911	10.09%
Total Funds	\$1,217,674	\$1,220,473	\$1,345,932	\$1,338,126	\$2,438,147	\$2,684,058	\$245,911	10.09%

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the Commissioner of Securities and Insurance. The division also provides support to the Commissioner in fulfilling the duties as a member of the Land Board and Crop Hail Insurance Board.

Program Highlights

Centralized Services Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Central Management Division 2015 biennium budget request is about \$246,000 or 10% higher than the 2013 biennium due to increases for statewide present law adjustments ◆ Elected official requests include: <ul style="list-style-type: none"> • \$800,000 state special revenue to upgrade and maintain computer systems • \$68,000 state special revenue for training for information technology and financial staff

Program Budget

The Governor’s budget request includes statewide present law adjustments and a new proposal to implement a fixed cost assessment for training provided by the Department of Administration.

Elected Official Requests

The State Auditor included two elected official budget requests:

- \$476,446 in FY 2014 and \$170,861 in FY 2015 of state special revenue to fund information technology projects. The funding would be used to replace a legacy system and complete a scanning project.
- \$33,915 state special revenue each fiscal year for training not included in the base budget. This request would fund training and travel for the information technology staff and travel to the National Association of Insurance Commissioners (NAIC) Financial Summit Conference and other NAIC conferences pertaining to financial concepts. The item is funded from insurance and security fee state special revenue. This item was submitted in the State Auditor’s budget request, but not included in the Governor’s budget.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total State Auditor's Office Funding by Source of Authority 2015 Biennium Budget - Central Management							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$2,684,058	\$0	\$0	\$2,684,058	100.0%		
02235 Insurance Fee Account	\$2,171,230	\$0	\$0	\$2,171,230	80.9%		
02283 Securities Fee Account	\$512,828	\$0	\$0	\$512,828	19.1%	30-10-1004	Pass Thru
Total All Funds	\$2,684,058	\$0	\$0	\$2,684,058	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Central Management function is funded entirely by state special revenue from:

- o Fees paid by insurance companies and security firms

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	1,217,674	1,217,674	2,435,348	90.73%
Statewide PL Adjustments	0	0	0	0.00%	125,992	118,186	244,178	9.10%
Other PL Adjustments	0	0	0	0.00%	2,309	2,309	4,618	0.17%
New Proposals	0	0	0	0.00%	(43)	(43)	(86)	0.00%
Total Budget	\$0	\$0	\$0		\$1,345,932	\$1,338,126	\$2,684,058	

The 2015 biennium budget funds continuation of present law services. The single new proposal reduces costs.

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					153,554					153,853
Vacancy Savings					(41,808)					(41,818)
Inflation/Deflation					4					56
Fixed Costs					14,242					6,095
Total Statewide Present Law Adjustments		\$0	\$125,992	\$0	\$125,992		\$0	\$118,186	\$0	\$118,186
DP 1001 - Rent	0.00	0	2,309	0	2,309	0.00	0	2,309	0	2,309
Total Other Present Law Adjustments	0.00	\$0	\$2,309	\$0	\$2,309	0.00	\$0	\$2,309	\$0	\$2,309
Grand Total All Present Law Adjustments	0.00	\$0	\$128,301	\$0	\$128,301	0.00	\$0	\$120,495	\$0	\$120,495

Program Personal Services Narrative

Statewide personal services adjustments reflect fully funding positions that were vacant for part of the base year and the effect of pay increases granted in FY 2012, which are discussed in the agency overview.

DP 1001 – Rent - This adjustment adds state special revenue for increased office rent. The current lease does not include inflationary adjustments for rent. When the lease expires the agency anticipates a 5% increase on January 2015 for the last half of FY 2015.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation											
01	0.00	0	(43)	0	(43)	0.00	0	(43)	0	(43)	
Total	0.00	\$0	(\$43)	\$0	(\$43)	0.00	\$0	(\$43)	\$0	(\$43)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	58.00	58.00	55.00	51.00	58.00	51.00	(7.00)	(12.07%)
Personal Services	3,542,103	3,528,621	3,458,047	3,257,858	7,070,724	6,715,905	(354,819)	(5.02%)
Operating Expenses	2,032,708	1,786,288	2,990,904	3,128,094	3,818,996	6,118,998	2,300,002	60.23%
Equipment & Intangible Assets	5,810	9,057	5,109	5,109	14,867	10,218	(4,649)	(31.27%)
Benefits & Claims	10,448,099	10,678,166	5,686,832	925,563	21,126,265	6,612,395	(14,513,870)	(68.70%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$16,028,720	\$16,002,132	\$12,140,892	\$7,316,624	\$32,030,852	\$19,457,516	(\$12,573,336)	(39.25%)
State Special	16,028,720	16,002,132	12,140,892	7,316,624	32,030,852	19,457,516	(12,573,336)	(39.25%)
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	\$16,028,720	\$16,002,132	\$12,140,892	\$7,316,624	\$32,030,852	\$19,457,516	(\$12,573,336)	(39.25%)

Program Description

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

Program Highlights

Insurance Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Governor’s recommendation for the Insurance Division 2015 biennium budget declines a net of \$12.6 million as compared to the 2013 biennium budget due to: <ul style="list-style-type: none"> • Elimination of funding for the Insure Montana program • \$2.1 million for market conduct and traditional insurance firm examinations • \$0.1 million for administration of the captive insurance program, including funds for 1.00 new FTE ◆ The State Auditor has submitted several elected official budget requests including: <ul style="list-style-type: none"> • Restoration of the Insure Montana program • Reduction of a present law adjustment for market conduct examinations

Major LFD Issues
<ul style="list-style-type: none"> ◆ The legislature may wish to consider whether to continue the state high risk pool program – the Montana Comprehensive Health Association – contingent on health insurance changes being implemented January 1, 2014 by the Patient Protection and Affordable Care Act (ACA)

Division Budget

The Insurance Division 2015 biennium budget request declines \$12.6 million and 7.00 FTE compared to the 2013 biennium due to elimination of the Insure Montana program in the Governor’s budget. Part of the reduction is offset by an increase of \$1.6 million for examination of insurance companies.

Elected Official Proposals

As a courtesy to each elected official, the LFD Budget Analysis includes any proposals they intend to bring to the legislature that are different and/or excluded from the executive budget. These requests are generally listed without LFD comment. However, because the State Auditor will make a proposal, primarily in the Insure Montana program, that is significantly different from the one included in the executive budget it is discussed in more detail for this analysis.

Figure 3

Figure 3 shows the State Auditor’s elected official requests for the Insurance Division - \$14.8 million of state special revenue over the biennium. These requests are in addition to those included in the Governor’s budget. The total increase is partially offset by a \$1.0 million reduction in PL 3012 Biennial Market Conduct Exams. Each of these proposals is explained.

State Auditor's Office - Insurance Program Elected Official Requests not Included in Governor's Budget			
Proposal	FTE	FY 2014	FY 2015
Restore Insure Montana Program Funding*	6.00	5,090,001	10,206,715
Insure Montana 5% Limitation Restoration*		156,181	156,181
Market Conduct Staff Continuing Education*		18,800	11,900
Insurance Agent Outreach*		15,000	15,000
Captive Insurance FTE*	1.00	64,736	60,091
Biennial Market Conduct Exams		(336,000)	(650,000)
Total	<u>7.00</u>	<u>5,008,718</u>	<u>9,799,887</u>
Biennial Total			<u>\$14,808,605</u>

*These items were included in the State Auditor's budget request submitted to the Governor's budget office, but were not included in the Governor's budget.

Insure Montana Program Funding

As discussed earlier, the Governor’s budget would discontinue the Insure Montana program. There are two elected official requests that fund the Insure Montana program:

- Reinstate funding to continue the program - \$15.3 million and 7.00 FTE
- Reinstate funding to bring program expenditures up to the level appropriated in the base year due to the statutory 5% expenditure limit – \$0.3 million

Insure Montana Program Characteristics

The Insure Montana program has two components: 1) a tax credit for small employers that provide insurance for their employees; and 2) a purchasing pool program that provides an incentive payment to small employers that provide health insurance and premium assistance for employees who purchase that insurance.

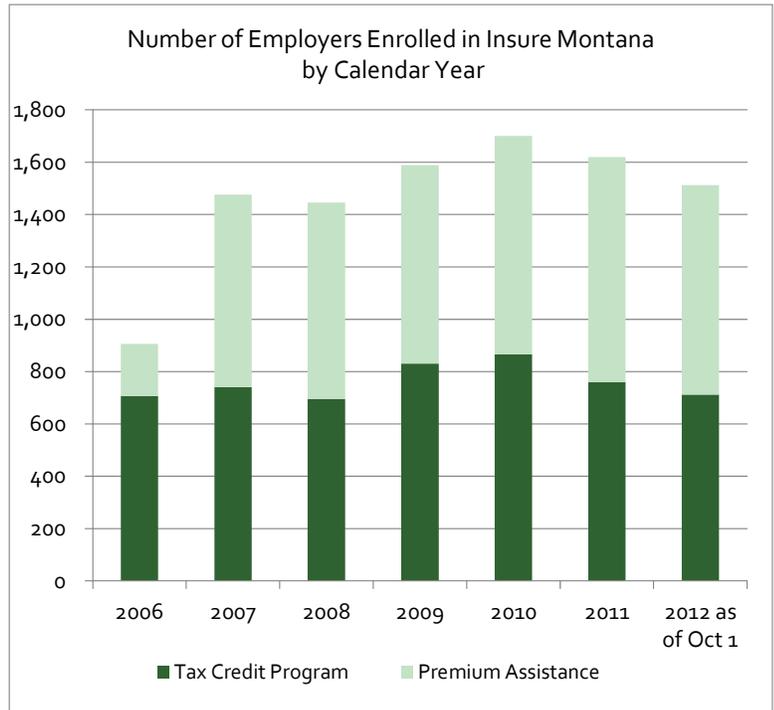
Figure 4 shows the number of small employers enrolled in the two program components of Insure Montana since its inception, by calendar year. The legislature approved a one-time appropriation to expand enrollment in 2009 and 2010. There were 1,513 small employers participating in Insure Montana as of October 1, 2012 and another 600 on the waiting list. The elected official request to fund the waiting list would fund all employers on the list.

Figure 4

Elected Official Requests to Continue the Insure Montana Program

There are several issues related to the legislative decisions regarding Insure Montana program:

- The Patient Protection and Affordable Care Act (ACA):
 - Would tax credits and premium subsidies authorized by ACA replace or offset the state funded subsidies provided by Insure Montana,?
 - If the legislature continues funding for Insure Montana, would it choose to make changes to the program to eliminate potential areas of duplication with ACA?
 - Depending on the legislature’s decision regarding the executive budget proposal to expand Medicaid as allowed by ACA, would the legislature:
 - If the expansion is not approved, continue funding for Insure Montana and potentially structure Insure Montana to target assistance to low income individuals or
 - If the expansion is approved, reorient premium assistance payments to persons who would not be eligible for Medicaid?
- Funding:
 - The state special revenue account that funds Insure Montana and other programs, which are administered by the Department of Public Health and Human Services (DPHHS), does not have sufficient revenue to fund the Governor’s budget and continue the Insure Montana program
 - If the legislature opts to continue the Insure Montana program, how would the legislature balance spending priorities from the account?



Additional Information

The legislature may wish to ask the State Auditor:

- How many small employers and employees receiving premium assistance from Insure Montana in FY 2012 would be able to purchase health insurance on the individual exchange and receive a subsidy under ACA (assuming small employers continue to offer insurance)?
- How many small employers participating in the tax credit program in tax year 2012 would not be eligible for tax credits under ACA?
- If the legislature opts to continue Insure Montana, how would the program be integrated with ACA?

Funding to Continue the Program

Insure Montana is funded from the health and Medicaid initiatives state special revenue account. Other programs funded from the account are administered by the Department of Public Health and Human Services (DPHHS).

Figure 5 shows the health and Medicaid initiatives fund balance. The account balance is not adequate to support the 2015 biennium budget request when the State Auditor elected official requests are included. Revenues will be short by \$2.2 million in FY 2014 and by \$13.4 million in FY 2015.

Figure 5

Health and Medicaid Initiatives Fund Balance - 2013 Biennium Compared to 2015 Biennium Request Including Elected Official Proposals Tobacco Tax Revenue Dedicated to Health Initiatives					
Fund Balance Revenue/Expenditures/Elected Official Request	Actual FY 2012	Estimated FY 2013	Budget Request FY 2014 FY 215		% of Total
Beginning Fund Balance	\$29,199,806	\$23,070,266	\$10,148,571	\$3,074,737	8.1%
Revenue - Cigarette and Tobacco Tax*	37,383,560	36,580,000	35,927,000	35,105,000	91.9%
Transfer from Older Montanans' Trust (HB 604)	<u>3,166,502</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
Total Revenue	69,749,868	59,650,266	46,075,571	38,179,737	100%
Interest Earnings	<u>638,211</u>	<u>59,650</u>	<u>92,151</u>	<u>190,899</u>	
Total Funds Available	70,388,079	59,709,917	46,167,722	38,370,636	
Expenditures					
<u>Medicaid Services</u>					
State Plan Services - Hospitals, Physicians, Prescription Drugs, Dental**	7,869,907	8,058,130	7,869,907	7,869,907	20.6%
Nursing Home Services	5,746,948	6,844,244	5,746,948	5,746,948	15.0%
HIFA Waiver - Adult Mental Health Services	2,402,403	1,843,997	3,918,397	3,965,871	10.4%
Senior/Physically Disabled Waiver	3,092,008	3,476,576	3,092,008	3,092,008	8.1%
Developmental Disability Benefits	2,942,130	2,942,130	2,942,130	2,942,130	7.7%
Mental Health and Chemical Dependency	2,045,955	2,055,711	2,045,955	2,045,955	5.3%
Home-based Services	1,857,206	2,106,888	1,857,206	1,857,206	4.9%
Children's Mental Health Services	1,741,003	1,741,003	1,741,003	1,741,003	4.5%
Adult Mental Health Community Svcs Waiver	1,090,044	1,035,744	1,222,624	1,237,560	3.2%
<u>Other Programs</u>					
Insure Montana Premium Assistance***	7,274,373	6,298,152	3,622,283	(64,037)	-0.2%
Insure Montana Health Insurance Tax Credits*	2,917,736	4,159,099	1,498,190	64,037	0.2%
Big Sky Rx/PharmAssist	4,268,759	4,003,223	4,283,303	4,282,634	11.2%
Healthy Montana Kids/CHIP	3,453,921	3,403,921	3,453,921	3,453,921	9.0%
Insure Montana 95% Restriction/Other Adj.***	523,248	(522,863)	(256,024)	0	0.0%
Mental Health Services Plan	0	2,060,256	0	0	0.0%
Other Services/Administration	<u>92,172</u>	<u>55,134</u>	<u>55,134</u>	<u>55,134</u>	<u>0.1%</u>
Subtotal Expenditures	<u>47,317,813</u>	<u>49,561,345</u>	<u>43,092,985</u>	<u>38,290,277</u>	100.0%
Annual Change	2.4%	4.7%	-13.1%	-11.1%	
Ending Fund Balance	<u>\$23,070,266</u>	<u>\$10,148,571</u>	<u>\$3,074,737</u>	<u>\$80,359</u>	
<u>State Auditor Elected Official Requests</u>					
Reinstate Base Level Funding for Insure Montana			\$5,090,001	\$10,206,715	
Restore 5% Spending Restriction			<u>156,181</u>	<u>156,181</u>	
Subtotal Elected Official Requests			<u>\$5,246,182</u>	<u>\$10,362,896</u>	
Ending Fund Balance With Elected Official Requests***			<u>(\$2,171,445)</u>	<u>(\$13,357,274)</u>	
*Revenue based on estimates developed by LFD staff and presented to the Revenue and Transportation on November 19, 2012.					
**FY 2013 estimated costs are based on HB 2 appropriations.					
***Insure Montana is eliminated in the Governor's budget. However, the State Auditor has requested continuation and expansion of the program in elected official budget proposals. The Insure Montana 95% Restriction/Other Adjustments account for the 95% statutory spending restriction from Insure Montana appropriations. In the base year, more is transferred to the Insure Montana appropriations than can be expended. In other years, the negative amounts account for the statutorily required reversion from the full appropriation.					

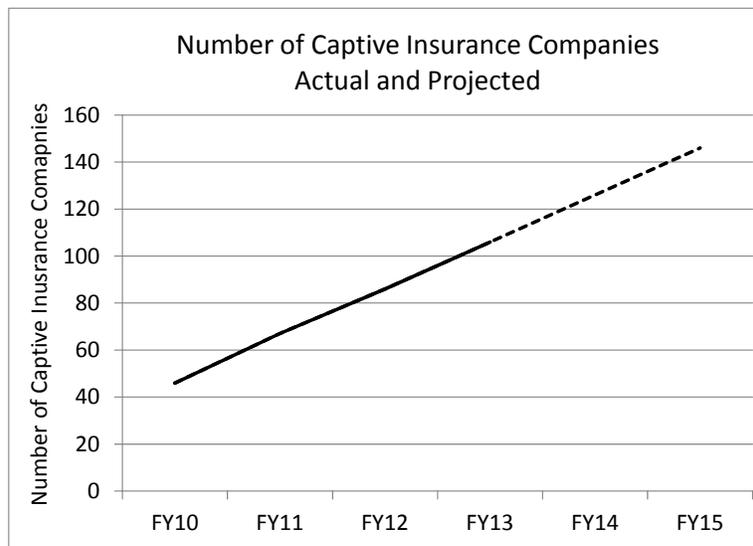
For a further discussion of the health and Medicaid initiatives account see the summary section of the DPHHS narrative.

Other Elected Official Requests

In addition to budget requests associated with Insure Montana, the State Auditor requested:

- o Market Conduct Staff Continuing Education - This request would add \$30,700 in state special revenue over the biennium for training for market conduct examiners. As a result of a long-time employee's retirement, the Market Conduct Examination Bureau is in the process of hiring a new employee. This proposal funds training for the new employee including online courses from the National Association of Insurance Commissioners (NAIC) and some NAIC training, which is usually conducted in Kansas City, MO.
- o Insurance Agent Outreach - This elected official request adds \$30,000 state special revenue over the biennium for outreach travel. This program requires the outreach agent to travel extensive distances and requires overnight hotel stays as well. The anticipated travel for this position is nine days out of each month.
- o Reduction in Market Conduct Exams – This request reduces the amount of funding included in DP 3012 - Biennial Market Conduct Exams by about \$1.0 million over the biennium.
- o Captives Insurance - This request adds about \$124,000 state special revenue over the biennium to fund an analyst examiner due to growth in the number of captive insurance companies in Montana. Figure 6 shows the actual and projected number of captive insurance companies through FY 2015. The number of companies is expected to increase by about 20 per year. There are currently 4.00 FTE examiners and this proposal would fund an additional position. The average workload would be about 29 companies per examiner by 2015.

Figure 6



Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total State Auditor's Office Funding by Source of Authority 2015 Biennium Budget - Insurance							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$19,457,516	\$0	\$0	\$19,457,516	100.0%		
02235 Insurance Fee Account	\$12,213,582	\$0	\$0	\$12,213,582	62.8%		
02528 Captive Account	\$233,310	\$0	\$0	\$233,310	1.2%		
02769 Health Insurance Premium Assistance	\$3,558,246	\$0	\$0	\$3,558,246	18.3%		
02770 Health Insurance Tax Credits	\$1,562,227	\$0	\$0	\$1,562,227	8.0%		
02789 6901-chip/mcha Tobacco Sett Fd	\$1,890,151	\$0	\$0	\$1,890,151	9.7%		
Total All Funds	\$19,457,516	\$0	\$0	\$19,457,516	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

- Insurance licensure fees, examination fees, and penalties, which fund program functions related to insurance regulation
- Health and Medicaid initiatives (tobacco taxes), which fund the Insure Montana program
- Tobacco settlement revenues, which support premium subsidies for the state high risk insurance pool through the Montana Comprehensive Health Association (MCHA)

Montana Comprehensive Health Association

The Montana Legislature created the MCHA in 1985 to provide access to health insurance benefits to Montana residents who were otherwise considered uninsurable due to medical conditions. MCHA operations are funded through the premiums paid by those insured in the program and through assessments on all disability (accident and health) benefit policies written in the state of Montana. MCHA also receives an allocation from the tobacco settlement revenue - about \$925,000 in FY 2012.

LFD ISSUE	<u>Patient Protection and Affordable Care Act</u>
<p>If ACA health insurance changes are implemented without significant changes and if the legislature approves the optional Medicaid expansion provided for in the act, the legislature could consider eliminating the appropriation from tobacco settlement proceeds that funds MCHA. Persons currently receiving insurance through MCHA could purchase health insurance through the health insurance exchange and receive premium and copay assistance if their household income is between 100% and 400% of the federal poverty level, or they could be eligible for Medicaid if their income is below 138% of the federal poverty level. However, if the legislature does not expand Medicaid, it may want to review the MCHA to target health insurance premium subsidies to persons who have incomes below 100% of the federal poverty level, but above current Montana Medicaid eligibility standards.</p>	

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	16,028,720	16,028,720	32,057,440	164.76%
Statewide PL Adjustments	0	0	0	0.00%	150,102	128,948	279,050	1.43%
Other PL Adjustments	0	0	0	0.00%	1,050,908	1,364,508	2,415,416	12.41%
New Proposals	0	0	0	0.00%	(5,088,838)	(10,205,552)	(15,294,390)	(78.60%)
Total Budget	\$0	\$0	\$0		\$12,140,892	\$7,316,624	\$19,457,516	

The Governor’s budget reduces the Insurance Division including a new proposal to eliminate funding for the Insure Montana program, reducing spending by \$15.3 million. Present law adjustments are more than offset by the reduction.

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					245,798					252,827
Vacancy Savings					(151,513)					(151,801)
Inflation/Deflation					985					2,210
Fixed Costs					54,832					25,712
Total Statewide Present Law Adjustments		\$0	\$150,102	\$0	\$150,102		\$0	\$128,948	\$0	\$128,948
DP 3004 - Actuarial Review	0.00	0	75,000	0	75,000	0.00	0	75,000	0	75,000
DP 3005 - Traditional Insurance In-House Examinations	0.00	0	33,700	0	33,700	0.00	0	33,700	0	33,700
DP 3007 - In-House Captives Insurance Exams	0.00	0	20,300	0	20,300	0.00	0	20,300	0	20,300
DP 3008 - Captive Regulatory and Supervision	0.00	0	85,000	0	85,000	0.00	0	95,000	0	95,000
DP 3009 - Biennial Financial Exams	0.00	0	367,500	0	367,500	0.00	0	365,000	0	365,000
DP 3011 - In-house Market Conduct Exams	0.00	0	26,400	0	26,400	0.00	0	18,500	0	18,500
DP 3012 - Biennial Market Conduct Exams	0.00	0	436,000	0	436,000	0.00	0	750,000	0	750,000
DP 3013 - Rent	0.00	0	7,008	0	7,008	0.00	0	7,008	0	7,008
Total Other Present Law Adjustments	0.00	\$0	\$1,050,908	\$0	\$1,050,908	0.00	\$0	\$1,364,508	\$0	\$1,364,508
Grand Total All Present Law Adjustments	0.00	\$0	\$1,201,010	\$0	\$1,201,010	0.00	\$0	\$1,493,456	\$0	\$1,493,456

Program Personal Services Narrative

The statewide present law adjustment for personal services is split about equally between pay and other types of increases and the amount required to fully fund positions that were vacant during part of the FY 2012. Salary increases implemented in the 2013 biennium are discussed in the agency overview.

DP 3004 - Actuarial Review - This request adds state special revenue to fulfill the requirements of HB 334 passed by the 2011 Legislature, which requires the financial and compliance audit and rate review of the State Fund. The CSI must report any concerns or recommendations based on the review to the Governor, the Legislative Audit Committee, and the Economic Affairs Interim Committee (EAIC).

This is a new responsibility, but the legislature did not allocate any additional funds or FTE for the actuarial review of the rates and reserves. The agency currently employs one full time property and casualty actuary, but due to the position's heavy workload, the CSI actuary is unable to conduct the review as required by the law. Estimates obtained for the reviews are about \$75,000 to contract with an independent actuary to review the rates and reserves of the State Fund. For the 2012 report to the EAIC, the CSI contracted with an independent consulting actuary to do the actuarial reviews, but the CSI contractor could only conduct a partial review due to the limited funds available. Base expenditures were \$10,000.

DP 3005 - Traditional Insurance In-House Examinations - This request adds insurance license fee state special revenue each fiscal year for insurance examinations and training performed by division staff. Additional examination travel would be required to perform 3 farm mutual exams, which will require 2 examiners. Additionally, for contracted exams it may be necessary for the examiner supervising contract examiners to make periodic field visits.

The request also includes funds for training to ensure examiners are accredited for performing exams. This request would support 3 employees' attendance at the National Association of Insurance Commissioners (NAIC) Financial

summit and the Society of Financial Examiners (SOFE) and 1 employee attendance at 3 NAIC national meetings and 2 other NAIC related trainings.

DP 3007 - In-House Captives Insurance Exams - This request adds insurance premium tax state special revenue for examination of captive firms performed by division staff. The cost of the exam is reimbursed by the companies being examined. Base level expenditures totaled \$3,410.

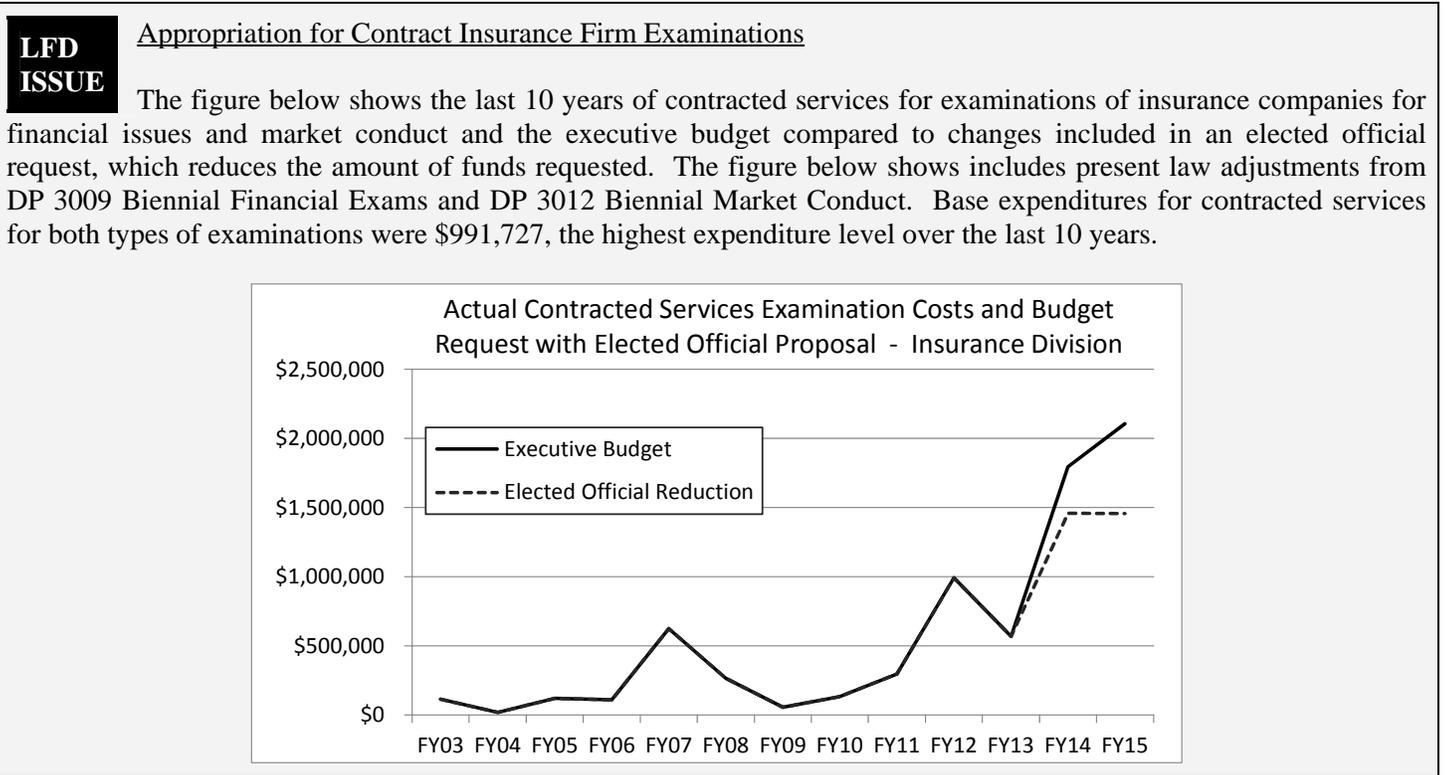
In both FY 2014 and FY 2015, 20 pure captive exams and four risk retention group exams would be completed. Each risk retention group exam would require a two week period of travel by an in-house examiner. For the pure exams, funds would support for 5 week long trips out of state and 10 in-state, week long trips.

Captive insurance companies (captives) are insurance companies formed and wholly owned by the businesses, associations, and groups that they insure. Captives are formed as risk management tools and as alternatives to the traditional insurance market. Captive insurers domiciled in Montana provide insurance to rural hospitals, nursing homes, doctors, commercial trucking companies, contractors, and others. The legislature passed enacting legislation in 2001.

DP 3008 - Captive Regulatory and Supervision - This request funds promotion and administration of the captive insurance industry. This program is funded with 5% of the premium tax and all fees and assessments received by the Commissioner.

DP 3009 - Biennial Financial Exams – This request adds a biennial appropriation for examination of insurance companies. These expenditures are reimbursed by the companies examined.

According to MCA 33-1-401, "The commissioner shall examine the affairs, transactions, accounts, records, and assets of each authorized insurer as often as the commissioner considers advisable. The commissioner shall examine each authorized insurer not less frequently than every 5 years."



LFD ISSUE CONT. The average cost of a financial examination over the last three years was \$54,726 and the average cost of a market conduct examination was \$115,828. The number of examinations conducted in the last 3 years was 4 in FY 2010 and FY 2012 and 3 in FY 2011. The amount requested in the 2015 biennium would fund 15 examinations per year based on the average costs for the last 3 years.

The division anticipates that it will examine two of the largest insurers in Montana in the 2015 biennium. One of those insurers was examined in FY 2012, contributing to the highest ever costs in the base year. The State Auditor included an elected official request to reduce funding for contract examinations by \$1.0 million over the biennium (see DP 3012 - Biennial Market Conduct Exams).

DP 3011 – In-house Market Conduct Exams - In accordance with 33-1-401, MCA, "The commissioner shall examine the affairs, transactions, accounts, records, and assets of each authorized insurer as often as the commissioner considers advisable. The commissioner shall examine each authorized insurer not less frequently than every 5 years." These market conduct exams will be examined internally and the requested funds will be used for travel to perform the examinations.

DP 3012 - Biennial Market Conduct Exams – This present law adjustment adds funds for contracted services to perform insurance company market conduct examinations. The cost of the exam is billed to the companies being examined.

LFD COMMENT The level of contracted services requested for the 2015 biennium is discussed previously in conjunction with DP 3009 Biennial Financial Exams. The legislature may want to review information provided in that discussion before establishing the level of appropriation for the 2015 biennium. As noted in the division overview, the State Auditor included an elected official request to reduce this present law adjustment by \$1.0 million over the biennium.

DP 3013 – Rent - This adjustment adds state special revenue for increased office rent. The current lease does not include inflationary adjustments for rent. When the lease expires the agency anticipates a 5% increase on January 2015 for the last half of FY 2015.

New Proposals

Program	FTE	Fiscal 2014				Fiscal 2015				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3014 - Insure Montana										
03	(3.00)	0	(5,090,001)	0	(5,090,001)	(7.00)	0	(10,206,715)	0	(10,206,715)
DP 6101 - Professional Development Center Fee Allocation										
03	0.00	0	1,163	0	1,163	0.00	0	1,163	0	1,163
Total	(3.00)	\$0	(\$5,088,838)	\$0	(\$5,088,838)	(7.00)	\$0	(\$10,205,552)	\$0	(\$10,205,552)

DP 3014 - Insure Montana - The State Auditor’s Office operates the Insure Montana program, which offers health insurance premium subsidies and tax credits to small employers offering health insurance to employees. The Patient Protection and Affordable Care Act (ACA) provides insurance premium subsidies and tax credits beginning January 1, 2014. Some small employers and their employees may be able to receive tax credits and premium assistance through ACA.

Insure Montana is funded from the health and Medicaid initiatives state special revenue account which has been structurally imbalanced for several years. Without significant budgetary changes, the account would be out of funds to cover existing services in FY 2014. Therefore, the Executive has eliminated funding for the Insure Montana program beginning January 1, 2014.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration .

Total State Auditor's Office Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$0	\$0	\$58,177,683	\$58,177,683	70.0%
State Special Total	\$24,390,134	\$0	\$582,500	\$24,972,634	30.0%
02091 Security Restitution Fund	-	-	582,500	582,500	0.7%
02235 Insurance Fee Account	14,384,812	-	-	14,384,812	17.3%
02283 Securities Fee Account	2,761,388	-	-	2,761,388	3.3%
02528 Captive Account	233,310	-	-	233,310	0.3%
02769 Health Insurance Premium Assistanc	3,558,246	-	-	3,558,246	4.3%
02770 Health Insurance Tax Credits	1,562,227	-	-	1,562,227	1.9%
02789 6901-chip/mcha Tobacco Sett Fd	1,890,151	-	-	1,890,151	2.3%
Total All Funds	\$24,390,134	\$0	\$58,760,183	\$83,150,317	100.0%
Percent - Total All Sources	29.3%	0.0%	70.7%		

**TARGETED REDUCTION TO EQUAL 5% OF
CURRENT BASE BUDGET**

General Fund	State Special Revenue Fund
	\$ 51,735

Priority

**SERVICE(S) TO BE ELIMINATED OR
REDUCED**

General Fund Annual Savings	State Special Revenue Annual Savings
--------------------------------	--

1	Travel- Central Management	\$ 11,579	
2	Travel- Insurance- Captives	\$	1,303
3	Travel- Securities	\$	2,000
4	Supplies- Securities	\$	3,000
5		\$	
	Communications- Securities	10,000	
6		\$	
	Contracted Services- Securities	23,853	
7			
8			
9			
10			
11			
	TOTAL SAVINGS	\$ -	51,735
	DIFFERENCE	0	0

5% Base Budget Reduction Form

AGENCY CODE & NAME: 34010 State Auditor's Office

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

The agency proposes to reduce the travel budget in Central Management.

#2 THE SAVINGS THAT ARE EXPECTED:

11,579

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

Fixed costs would be reduced.

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

The highest impact will be on the Commissioner's ability to travel to meet the demands of the position. The Commissioner is Montana's representative in the National Association of Insurance Commissioners (NAIC) and the North American Securities Administrators Association (NASAA). Both organizations require regular travel to national meetings and conferences.

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 34010 State Auditor's Office

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

Travel within the captive insurance program within the Insurance Division is proposed for elimination. Travel is being proposed for eliminations since there are no other alternatives within the program.

#2 THE SAVINGS THAT ARE EXPECTED:

\$1,303

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

The impact of this reduction will be the loss of education for one staff member or the possible loss of promotion activities of the program.

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

The possible mitigation of the impact to staff would be in-house education for staff who were unable to attend training. There would be no mitigation for constituents. If the promotional activity is lost, constituents will lose an opportunity to become aware of the captive insurance program.

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 34010 State Auditor's Office

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

An amount of travel is proposed to be eliminated in the Securities Division.

#2 THE SAVINGS THAT ARE EXPECTED:

\$2,000

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

The reduction of travel could result in undetected securities fraud. Securities fraud is widespread in difficult economic times. If travel is reduced, CSI investigations and educational outreach could be hampered, and consumers may lose substantial amounts of money to undetected securities fraud.

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

The impact on staff and constituents will not be mitigated if travel is reduced.

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 34010 State Auditor's Office

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

An amount of supplies is proposed to be eliminated in the Securities Division.

#2 THE SAVINGS THAT ARE EXPECTED:

\$3,000

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

The reduction of supplies could result in a reduction in the support these supplies provided the Securities Division. Securities fraud is widespread in difficult economic times. If supplies are reduced, CSI investigations and educational outreach could be hampered, and consumers may lose substantial amounts of money to undetected securities fraud.

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

The impact on staff and constituents will not be mitigated if supplies are reduced.

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 34010 State Auditor's Office

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

This reduction would eliminate a portion of the Securities Division's communication budget.

#2 THE SAVINGS THAT ARE EXPECTED:

\$10,000

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

If the Securities Division's communications are reduced, CSI educational outreach could be hampered, and consumers may lose substantial amounts of money to undetected securities fraud.

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

This reduction could be mitigated marginally with the use of email instead of other forms of paper communication.

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 34010 State Auditor's Office

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

This proposed reduction would cut the contracted services budget in the Securities Division.

#2 THE SAVINGS THAT ARE EXPECTED:

\$23,853

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

This proposal will reduce the securities examinations contract funding, resulting in fewer examinations of companies. With fewer examinations, the chances of detecting fraud are reduced, and consumers may lose substantial amounts of money to undetected securities fraud.

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

The impact on staff can't be mitigated. There will be increased staff comp time and overtime to perform possible examinations. If there is no funding or time to support examinations, examinations will be hampered, and consumers will lose the benefit of early fraud detection.

#5

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



Monica J. Lindeen

Commissioner of Securities & Insurance
Montana State Auditor
840 Helena Ave. • Helena, MT 59601
Phone: 406.444.2040 or 800.332.6148
Fax: 406.444.3497 • Web: www.csi.mt.gov

Agency Goals and Objectives

Insurance Department

1. Review and approve forms within 60 days as required by 33-1-502, MCA.
2. Financially examine traditional domestic insurers as often as the Commissioner considers advisable, but not less than one every 5 years and examine each captive insurer at least once in 3 years.
3. Respond to and resolve policyholder complaints in a timely fashion.
4. Complete market conduct examinations for domestic insurance carriers once every five years as required by 33-1-401, MCA.
5. Review and approve licenses and renewals as required by 33-17-201, MCA.
6. Implement and comply with new federal health insurance laws.

Securities Department

1. Make investor education available to all Montanans through investor outreach, publications, public service announcements, and formal classroom teaching.
2. Protect investors and persons involved in securities transactions by conducting for cause and routine broker-dealer and investment advisor examinations.
3. Assist Montana businesses in accessing capital through capital formation presentations.

Central Management

1. Expand and improve the features offered by the Commissioner of Securities and Insurance, Montana State Auditor (CSI) website, as a way to increase government efficiency and consumer assistance.
2. Provide efficient and effective administration, including management, human resources and financial services for the agency.

The Legislative Fiscal Division Presents an Agency Profile of: The Department of Revenue

Contact: Contact: Cathy Duncan, Senior Fiscal Analyst
 Room 117, State Capitol Building
 Phone: 444-4580
 e-mail: cduncan@mt.gov

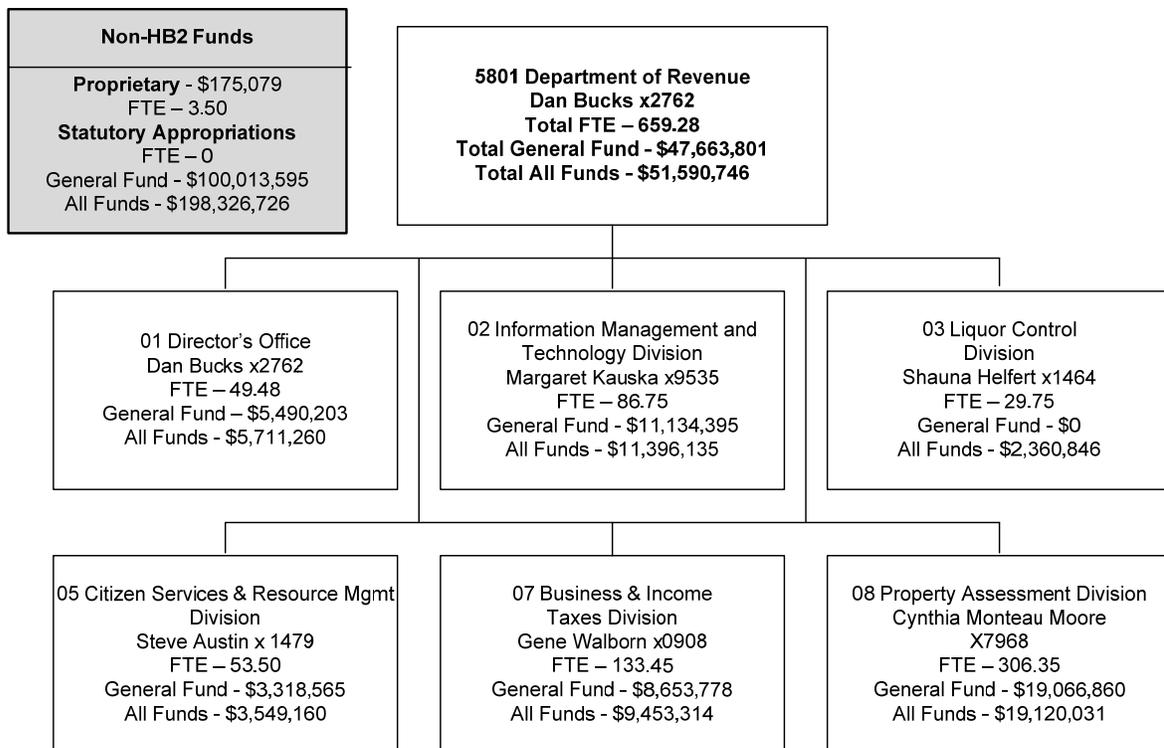
Updated December 2012

Agency Description

Definition of Terms

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

Below is an organizational chart of the agency including full-time equivalent (FTE) numbers, general fund appropriations and total of all funds as seen in the HB 2 base budget. The chart also includes expenditures and FTE funded through statutory appropriations and non-budgeted proprietary funds. Unless otherwise noted, all phone extensions are preceded by (406) 444.

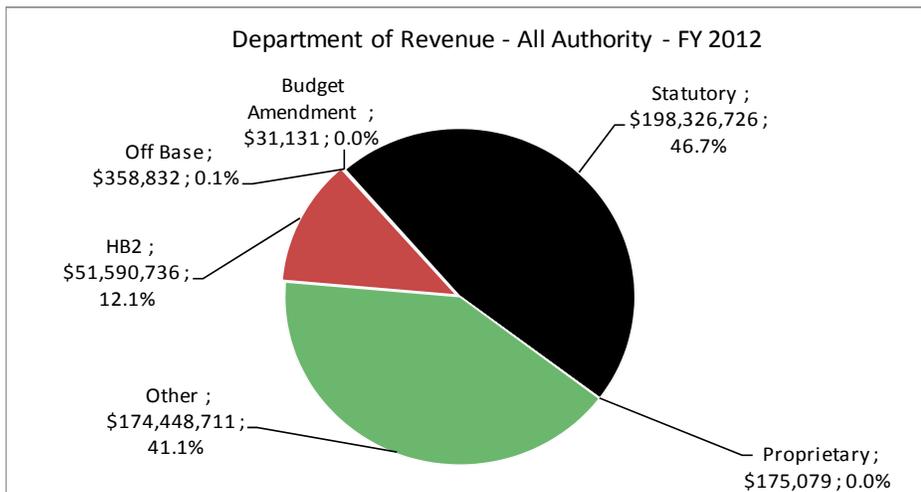


How Services are Provided

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

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

Sources of Spending Authority

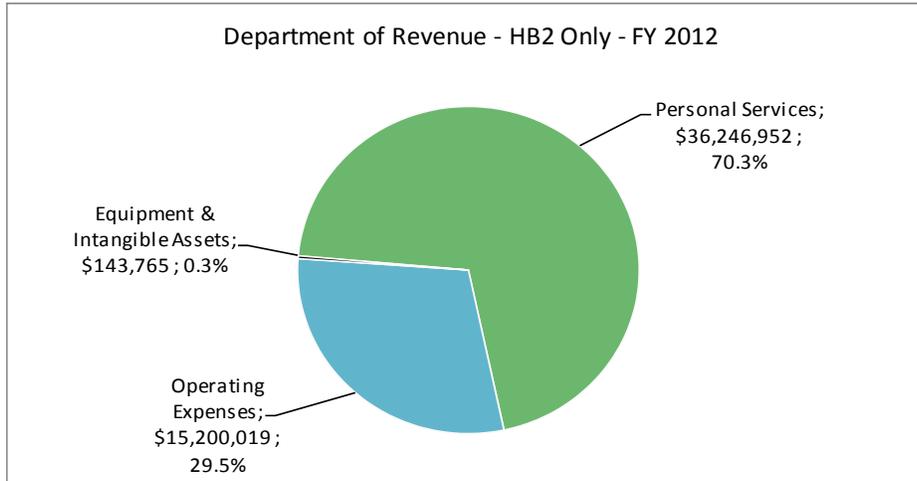


The above chart shows the sources of authority for the Department of Revenue. The accounting term, off base, refers to one-time-only spending and non-budgeted items like inventory adjustments. Other legislative appropriations (sometimes called cat and dog bills) are included in the above categories as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

- HB 2 – all HB 2 authority including the budgeted proprietary expenditures of the Liquor Control Division
- Statutory - primarily distributions of tax revenues to tribal and local governments
- Proprietary - the internal service Collection Services operations
- Other – primarily language appropriations for the Liquor Control Division (\$96.8 million) and non-budgeted transfers (\$72.8 million)

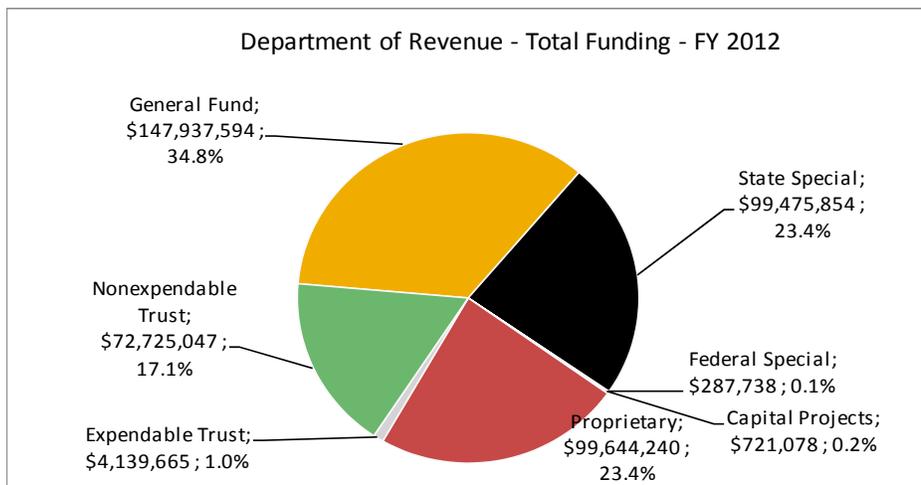
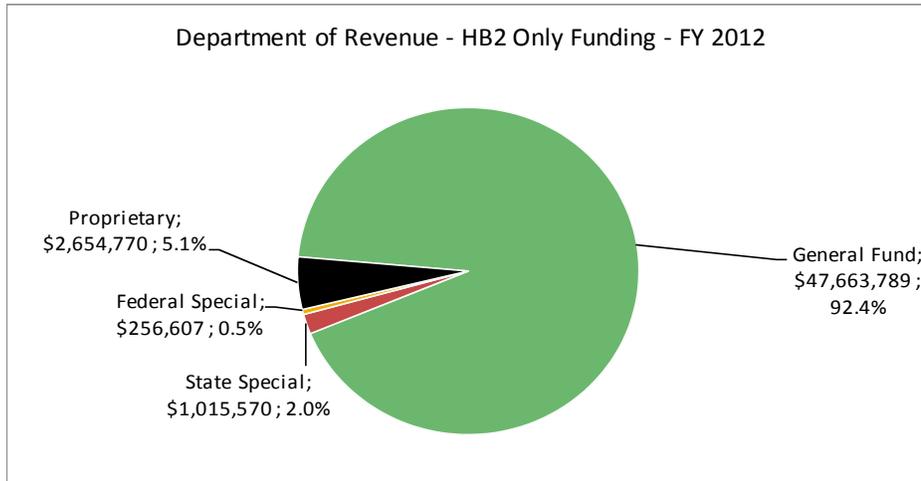
Expenditures

The next chart explains how the HB 2 authority is spent. Of the \$51.6 million of HB 2 authority expended in FY 2012, \$36.2 million, or 70.3%, was spent on personal service costs, 29.5% was spent on operating expenses, and the remainder of 0.3% was spent for equipment and intangible assets. This chart matches the agency chart found in the 2015 Budget Analysis and does not include one-time-only appropriations in FY 2012.



Funding

The following charts show the agency's HB 2 funding authority by fund type and all sources of its total funding authority.



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

How the 2013 Legislature Can Effect Change

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

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

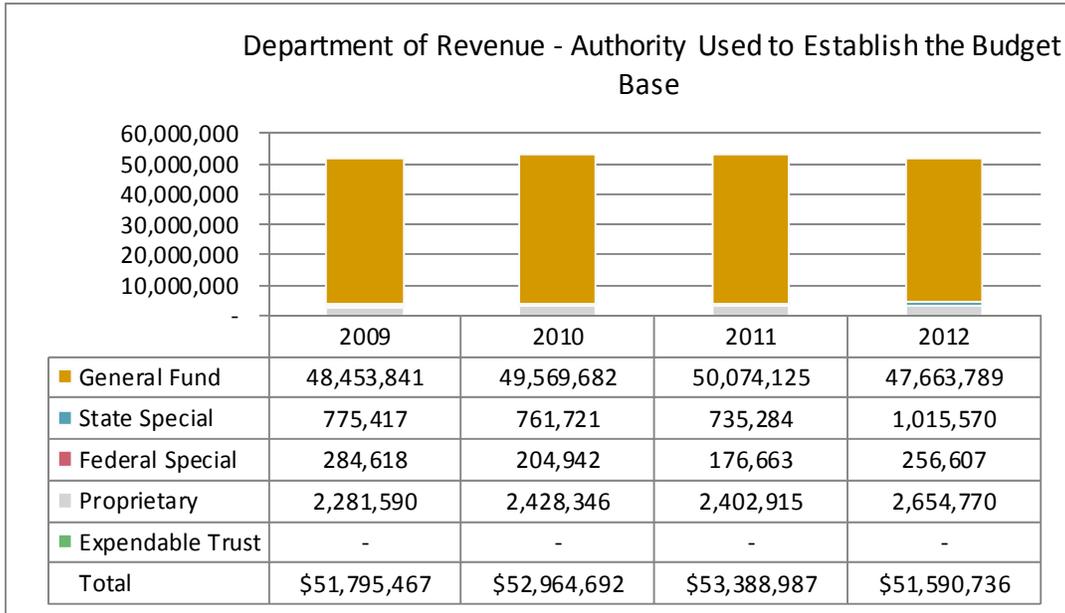
Major Cost Drivers

Driver	2001	2011	Significance of Data
Number of income tax returns processed	529,955	526,902 (12/2011)	Estimate of workload (income tax processing)
Number of income tax returns with refunds	279,641	349,243 (4/2011)	Estimate of workload (income tax processing)
Number of corporation tax returns processed	35,625 (2003)	26,728 (4/2011)	Estimate of workload (corporation tax processing)
Number of metalliferous mine producers filing returns	5	6 (2010)	Estimate of workload (metal mines tax processing)
Total Retail Liquor Licenses	3,300 (2004)	3,245	Estimate of workload (liquor license processing)
Number of wholesaler liquor licenses issued	35 (2004)	27	Estimate of workload (liquor license processing)
Total number of housing units (Source - US Census Dept.)	412,663 (2000)	489,157 (2011)	Estimate of workload (appraisal valuation)

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

Funding/Expenditure History

The budget for the Department of Revenue has remained relatively flat over the past four years. Expenditures were reduced in the 2013 biennium as a result of spending reductions imposed on the agency by the 2011 Legislature in reaction to the “great recession.” The figure does not include one-time-only expenditures.



Major Legislative Changes in the Last Ten Years

Major Legislative Changes in the Last 10 Years

- 2009 Legislature
 - ◇ The legislature added a total of 21.30 FTE to the department: 9.30 FTE for the property tax reappraisal as a one-time-only appropriation (HB 658), 12.00 FTE to continue tax compliance activities
 - ◇ HB 10 provided \$3.4 million of general fund for an electronic imaging system
- 2007 Legislature
 - ◇ The legislature added a total of 36.75 FTE in present law and new proposals, 16.00 FTE for tax compliance activities and 8.00 FTE for new legislation
 - ◇ Developed free electronic tax filing with \$4.7 million in general fund
 - ◇ HB 9 (SS) provided a \$400 rebate for property taxes and supported the related DOR activities with \$1.0 million of general fund
- 2005 Legislature:
 - ◇ The legislature added a net 6.00 FTE to the department
 - ◇ Funded a new property tax information system with \$5.5 million in general funds
 - ◇ Increased tax types administered through the Integrated Revenue Information System (IRIS) with \$4.0 million in general fund and added vendor service costs to the base budget
- 2003 Legislature:
 - ◇ Reduced a net 20.00 FTE from the department, 3.2% of total staff, with a net reduction of 15.00 FTE from the property appraisal and valuation program
 - ◇ SB 461 mitigated the effects of the property tax revaluation cycle which began in FY 2003, and \$130,375 of general fund was provided for DOR administration costs
 - ◇ SB 484 authorized various local governments to create empowerment zones to encourage job creation, and one-time-only funding was provided to the DOR to modify computer systems that would be impacted

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

Department of Revenue

P.O. Box 6308

Helena, MT 59604

phone: (406) 444-6900

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

Total Department Of Revenue Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$101,420,682	\$0	\$234,511,665	\$335,932,347	58.3%
State Special Total	\$2,322,205	\$0	\$231,264,506	\$233,586,711	40.5%
02008 Tobacco And Cig. Tribal Agree.	\$0	\$0	\$9,520,274	\$9,520,274	1.7%
02025 Unclaimed Property	\$930,477	\$0	\$0	\$930,477	0.2%
02083 Oil & Gas Local Assistance	\$0	\$0	\$10,000,000	\$10,000,000	1.7%
02088 Ssr Administrative Funds	\$472,047	\$0	\$0	\$472,047	0.1%
02110 Accommodation Tax Admin	\$282,135	\$0	\$0	\$282,135	0.0%
02168 Mt Oil Production Tax	\$0	\$0	\$197,054,000	\$197,054,000	34.2%
02169 Bentonite Production Tax	\$0	\$0	\$4,800,000	\$4,800,000	0.8%
02293 Film Production Credit	\$0	\$0	\$10,000	\$10,000	0.0%
02511 Oil, Gas, And Coal Natural Res	\$0	\$0	\$9,000,000	\$9,000,000	1.6%
02790 6901-statewide Tobacco Sttlmnt	\$637,546	\$0	\$0	\$637,546	0.1%
02966 Tribal Agreement - Alcohol	\$0	\$0	\$880,232	\$880,232	0.2%
Federal Special Total	\$504,090	\$0	\$0	\$504,090	0.1%
03928 Royalty Audit - Nrct	\$504,090	\$0	\$0	\$504,090	0.1%
Proprietary Total	\$5,711,151	\$368,940	\$0	\$6,080,091	1.1%
06005 Liquor Division	\$5,711,151	\$0	\$0	\$5,711,151	1.0%
06554 Csc Collection Services	\$0	\$368,940	\$0	\$368,940	0.1%
Total All Funds	\$109,958,128	\$368,940	\$465,776,171	\$576,103,239	100.0%
Percent - Total All Sources	19.1%	0.1%	80.8%		

5% Base Budget Reduction Form

17-7-111-3(f)

AGENCY CODE & NAME: 5801 Department of Revenue

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 2,376,240	\$ 50,779
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Prorated Reduction - Citizen Services and Resource Management	\$ 165,928	\$ 9,371
2	Prorated Reduction - Information Management and Technology	\$ 556,720	\$ 6,240
3	Prorated Reduction - Director's Office	\$ 267,560	\$ 5,313
4	Prorated Reduction - Business and Income Taxes	\$ 432,689	\$ 27,196
5	Prorated Reduction - Property Assessment	\$ 953,343	\$ 2,659
6		\$ -	\$ -
7		\$ -	\$ -
8		\$ -	\$ -
9		\$ -	\$ -
10		\$ -	\$ -
11		\$ -	\$ -
	TOTAL SAVINGS	\$ 2,376,240	\$ 50,779
	DIFFERENCE	\$ -	\$ -

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

The budget reductions in the Citizen Services and Resource Management Division will decrease state revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. The reductions were prorated among all divisions of the department and include reductions in (1) personal services funding by leaving FTE authorized by the legislature vacant and (2) through a reduction in operating expenses used to adequately fund the services mandated by state law.

#2 THE SAVINGS THAT ARE EXPECTED:

\$175,299

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

Revenue loss: \$875,000

This reduction will have a negative impact upon the department's ability to collect revenue for the state's general fund. The department conservatively estimates the loss of revenue collections from the management and support activities to be 5 times the amount of expenditures saved by reducing this budget or approximately a \$875,000 revenue loss per year.

The department's budget is already small compared to its large mission due to effective management, previous careful cost cutting, and limited original resources – we operate on a lean basis.

The department is an integrated operation all parts of which contribute to revenue production and taxpayer service. State revenues and services will be negatively impacted no matter where a 5% reduction is applied.

Operating a fully-functioning Department of Revenue is crucial. Other struggling states who have implemented across-the-board cuts to state agencies are now restoring their revenue department budgets because they learned (the hard way) that the documented loss in revenues ranged from \$5 to \$7 for every \$1 expenditure cut. Other states have avoided this learning experience by increasing their tax agency's budget to generate net additional revenues to help balance their budgets.

The consequences of the proposed elimination or reduction in services equate to losses in state and local revenues which will have a negative impact on most, if not all, government services. Regardless of where the reduction occurs, such a reduction places state government further out-of-balance in relation to its balanced budget mandate and disadvantages Montana's households. Some impacts include lowering the quality of education for Montana children; reducing the safety and security of Montana's citizens by decreasing the level of security at Montana's correctional facilities and the effectiveness of other criminal justice operations; cutting services currently provided to the state's ill, elderly, and disabled; compromising management of the state's water resources, as well as state and forested land; and hurting household budgets of ordinary Montanans through delayed tax refunds.

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

The impact of this reduction cannot be mitigated. The unavoidable net result of this reduction in expenditures is a loss of revenue to the State of Montana that substantially exceeds the amount of the reduction in expenditures. A reduction of this size in the Department of Revenue budget will put the state further away from the balanced budget required by the Montana Constitution.

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

Yes, Montana Code Annotated Titles 2, 15, 16, 17, 18

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

The budget reductions in the Information Management and Technology Division will decrease state revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. The reductions were prorated among all divisions of the department and include reductions in (1) personal services funding by leaving FTE authorized by the legislature vacant and (2) through a reduction in operating expenses used to adequately fund the services mandated by state law.

#2 THE SAVINGS THAT ARE EXPECTED:

\$562,960

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

Revenue Loss: \$2,800,000

This budget reduction will have a negative impact on timely and efficient processing of tax returns which would delay refunds back to the taxpayers; reduce revenue collections by delaying information for tax compliance; impact the convenient electronic filing services provided to taxpayers filing and paying taxes; and interfere with the services of providing accurate and secure data to OBPP and the Legislative Fiscal Division (LFD). This reduction will result in a loss of state revenue collections more than the budget savings because it will hinder the tax compliance activities of the department. The estimated revenue loss is conservatively estimated to be 5 times the amount of expenditures saved or approximately a \$2.8 million revenue loss per year.

The department's budget is already small compared to its large mission due to effective management, previous careful cost cutting, and limited original resources – we operate on a lean basis.

The department is an integrated operation all parts of which contribute to revenue production and taxpayer service. State revenues and services will be negatively impacted no matter where a 5% reduction is applied.

Operating a fully-functioning Department of Revenue is crucial. Other struggling states who have implemented across-the-board cuts to state agencies are now restoring their revenue department budgets because they learned (the hard way) that the documented loss in revenues ranged from \$5 to \$7 for every \$1 expenditure cut. Other states have avoided this learning experience by increasing their tax agency's budget to generate net additional revenues to help balance their budgets.

The consequences of the proposed elimination or reduction in services equate to losses in state and local revenues which will have a negative impact on most, if not all, government services. Regardless of where the reduction occurs, such a reduction places state government further out-of-balance in relation to its balanced budget mandate and disadvantages Montana's households. Some impacts include lowering the quality of education for Montana children; reducing the safety and security of Montana's citizens by decreasing the level of security at Montana's correctional facilities and the effectiveness of other criminal justice operations; cutting services currently provided to the state's ill, elderly, and disabled; compromising management of the state's water resources, as well as state and forested land; and hurting household budgets of ordinary Montanans through delayed tax refunds.

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

The impact of this reduction cannot be mitigated. The unavoidable net result of this reduction in expenditures is a loss of revenue to the State of Montana that substantially exceeds the amount of the reduction in expenditures. A reduction of this size in the Department of Revenue budget will put the state further away from the balanced budget required by the Montana Constitution.

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

Yes, Montana Code Annotated Titles 2, 15, 16, 17, 18

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

The budget reductions in the Director's Office will decrease state revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. The reductions were prorated among all divisions of the department and include reductions in (1) personal services funding by leaving FTE authorized by the legislature vacant and (2) through a reduction in operating expenses used to adequately fund the services mandated by state law.

#2 THE SAVINGS THAT ARE EXPECTED:

\$272,873

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

Revenue Loss: \$1,300,000

This reduction to the Director's Office, which includes the Legal Services Office, will have a negative impact upon the department's ability to collect revenue for the state's general fund. The department conservatively estimates the loss of revenue collections from the management and support activities to be 5 times the amount of expenditures saved by reducing this budget or approximately a \$1.3 million revenue loss per year.

The department's budget is already small compared to its large mission due to effective management, previous careful cost cutting, and limited original resources – we operate on a lean basis.

The department is an integrated operation all parts of which contribute to revenue production and taxpayer service. State revenues and services will be negatively impacted no matter where a 5% reduction is applied.

Operating a fully-functioning Department of Revenue is crucial. Other struggling states who have implemented across-the-board cuts to state agencies are now restoring their revenue department budgets because they learned (the hard way) that the documented loss in revenues ranged from \$5 to \$7 for every \$1 expenditure cut. Other states have avoided this learning experience by increasing their tax agency's budget to generate net additional revenues to help balance their budgets.

The consequences of the proposed elimination or reduction in services equate to losses in state and local revenues which will have a negative impact on most, if not all, government services. Regardless of where the reduction occurs, such a reduction places state government further out-of-balance in relation to its balanced budget mandate and disadvantages Montana's households. Some impacts include lowering the quality of education for Montana children; reducing the safety and security of Montana's citizens by decreasing the level of security at Montana's correctional facilities and the effectiveness of other criminal justice operations; cutting services currently provided to the state's ill, elderly, and disabled; compromising management of the state's water resources, as well as state and forested land; and hurting household budgets of ordinary Montanans through delayed tax refunds.

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

The impact of this reduction cannot be mitigated. The unavoidable net result of this reduction in expenditures is a loss of revenue to the State of Montana that substantially exceeds the amount of the reduction in expenditures. A reduction of this size in the Department of Revenue budget will put the state further away from the balanced budget required by the Montana Constitution.

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

Yes, Montana Code Annotated Titles 2, 15, 16, 17, 18

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

The budget reductions in the Business and Income Taxes Division will decrease state revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. The reductions were prorated among all divisions of the department and include reductions in (1) personal services funding by leaving FTE authorized by the legislature vacant and (2) through a reduction in operating expenses used to adequately fund the services mandated by state law.

#2 **THE SAVINGS THAT ARE EXPECTED:**

\$459,885

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

Revenue Loss: \$3,600,000

This budget reduction will have a negative impact upon the department's ability to collect revenue for the state's general fund. Based on the past activity within the Business and Income Taxes Division, the lost revenue that would occur is estimated to be 8 times the value of the budget reduction or approximately a \$3.6 million revenue loss per year.

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Operating a fully-functioning Department of Revenue is crucial. Other struggling states who have implemented across-the-board cuts to state agencies are now restoring their revenue department budgets because they learned (the hard way) that the documented loss in revenues ranged from \$5 to \$7 for every \$1 expenditure cut. Other states have avoided this learning experience by increasing their tax agency's budget to generate net additional revenues to help balance their budgets.

The consequences of the proposed elimination or reduction in services equate to losses in state and local revenues which will have a negative impact on most, if not all, government services. Regardless of where the reduction occurs, such a reduction places state government further out-of-balance in relation to its balanced budget mandate and disadvantages Montana's households. Some impacts include lowering the quality of education for Montana children; reducing the safety and security of Montana's citizens by decreasing the level of security at Montana's correctional facilities and the effectiveness of other criminal justice operations; cutting services currently provided to the state's ill, elderly, and disabled; compromising management of the state's water resources, as well as state and forested land; and hurting household budgets of ordinary Montanans through delayed tax refunds.

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

The impact of this reduction cannot be mitigated. The unavoidable net result of this reduction in expenditures is a loss of revenue to the State of Montana that substantially exceeds the amount of the reduction in expenditures. A reduction of this size in the Department of Revenue budget will put the state further away from the balanced budget required by the Montana Constitution.

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

Yes, Montana Code Annotated Titles 2, 15, 16, 17, 18

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

The budget reductions in the Property Assessment Division will decrease state and local revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. The reduction in the Property Assessment Division will also negatively affect the equity and fairness of the distribution of property taxes among citizens and businesses. The reductions were prorated among all divisions of the department and include reductions in (1) personal services funding by leaving FTE authorized by the legislature vacant and (2) through a reduction in operating expenses used to adequately fund the services mandated by state law.

#2 THE SAVINGS THAT ARE EXPECTED:

\$956,002

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

Revenue Loss: \$6,200,000

Property tax revenues in Montana produce \$1.2 billion annually for state and local governments and schools. Not a single penny of this revenue gets collected each year until the Property Assessment Division completes its annual update of property values including new construction, business equipment values, and property ownership and use changes; certifies values to counties; and calculates nearly 800,000 individual tax bills for use by County Treasurers. Over \$40 gets produced in revenue for each \$1 invested in the Property Assessment Division. Conservatively a \$956,002 budget reduction for this division will reduce property tax revenues by at least 6.5 times that amount or approximately \$6.2 million per year.

A reduction of this magnitude in the Property Assessment Division will have severe impacts on the division in the many business functions that it performs. The impacts of this reduction compromise the effectiveness of state property tax administration resulting in lost property tax revenue at both the state and local government level, as well as reducing the quality of valuations, and increasing the time and inconvenience spent by taxpayers and local governments on otherwise unnecessary reviews, appeals and conflicts over their valuations.

These impacts come from the following specific Property Assessment Division work responsibilities:

New Construction - Reduction to field staff would further limit field staff from identifying and valuing new construction. If the reduction occurs beginning July 1, 2011, the new construction that will be picked up for the 2012 tax year and future years will be at risk of not being added to the tax rolls. This will have a negative revenue impact upon property tax revenues for all taxing jurisdictions, i.e., state, local governments, and schools.

Sales verifications - As of March 2010 over 8,000 real property sales had not been reviewed for validity and physical characteristics. This has an impact upon the reliability of the statutory sales ratio studies required in HB658 if sales review and verification is not completed. In addition, as time increases from the date of sale, the likelihood of property characteristics changing since the sale increases. Therefore, incorrect property characteristics may be captured as the sale characteristics, which will impact all future sales comparison valuations (market models). If commercial sales are not validated on an annual basis, the class 12 tax rate (railroad & airlines) would be impacted, resulting in an incorrect tax rate calculated for those properties.

Reappraisal Field Reviews - Field reviews should occur over the 6-year reappraisal cycle to ensure property characteristics are captured accurately, and any changes are accounted for, e.g. deterioration, lack of maintenance, in addition to new construction. The ability to conduct these reviews would be negatively impacted.

Ownership Changes /Splits- May not be kept current. This has an impact upon the property tax bill being mailed to wrong party, potentially causing delinquent and unpaid property taxes.

Personal Property - New businesses/ranches may not be identified, therefore not added to tax rolls. This has a negative revenue impact upon all taxing jurisdictions, i.e., state, local governments, and schools.

Collection of Income & Expense Information - Annual mailing and follow up may not occur, or may be mailed but may not be analyzed and taxpayer contact may not be made if there are questions or data concerns in a timely manner, therefore rendering information useless for next reappraisal. This will affect the ability of the department to use the preferred income model for commercial property valuation.

Inability to meet statutory reappraisal requirement with a reduction in staffing and the risks identified in the field tasks identified above, the reappraisal tasks (land valuation, market and income models, and cost analysis) may significantly be impacted if insufficient data is collected and analyzed in a timely manner throughout the 6 years.

Property tax relief programs (PTAP/DAV) - Staff reductions will decrease department's ability to process applications and apply appropriate tax rates in a timely manner to help low income citizens.

Services to other agencies will be negatively impacted, including to DNRC, MonTax-Mill Levy Verification, Mt. Association of Soil Conservation, Dept. of Livestock, Hail Board, etc.

Certification of Values - Untimely certification of values to local government taxing jurisdictions would have serious impacts on their budgets and revenue.

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The consequences of the proposed elimination or reduction in services equate to losses in state and local revenues which will have a negative impact on most, if not all, government services. Regardless of where the reduction occurs, such a reduction places state government further out-of-balance in relation to its balanced budget mandate and disadvantages Montana's households. Some impacts include lowering the quality of education for Montana children; reducing the safety and security of Montana's citizens by decreasing the level of security at Montana's correctional facilities and the effectiveness of other criminal justice operations; cutting services currently provided to the state's ill, elderly, and disabled; compromising management of the state's water resources, as well as state and forested land; and hurting household budgets of ordinary Montanans through delayed tax refunds.

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

The impact of this reduction cannot be mitigated. The unavoidable net result of this reduction in expenditures is a loss of revenue to the State of Montana that substantially exceeds the amount of the reduction in expenditures. A reduction of this size in the Department of Revenue budget will put the state further away from the balanced budget required by the Montana Constitution.

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

Yes, Montana Code Annotated Titles 2, 15, 17, 18



2015 Biennium Goals and Objectives

Prepared for 17-7-111, MCA

Note: The department considers this document to be a work in progress such that the objectives will continue to be refined and improved in order to ensure successful measurement of the department goals.

Central Purpose

(Combines Mission and Vision Statement)

The quality of life for all Montanans is better because we excel at public service and effective administration of the tax and liquor laws of Montana.

We do this by:

- Ensuring that revenues intended by the legislature to be raised are collected to serve Montanans,
- Advancing equity and integrity in taxation,
- Providing innovative and respectful service,
- Protecting the public health and safety and achieving efficiency in liquor administration, and
- Improving public understanding of Montana's revenue system.

Core Values

Our core values are rooted in the Montana Constitution and in fundamental values proven by human experience to lead an organization or community forward in a continuous positive manner. These core values include the following:

- Respect for All Persons
- Integrity and Justice
- Productivity and Effectiveness
- Teamwork and Community

MT Department of Revenue Performance Model

Department Goal 1 To serve Montana's citizens by respecting their legal rights, recognizing their dignity as individuals, and advancing public understanding of the tax system.

Division Goal Provide accurate, timely, and courteous delivery of service to citizens and businesses.

Objective Respond to citizen and taxpayer letters/emails within 30 days of receipt.

Objective Respond to citizen and taxpayer phone calls with 2 days of receipt.

Division Goal Provide clear, accurate, appropriate, and timely information about the Montana tax system to businesses, citizens, and the media.

Objective Ensure that the department website is accurate, easy to navigate and up to date.

Objective Department template letters to taxpayers will be clear and accurate to the reader.

Objective Department tax form instructions will be clear and accurate to the reader.

Division Goal Resolve in an impartial and respectful manner taxpayer issues after the department's usual channels of problem solving have been exhausted or communications have broken down.

Objective Within 30 days of receipt, evaluate and resolve taxpayer complaints about the improper or inefficient service provided by department employees (with exceptions allowed for unusual or complex requests) and when necessary recommend appropriate action to the director.

Division Goal Protect the legal rights of taxpayers by monitoring the department's compliance with the Taxpayer Bill of Rights.

Objective Within 30 days of receipt, review each referral for compliance with the Taxpayer Bill of Rights, remedy lapses and report any issues to the director.

Division Goal Provide easily understandable information on the department's tax, audit, collection and appeals processes.

Objective Participate in, host and advocate the needs of taxpayers in department teams that are dedicated to the continuous improvement of its processes, forms and returns and the materials that explain them.

Division Goal Represent the needs of taxpayers in the department's legislative initiatives and responses.

Objective Raise issues to the legislative work of leadership team and during the legislative session, participate in the daily meetings of the legislative team.

Division Goal Prepare and publish an annual report on the taxpayer assistance office activities.

Objective Prepare annual report with recommendations to improve tax administration from a taxpayer service viewpoint.

Division Goal Improve the public understanding of tax policy and their tax system by ensuring the department is an authoritative source of analysis of Montana taxes and tax policy.

Objective Make fiscal notes from the Department of Revenue the best in state government.

Division Goal Protect confidential materials from unauthorized disclosure.

Objective Prevent unauthorized disclosure of confidential or privileged materials by maintaining policies and providing education.

Objective Maintain a positive working relationship with the IRS.

Objective Prevent employees from accessing data they do not utilize in their everyday work.

Division Goal Perform outstanding public service by accurately and timely processing tax data and revenue for the State of Montana.

Objective Increase electronic filing 5% annually for Corporate License Tax, Small Business Corporation and Partnership returns. Work with tax software vendors to develop Montana specific forms for federal/state e-file. Simplify instructions for electronic filing and promote electronic filing on department documentation as well as our website.

Objective Improve the department work flow and increase operational efficiencies utilizing imaging technology.

Objective Continue to reduce processing time of revenue deposits received in the form of checks in the mail.

Objective Increase electronic filing 5% annually for withholding annual reconciliation forms, MW-3. Work with tax software vendors to develop additional e-file options. Simplify instructions for electronic filing and promote electronic filing on department documentation as well as our website.

Division Goal Work to foster taxpayer understanding of the state's tax system and their filing obligations to improve compliance and create department efficiencies.

Objective Provide clear and user friendly forms and instructions in paper and electronic form by coordinating continuous improvement and annual updates with other department divisions.

Objective Strive for efficiencies in printing forms and instructions to reduce distribution costs.

Objective Educate taxpayers on the benefits of electronic filing and the services available to them in order to increase the percentage of tax returns filed electronically.

Division Goal Distribute unclaimed property to the rightful owner in a timely, accurate and defensible manner.

Objective Assure that accurate information about unclaimed property is visible to the public through timely file maintenance in Gentax, continuous improvement to outreach programs, and timely submission of accurate unclaimed property information to newspapers and missingmoney.com.

Objective Provide a simple, timely claim process for owners by continuing to improve department correspondence to claimants, researching a web-based application process and processing all claims received within the 90-day statutory deadline and refunding valid claims within 21 days of receiving all documentation from the claimant.

Division Goal Provide a simple and seamless process for businesses to register and acquire their licenses administered by multiple state agencies through the one-stop program.

Objective *Process one-stop applications, payments, refunds and renewals in a timely manner.*

Division Goal Protect Montana citizen's information according to the Taxpayer Bill of Rights.

Objective *Have the call center verify caller identity on every call by asking for three items of personal information.*

Division Goal Provide taxpayer assistance and improve taxpayer education.

Objective *Ensure public awareness of tax obligations through website updates, seminars, publications and newsletters, as well as providing walk-in taxpayer assistance.*

Objective *Provide for timely Tax Clearance certificate processing.*

Division Goal To improve the public's understanding of property tax laws and appraisal practices and report all assessed values to the taxpayer as required by law.

Objective *Consult regularly with the office of taxpayer assistance on taxpayer rights matters.*

Objective *Ensure that the assessed (market and taxable) value of all real property is reported to taxpayers and all affected state and local government taxing jurisdictions within the statutory timeframes.*

Department Goal 2**To advance equity and integrity in taxation by reducing gaps between taxes paid and taxes owed, and properly classifying and equalizing the value of all taxable property in the state.**

Division Goal Increase productivity in collection activities through the implementation of innovative ideas and use of best practices.

Objective *By November, 2012 establish an annual “best practices” review process for other states, provinces, government entities, etc., to explore and potentially identify new collection tools and/or techniques that may help to improve collection procedures and processes and potentially increase collection revenues.*

Division Goal Improve the collection process through the pursuit of legislation that fosters equity and uniformity in collection and tax laws of Montana.

Objective *By April 1, 2012 identify and suggest new legislation to improve the collection process associated with the collection of delinquent tax debts.*

Division Goal Timely and accurately represent the department in bankruptcy and civil collection filings.

Objective *Meet applicable case, proceeding, or matter deadlines.*

Division Goal Ensure equitable compliance with the tax laws, and increase voluntary compliance.

Objective *Ensure that returns requiring staff review and refunds are processed in a timely manner.*

Objective *Maintain a sufficient level of audit coverage for all tax types and ensure quality audit adjustments.*

Objective *Provide for timely discovery and follow-up of non-filed taxpayer returns or reports.*

Objective *Provide for the timely discovery of non-compliant activities.*

Objective *By January 31st, in the off year of the legislative session, identify and suggest new legislation to improve the process(es) associated with the administration and implementation of taxes.*

Division Goal Ensure that all centrally-assessed and industrial property in the state is valued annually at 100% of market value and reported within statutory timeframes.

Objective *Provide for the timely and comprehensive discovery of new centrally-assessed and/or industrial property entering or constructed in the state.*

Objective *Ensure that centrally-assessed and industrial property subject to taxation is properly identified, valued, apportioned, classified, and assessed at the appropriate taxable valuation rate.*

Objective *Ensure that the assessed (market and taxable) values of centrally-assessed and industrial property are reported to taxpayers, and the affected state and local government taxing jurisdictions are within the statutory timeframes.*

Objective *By January 31st, in the off year of the legislative session, identify and suggest new legislation to improve the process associated with the valuation and administration.*

Division Goal Ensure that all locally-assessed real property in the state is discovered.

Objective *Annually, provide for the timely and comprehensive discovery of all locally-assessed real and personal property through property reviews and audits.*

Objective *Annually, verify and validate all sales of property.*

Division Goal Ensure that all personal property is valued annually at 100% of market value and reported within statutory timeframes.

Objective *Ensure that personal property subject to taxation is properly identified, valued, apportioned, classified, and assessed at the appropriate taxable valuation rate.*

Objective *Ensure that the assessed (market and taxable) values of personal property is reported to taxpayers and affected state and local government taxing jurisdictions within the statutory timeframes.*

Division Goal Ensure that annually all real property existing and newly discovered are valued at 100% of market value, all Class 3, 4 and Class 10 property is valued annually at its productive capacity, and all values are reported within statutory timeframes.

Objective *Ensure that real property subject to taxation is properly identified, valued, apportioned, classified, and assessed at the appropriate taxable valuation rate.*

Division Goal To reappraise all property cyclically as required by law.

Objective *Complete the discovery of, and establish new appraisal (current market) values for, all Class 4 residential and commercial properties in a manner that meets or exceeds the uniformity and equalization reappraisal standards inherent in Montana's Constitution, the Montana Code Annotated, and generally recognized reappraisal practices established in Standard 6 of USPAP.*

Objective *Complete the valuation and reappraisal of all Class 3 agricultural and Class 10 forestland properties by establishing uniform and equitable values that accurately reflect current land use and productivity in a manner that meets or exceeds the reappraisal standards inherent in Montana's Constitution, the Montana Code Annotated, and generally recognized reappraisal practices.*

Division Goal Faithfully administer the tax laws by ensuring that tax operations and decisions are informed by continuous legal advice and review.

Objective *Ensure regular consultation occurs with the Office of Legal Affairs on the development and maintenance of rules, policies, and procedures to reflect current practices and legislation.*

Objective *Establish and maintain internal control procedures for reporting decisions made under delegated authority to ensure consistency, accountability, and appropriateness of such decisions.*

Objective *Complete the biennial rules review process in a manner that ensures that the rules conform to the law, properly cover the department's established practices, and provide up-to-date, accurate, and understandable guidance to citizens and businesses.*

Department Goal 3 **To support the proper operation of local governments and school districts by effectively administering Montana's property tax system.**

Division Goal Provide necessary tax data and information to local governments and schools - and related state agencies - on time and accurately.

Objective *To provide all statutorily required reports on time and accurately (newly taxable, 15-10-420 inflation calculation, entitlement share adjustments, property tax ratio studies, etc.).*

Division Goal Provide for stability and certainty in taxation for taxpayers, and for taxing jurisdictions that rely on accurate and stable assessments, by ensuring the accuracy and defensibility of centrally-assessed and industrial property appraisals.

Objective *Provide for the systematic and timely application of internal audits to ensure accurate reporting to levy jurisdictions and administrative compliance with all statutes and rules.*

Objective *Provide for a continuing program of education and training to ensure that all appraisal staff are adequately trained and certified.*

Division Goal Provide for the effective administration of the state's railcar tax.

Objective *Ensure that railcar property subject to taxation is properly identified, valued, apportioned, and taxed at the appropriate rate by the dates provided for in Montana law (MCA, 15-23-214, et. seq.).*

Objective *Provide for the effective administration of railcar revenues and deposit of those revenues in the state general fund.*

Division Goal To report all assessed values to the local taxing jurisdictions within statutory timeframes.

Objective *Provide accurate certified values to all taxing jurisdictions; download, balance, and report values.*

Department Goal 4

To continually strengthen working relationships with other state agencies, tribal and local governments, the federal government, and the general public.

Division Goal Promptly receive, track and coordinate responses to information requests from the public and the legislature to illustrate the department's commitment to transparency of operations.

Objective *In collaboration with Tax Policy and Research and the Public Information Officer, respond to executive and legislative information requests within 5 days with exceptions allowed for unusual or complex requests and log/track all responses for future retrieval.*

Division Goal Make the department website accessible to stakeholders who access the websites of other state agencies, tribal and local governments, the federal government and the general public.

Objective *Increase the external website links to the department internet website.*

Division Goal Build and maintain strong working relationships with governmental and tribal partners, the general public, and affected interest groups through public outreach to make department as effective and proactive as possible in carrying out its mission and serving the needs of Montana citizens.

Objective *Annually review best practices of public participation and bring them to bear on formulation and implementation of department programs. Facilitate through annual review development of outreach materials explaining the department's mission, programs, and tax system.*

Division Goal Develop and maintain strong working relationships with federal and state agencies, local governments, and schools.

Objective *Provide tax data and information requested by federal agencies, state agencies, local governments, and schools on time and accurately.*

Division Goal Respond timely and accurately to citizens who interact with the Department of Revenue and to other divisions within the department.

Objective *Provide call center services to citizens who have questions concerning the laws assigned to the department and their administration.*

Objective *Focus on maintaining a call center staff with a broad and knowledgeable understanding of the department and its activities so that inquiries can be answered accurately and completely to avoid transfers to other divisions in the department.*

Objective *Provide web messaging service to citizens as another communication tool and coordinate its use among department divisions to ensure both inbound and department initiated communications.*

Department Goal 5

To protect the public health and safety in the consumption of alcohol by properly licensing alcoholic beverage establishments, and efficiently distributing alcoholic beverages through a state controlled system.

Division Goal Provide clear, accurate, appropriate and timely information about the Montana liquor control system to licensed establishments, citizens, the media, and the general public.

Objective *Both proactively and by request; provide media representatives with accurate, timely, and clear information about Montana's liquor control system.*

Objective *Ensure that the department liquor control web pages are accurate, easy to navigate and up to date.*

Division Goal Advance responsible liquor control in Montana by providing outreach, education and communication with agency liquor store owners, liquor licensees, employees in the alcohol beverage industry, industry associations, department trainers, community partners, local and tribal governments, justice community, elected officials, and the general public.

Objective *Expand partnerships with other interest groups to provide educational outreach to Montana families, schools and the general public to encourage and promote the responsible consumption of alcoholic beverages.*

Objective *Improve and maintain a comprehensive responsible alcohol server training program.*

Objective *Continue to cultivate working relationships by providing educational outreach to Montana agency liquor store owners, liquor licensees and special permit holders to increase their understanding of the liquor control system, including their obligations as a purveyor of alcoholic beverages.*

Objective *Build and maintain strong working relationships and partnerships with other government agencies, law enforcement entities, elected officials and justice systems through outreach, education and communication.*

Division Goal Consistent with the Montana Alcoholic Beverage Code, regulate the manufacture, importation, distribution and sale of alcoholic beverages to promote public health and safety.

Objective *Promote public health and safety by approving only those applicants and premises that manufacture, import, distribute and sell alcoholic beverages that meet the necessary requirements.*

Objective *Monitor licensees, agency liquor stores and special permit holders to ensure compliance with applicable laws and rules.*

Objective *Promote public health and safety by reviewing alcoholic products and promotions and approving only those consistent with our laws and rules.*

Division Goal Provide an efficient and effective liquor control system to ensure the highest level of service through the implementation of innovative ideas and use of best practices.

Objective *Maintain a high level of customer satisfaction through a highly trained and quality workforce.
Maintain a high level of customer satisfaction through a highly trained, quality workforce.*

Objective *Provide quality customer service by responding in an accurate, timely and courteous manner.*

Objective *Continually improve and simplify methods for providing service to our customers.*

Division Goal Foster a quality Liquor Control Division through effective and efficient administration.

Objective *Provide for a safe and secure work environment to protect our assets and inventory through employee training, internal controls, building maintenance and improvements.*

Objective *Maintain efficient facility operations by continuously seeking to reduce our carbon footprint.*

Division Goal Faithfully administer the liquor tax laws by ensuring that liquor control operations and decisions are informed by continuous legal advice and review.

Objective *Ensure regular consultation occurs with the Office of Legal Affairs on the development and maintenance of rules, policies, and procedures to reflect current practices and legislation.*

Objective *Establish and maintain internal control procedures for reporting decisions made under delegated authority to ensure consistency, accountability, and appropriateness of such decisions.*

Objective *Complete the biennial rules review process in a manner that ensures that the rules conform to the law, properly cover the department's established practices, and provide up-to-date, accurate, and understandable guidance to citizens and businesses.*

Department Goal 6

To position the Department to be prepared to manage various types of disasters.

Division Goal Provide leadership and effective communications management in the event of a disaster that affects department operations and requires an incident command response.

Objective Maintain and practice plans to ensure that internal and external communications needs are effectively met during a disaster situation that effects the department.

Division Goal Ensure the continuity of business operations and ensure the timely and orderly resumption of business operations with minimal or no interruption to time-sensitive services.

Objective Maintain and support a department-wide information technology continuity/resumption plan.

Division Goal Ensure continuity of business operations and ensure the timely and orderly resumption of critical business operations.

Objective Ensure disaster recovery processing and security plans are in place and up to date for paper returns and payments.

Department Goal 7

To continually improve productivity and the quality of service by developing competent staff, using innovative practices and technology, fostering teamwork within the agency, improving the management of resources, and responding to changing circumstances.

Division Goal Educate, guide and empower employees to communicate effectively to external stakeholders, to internal stakeholders, and to each other.

***Objective** Expand general outreach and communications assistance to employees across the department.*

***Objective** Department employees are informed about new policies, procedures, administrative rules, and statutes that affect the department.*

***Objective** Department employees receive regular updates about the work going on in other divisions, bureaus and work units.*

***Objective** Expand the writing program through training and consultation so that department staff are able to communicate clearly and accurately to taxpayers.*

Division Goal The department budget process, budget management, and spending activity is managed in accordance with statutory and accounting requirements while maximizing the use of appropriated resources.

***Objective** Meet all budget deadlines - submitting complete and accurate work products.*

***Objective** Follow all budget laws, rules, regulations, and procedures.*

***Objective** Continually communicate and educate on budget-related issues.*

Division Goal Maintain a recruitment and selection process that results in attracting and hiring the best qualified applicants and encourages a diverse workforce.

***Objective** Review and evaluate the recruitment and selection process for enhancements and utilization of best practices.*

***Objective** Increase recruitment and selection of minorities, females, and people with disabilities through development and adherence to the department's EEO plan.*

***Objective** Conduct orientation activities with new employees to facilitate a positive transition into the department.*

Division Goal Retain qualified and competent staff.

***Objective** Continuously improve the knowledge and skill level of department employees through a comprehensive training and development program, and the use of innovative delivery methods to enhance effectiveness and efficiency.*

Division Goal Promote and monitor compliance of employment laws, regulations, policies, and labor agreements while supporting the business needs of the agency.

***Objective** Effectively and efficiently administer payroll and benefits.*

***Objective** Ensure policies and procedures are current and relevant.*

Division Goal The Information Technology Bureau is dedicated to providing professional services. We emphasize a positive work environment through teamwork, compliance, integrity, information availability, and confidentiality. We strive to empower those we serve with the ability to complete their tasks effectively and efficiently with quality equipment, innovative applications and continuous support.

Objective *Ensure the department's divisions have the technology available in order to meet their business objectives and to identify and implement appropriate, efficient, cost-effective technology solutions to best enable the Information Technology Bureau to achieve its service goals.*

Objective *Recruit and retain a skilled and properly staffed information technology workforce.*

Division Goal Recruit, develop and retain competent staff.

Objective *Create and monitor an on-the-job training (OJT) plan for each new full time or seasonal employee; provide continuing training and education opportunities to employees.*

Objective *Create culture of safety.*

Division Goal Ensure department projects are furthering the strategic direction of the department and are completed with the highest degree of quality while still being on time and under budget.

Objective *Ensure all department projects are thoroughly reviewed, prioritized and scheduled to allow for the highest likelihood of success.*

Objective *Continually monitor project performance and resolve issues affecting multiple projects within the project portfolio to ensure maximum return of total project resource investment.*

Division Goal Facilitate change and process improvement within all divisions of the department.

Objective *Identify potential process improvements within the department and provide assistance and recommendations for implementing those changes.*

Division Goal Administer the department's accounting functions following state accounting policy and generally accepted accounting principles.

Objective *Ensure that revenues and fees are properly accounted for following statutory guidelines.*

Objective *Monitor department expenses and provide divisions timely projections to ensure the department's appropriation authority is managed properly and its obligations are paid timely.*

Objective *Distribute revenues timely and accurately to ensure state, local and tribal governments are given the resources as intended by law to allow them to fulfill their obligations.*

Division Goal Manage the department's facilities to establish a safe working environment for employees and ensure the department's resources are functional, secure and properly accounted for.

Objective *Conduct safety reviews and ergonomic assessments; monitor workers comp claims; and facilitate safety through the safety committee and the department's emergency action plans and Continuity of Operation Plans to ensure DOR employees are provided safe working conditions.*

Objective *Ensure all department facilities meet IRS security guidelines to protect confidential taxpayer information.*

Objective *Make certain facilities are adequate to manage the department's activities efficiently.*

Division Goal Coordinate the procurement of department resources following state guidelines to ensure the department has the tools in place to meet its overall goals and objectives.

Objective *Practice consistent guidance department-wide on the purchase of supplies and services to ensure resources are provided timely; meet the desired needs of the divisions; and use the department's resources in a cost effective manner.*

Division Goal Foster knowledge and confidence in Accounts Receivable and Collections Bureau staff through continuing education and the development and maintenance of procedures, guidelines, and administrative rules.

Objective *By January 1, 2013, develop and maintain a systematic and routine on-the-job training (OJT) plan and curriculum for Accounts Receivable and Collections Bureau employees that fosters knowledge and experience in statutes, rules, procedures, guidelines, use of Gentax and collection activities associated with their daily work and management expectations.*

Department of Revenue

Occupations by Pay Band

Pay Band	Position Title	# Positions	Pay Band	Position Title	# Positions
02	Administrative Clerk	1	06	Computer Support Specialist	2
	File Clerk	3		Administrative Services Mgr	7
	Data Processor Clerk	4		Computer Systems Analyst	12
	Mail Clerk	2		Tax Examiner	27
	Accounting Clerk	1		Computer Security Specialist	1
03	Auditing Technician	8		Tax Appraiser	17
	Administrative Assistant	4		Accountant	3
	Mail Clerk	1		Training Development Spc	1
	Accounting Technician	3		Computer Programmer	2
	Data Processor Technician	10		Compliance Specialist	1
	Tax Technician	64		Management Analyst	4
	Logistics Technician	1		Human Resource Specialist	1
04	Compliance Technician	2		Editor	1
	Data Control Tech	1		Paralegal Legal Assistant	4
	Tax Appraiser	73	07	Lawyer	3
	Computer Systems Analyst	1		Tax Examiner	12
	Accounting Technician	7		Program Manager	52
	Auditing Technician	31		Computer Systems Analyst	7
	Administrative Assistant	8		Administrative Law Judge	1
	Collections Technician	15		Economist	5
	Human Resource Assistant	4		Public Relations Specialist	1
	Tax Technician	34		Accountant	1
	Purchasing Technician	1		Management Analyst	16
	Customer Service Assistant	10		Computer Application Engineer	1
	Paralegal Legal Assistant	3	08	Operations Manager	8
05	Data Control Specialist	6		Lawyer	9
	Public Relations Specialist	1	09	Operations Manager	2
	Tax Appraiser	68			
	Purchasing Agent	1			
	Compliance Specialist	6			
	Technical Writer	1			
	Tax Examiner	35			
	Collections Specialist	4			
	Management Analyst	1			
	Web Developer	1			
	Paralegal Legal Assistant	1			
	Editor	1			
	Administrative Specialist	1			

Note: Information provided by the Department of Administration, Human Resources Division

The Legislative Fiscal Division Presents an Agency Profile of: The Department of Administration

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Updated December 2012

Agency Description

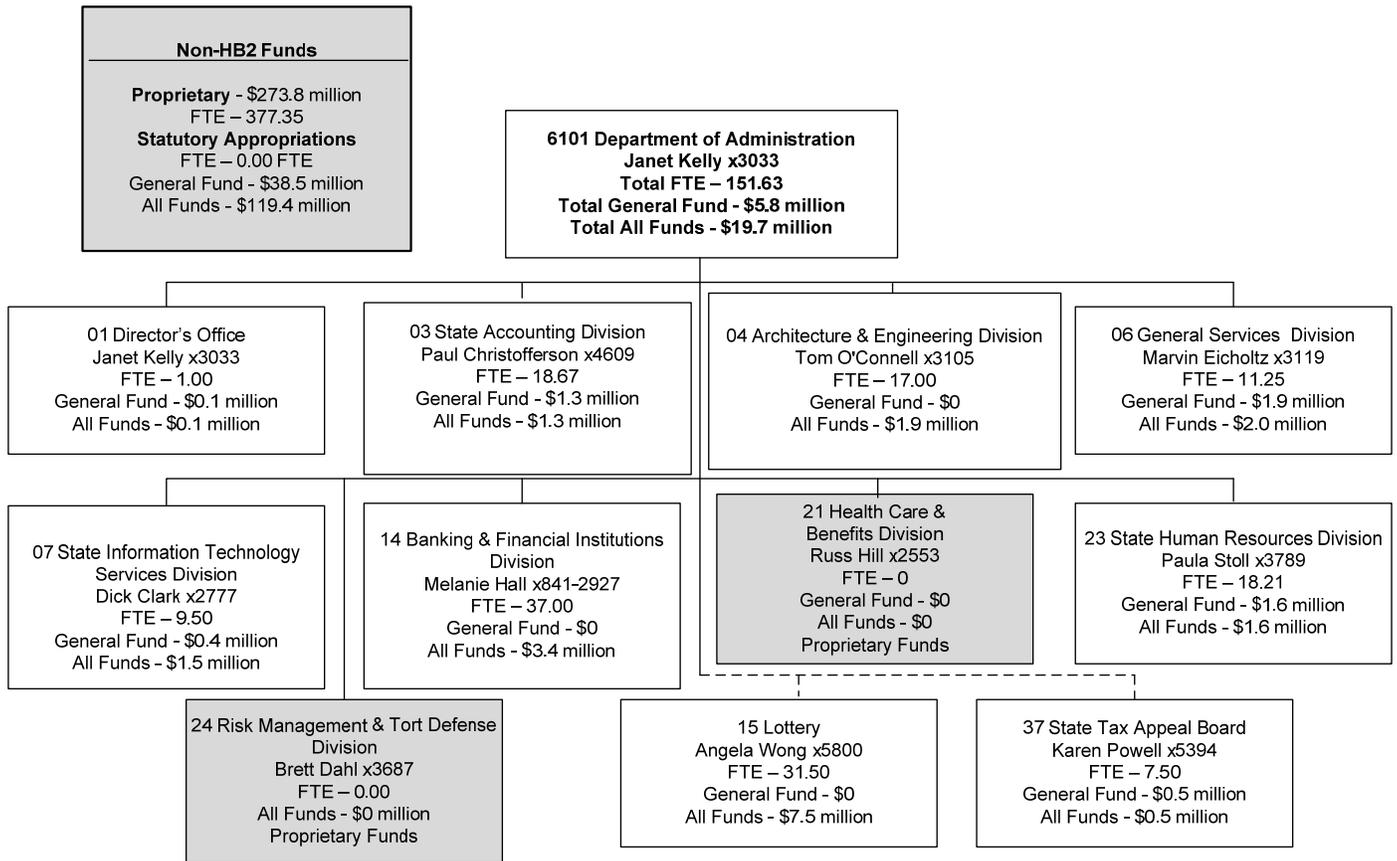
Definition of Terms

The Department of Administration provides services to state agencies, local governments, and Montana citizens in the following areas:

- Human resource management, workforce development, labor relations, and policy development
- Information systems service hosting, telecommunications, 9-1-1 program management, tax revenue distribution to Public Safety Answering Points (PSAPS), data processing, public safety radio communications, and continuity planning
- Statewide Information Technology (IT) policies and standards development
- State financial institution oversight and regulation
- Insurance procurement/administration and risk management services
- Property/casualty claims administration and tort litigation services
- Accounting, financial reporting, warrant writing, and policy development
- State treasury services
- Federal Social Security Section 218 program administration
- State bonded indebtedness administration
- Capitol complex building and grounds maintenance and security
- Procurement, surplus property administration and policy development
- Printing, mail, and messenger services
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- Long-Range Building Program
- State employee group benefits
- Workers' compensation management

The Board of Examiners, Burial Preservation Board, Information Technology Board, State Banking Board, State Board of County Printing, State Compensation Insurance Board (Montana State Fund), State Tax Appeal Board, Office of the State Public Defender, Public Employee Retirement Board, Teachers' Retirement Board, and the Montana State Lottery are attached to the department for administrative purposes only.

Below is an organizational chart of the agency including full time-equivalent (FTE) numbers, general fund appropriations, statutory appropriations, proprietary funds, and total funds.



How Services are Provided

The department's budget consists of 10 major programs and two administratively attached agencies with the following functions:

Director's Office – provides the overall supervision and coordination of agency programs. The office provides legal, IT management, financial, budgeting, accounting, human resource management, and payroll services for the department and some of its attached agencies.

(20.51 FTE all authority types composed of 1.00 FTE funded in HB 2 and 19.51 FTE funded with proprietary funds)

Governor-Elect – provides the Governor-elect and necessary staff with office space in the capitol complex, together with furnishings, supplies, equipment, and telephone service for the period between the general election and the inauguration. The program is funded only for one year every other biennium.

(Any FTE associated with the program are temporary.)

How Services are Provided, cont.

State Accounting – provides the statewide functions of the state treasury, payment processing, and accounting and financial reporting policies. Treasury functions include the performance of the central banking function for state agencies, reconciliation of state bank accounts, and oversight of bank account collateralization. The division manages the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS). It establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, prepares and negotiates the Statewide Cost Allocation Plan (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). The division also administers the warrant writer program, which provides check writing and automatic-deposit services for most agencies, along with the replacement, cancellation, and stale date processing for all agencies. The division provides technical assistance and training to local government accounting and financial personnel, and the audit review function for local governments. It administers the federal Social Security Section 218 program for the state and local governments.

(47.00 FTE all authority types composed of 18.67 FTE funded in HB 2 and 28.33 FTE funded with proprietary funds)

Architecture and Engineering – manages remodeling and construction of state buildings. The division's functions include: planning new projects and remodeling projects; advertising, bidding and awarding construction contracts; administering contracts with architects and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration.

(17.00 FTE all funded in HB 2)

General Services – provides facilities and grounds maintenance and security for state property in the state capitol area. The division also manages state procurement, printing and the photocopy pool, mail distribution, surplus property, central stores, statewide leasing, the statewide fueling network, energy procurement, and the procurement card program.

(99.1 FTE all authority types composed of 11.25 FTE funded in HB 2 and 87.85 FTE funded with proprietary funds)

State Information Technology Services – manages the central computing and telecommunications services for state government. The division: provides central mainframe and mid-tier computers, data center, and hosting services; provides continuity planning; manages the statewide data network SummitNet; provides local and long-distance telephone network services; provides the statewide video network services; coordinates electronic government services; and manages the state's Internet presence at mt.gov. In addition, the division: manages the Public Safety Services Office including the state's 911 and public safety communications programs; develops the statewide IT strategic plan and coordinates agency IT strategic plan; develops and oversees state IT standards and policies; and reviews and approves IT equipment and software acquisitions, including an IT project management office.

(185.00 FTE all authority types composed of 9.50 FTE funded in HB 2 and 175.50 FTE funded with proprietary funds)

Banking and Financial Institutions – licenses, charters, supervises, regulates, and examines a variety of financial institutions operating in Montana. These institutions include: state-chartered banks and trust companies; savings and loans and credit unions; consumer loan and sales finance companies; title loan companies; escrow companies; deferred deposit loan companies; and mortgage brokers, mortgage loan originators, mortgage lenders, and mortgage loan originators.

(37.00 FTE all funded in HB 2)

Health Care and Benefits – administers employee benefit plans that include health, life, dental, prescription drugs, long-term disability, long-term care insurance, vision insurance, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. The Workers' Compensation Management Program provides a central resource for agencies in working to enhance safety, loss prevention, and return to work programs, and, works with the workers' compensation insurer to coordinate workers' compensation coverage and policy management issues.

(22.87 FTE all funded with proprietary funds)

How Services are Provided, cont.

State Human Resources – provides state agencies with a variety of human resource management programs. These programs include: human resource rules, policies, and standards for the Executive Branch agencies; state labor relations, representing the Governor’s Office in all matters relating to collective bargaining; training and other professional development services to state agencies; the human resource portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS); and human resource information services, supplying payroll and other human resource information systems for all branches of state government.

(44.50 FTE all authority types comprised of 18.21 FTE funded in HB 2 and 26.29 FTE funded with proprietary funds)

Risk Management and Tort Defense – administers a comprehensive plan of property and casualty insurance protection on behalf of state agencies and universities. The division insures state agencies/universities against risk of loss from aircraft, airports, boilers and machinery, cyber information security, fidelity bond, fine art, Health Insurance Portability and Accountability Act (HIPAA), professional liability, property, surety bond, and vehicles. In addition, the division provides risk management training, on-site hazard inspections, consulting services, and claims administration. The division also investigates, evaluates, and resolves property/casualty claims, and coordinates the adjudication and settlement of tort claims involving personal injury/property damage.

(17.00 FTE all funded with proprietary funds)

Attached-to Agencies in the DOA budget:

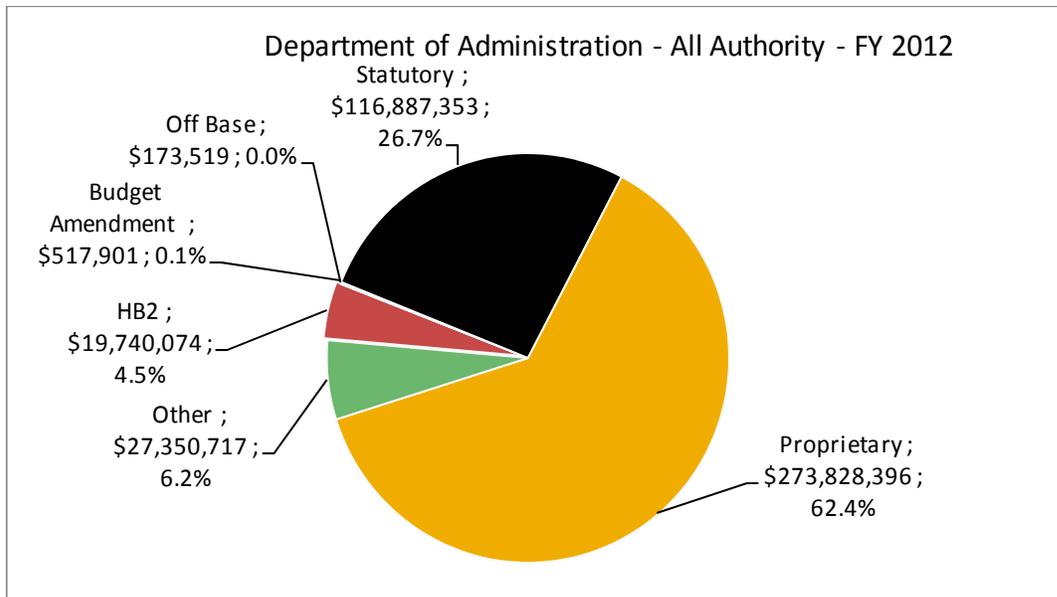
Montana State Lottery – designs, markets, and administers lottery games operating in Montana. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. The net revenue is deposited in the state general fund on a quarterly basis, after prizes, sales commissions, and operating expenses are taken out.

(31.50 FTE all funded in HB 2)

State Tax Appeal Board – provides a tax appeal system for all actions of the Department of Revenue. The Board hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, motor fuel taxes, vehicle taxes, and cabin site leases.

(7.50 FTE all funded in HB 2)

Sources of Spending Authority



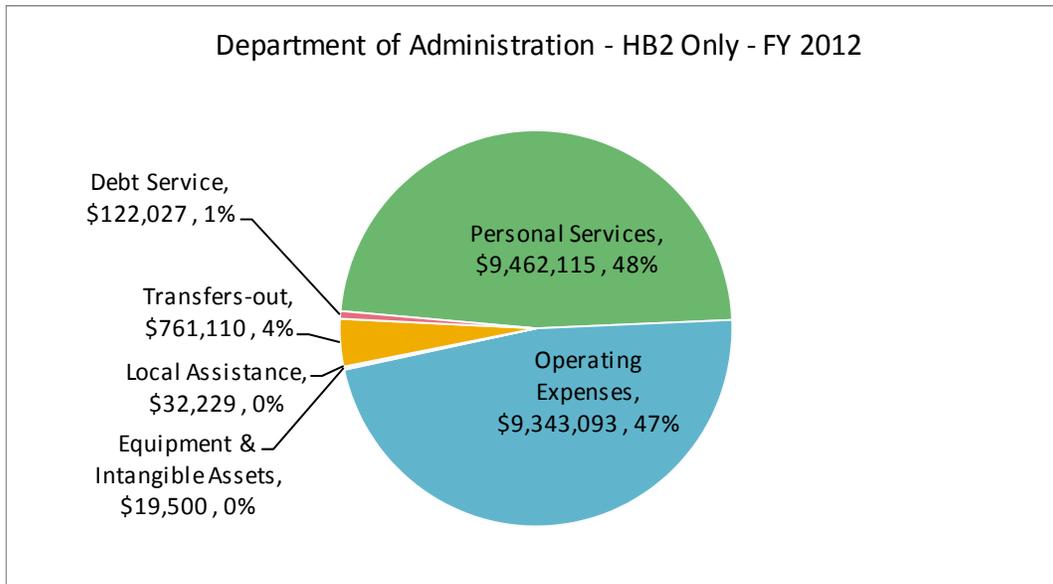
The above chart shows the sources of appropriation authority. For a more detailed description of accounting terminology, please refer to the definition of terms. A significant portion of the divisions within the agency are supported by proprietary funds, including the operations of the Director's Office, State Accounting Division, General Services Division, State Information Technology Division, Health Care and Benefits Division, State Human Resource Division, Risk Management and Tort Division and the Montana State Lottery. The funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and other games of chance by the Montana State Lottery; or from human service-related activities, such as group benefit premiums.

Budget amendments provided additional federal authority in FY 2012 for:

- Enhanced 911 grant of 2004 funding for 911 telephone services and equipment
- Community oriented policing services provided by the federal Department of Justice
- Bureau of Land Management grant to improve cadastral mapping

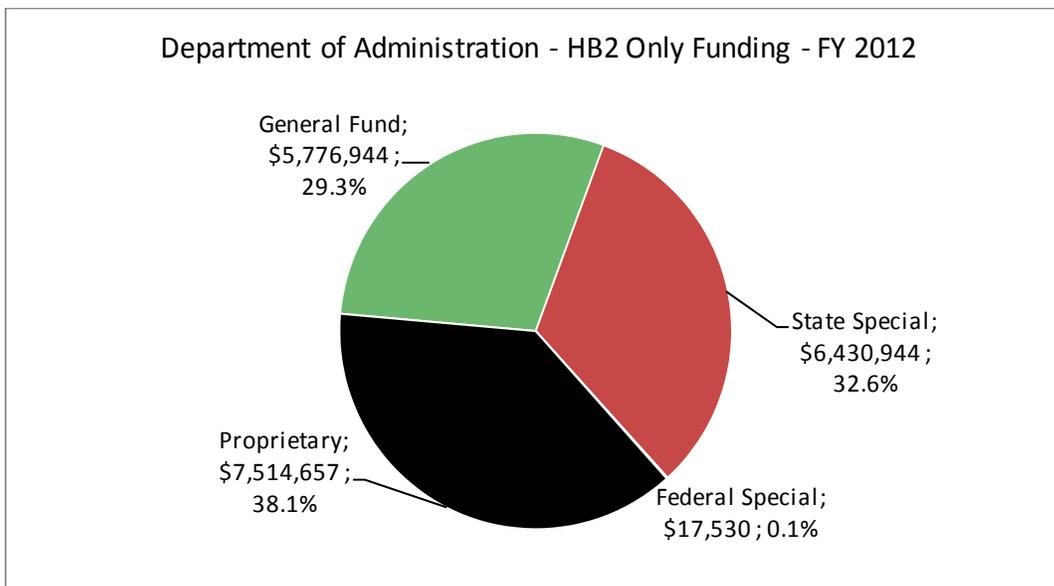
Expenditures

The chart on the next page explains how the House Bill (HB) 2 authority is spent. Most proprietary funds are not appropriated and do not appear in this chart. However, lottery proprietary funds, because any unspent balance reverts to the general fund, are appropriated in HB 2. Of the total authority, 48% was spent on personal services costs to support 528.98 FTE and 47% provided for operating expenses. Within the overall category of operating expenses four areas account for about 80% of the overall cost including other services, communications, rent, and other expenses. The Montana State Lottery drives the operating costs included here. The major expenditure from the general fund supports operating costs of the General Services Division. This chart matches the agency base expenditure found in the 2015 Budget Analysis.



Funding

The following charts show the agency’s HB 2 funding authority by fund type and all sources of its total funding authority.



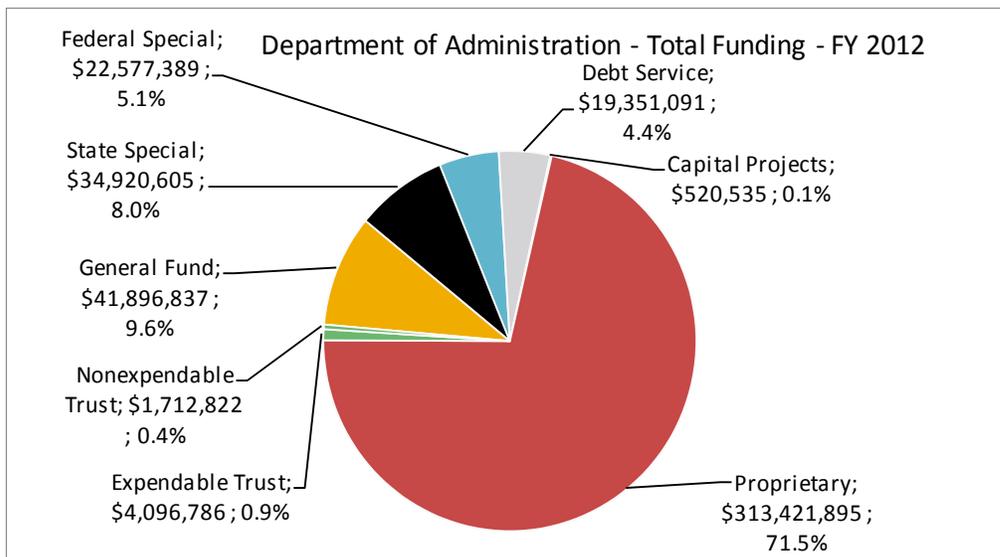
Services of the department are funded from a variety of sources. General fund supports some functions within the state accounting, general services, state information technology services, and state human resources programs and the State Tax Appeal Board. State special revenues are derived from transfers from the long-range building capital projects funds for administrative expenses supporting the Long-Range Building Program; procurement rebates for fueling and procurement card operations; 9-1-1 telephone fees; and assessments, application fees, and examination fees paid by regulated financial institutions. This money is used to provide specific services and programs related to the fees.

Funding, cont.

Federal funds include \$20.5 million in federal forest reserve shared revenue that is passed to counties with federal forest lands, and \$1.4 million in American Recovery and Reinvestment Act (ARRA) funds for broadband services.

Proprietary funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and other games of chance by the Montana State Lottery; or from human service-related activities such as group benefit premiums.

Debt services funds provide for Long-Range Building Program bond payments, and capital project funds are used to support capital building projects and communications programs for interoperability radio projects. Nonexpendable trust funds are generated through a voluntary employee beneficiary association program, and expendable trust funds are derived from private grants and funds.



How the 2013 Legislature Can Effect Change

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

- Risk management practices to reduce exposure to insurance
- Claims against the state
- Tort defense practices and policies for insurance claims against
- The state group health insurance usage and costs
- Effectiveness of information technology management, development, and usage
- Changes to financial institution and banking regulation laws, changing workload
- Changes to state employee human resource laws impacting workload
- Changes to state procurement laws impacting workload

Major Cost Drivers

Division	Element	FY 2008	FY 2012	Significance of Data
Architecture and Engineering (A&E)	Number of active projects	204	300	Workload
	Total capital projects budgets	\$481,098,996	\$355,191,360	A&E financial responsibility for construction administration
Banking and Financial Institutions (BFID)	Number of financial and lending entities supervised	1,477	1,848	Workload
	Total assets of state chartered banks and state credit unions	\$20.6 billion	\$25.2 billion	Asset growth in Montana
General Services (GSD)	Number of active building leases	380 leases	332 leases	Workload
	Number of buildings managed by GSD	46 buildings	48 buildings	Workload
Health Care and Benefits (HCBD)	Number of employees, retirees, and their dependents covered by the State Employee Group Health Insurance Plan	32,740	31,952	Size of plan managed by HCBD
Health Care and Benefits	Number of workers' compensation claims filed during the year	894	831	Efforts by program
Montana State Lottery	Lottery transfers to the general fund	\$11.0 million	\$13.1 million (unaudited)	Sales of lottery tickets
Risk Management & Tort Claims	Total insured values of state/university buildings and contents	\$3.9 billion	\$4.7 billion	Insurance costs
	Total number of claims/lawsuits	704	693	Workload
State Accounting	Total number of payments generated by states' computerized accounting system (Finance)	2,223,956	2,887,208	Workload
	% of payments made using electronic means	44%	61%	Success of moving to electronic payments
	Total audit and financial reviews analyzed	Audit financial reviews: 610 Financial reports 1,197	Not yet available	Workload
State Human Resources	Number of paychecks process	327,739	331,323	Workload
	Average number of state employees	12,605	12,743	Workload
	Number of training participants	3,806	2,699	Workload
State Information Technology Services	Number of SummitNet video sites across the state	30	207	Availability reduces the need to travel to attend some meetings
	Total % of SMDC capacity filled	N/A	Helena: 247 cabinets max; 83 spaces used; 33.6% used	Construction necessary for the last 57 cabinet capacity
			Miles City: 96 cabinets max, 29 spaces used; 30.21% used	



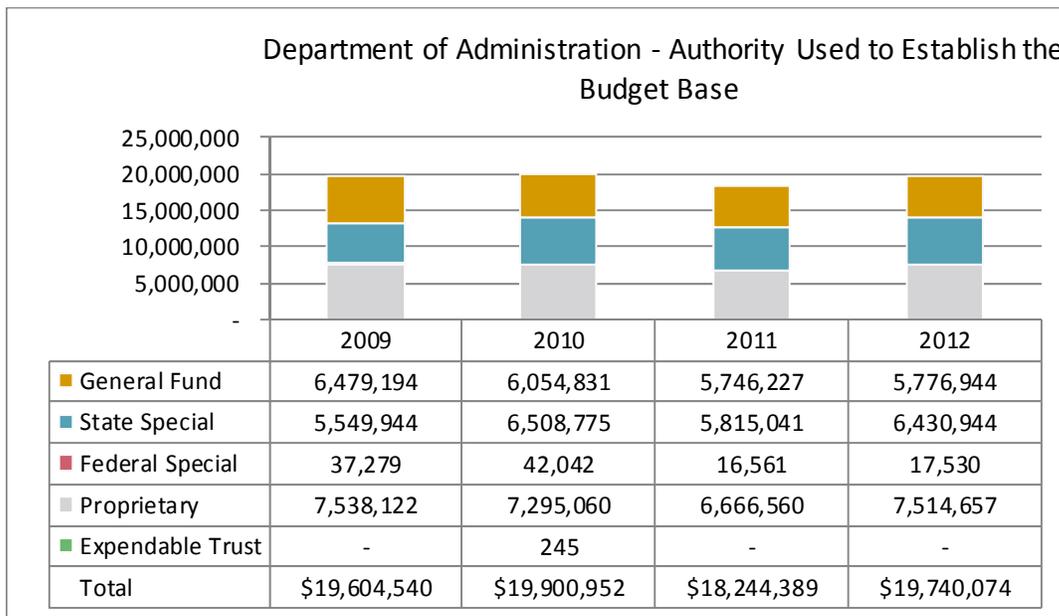
Major Cost Drivers, cont.

Activity for this agency varies depending upon:

- Level of services and complexity of computer systems required by state agencies
- Number of employees within state government
- Changes to the accounting requirements issued by the Governmental Accounting Standards Board
- Size and complexity of the state's finances
- Number and associated level of damage for state buildings, vehicles, and airplanes
- Size of damage awards for legal settlements in which the state is found responsible
- Activity level of the Montana State Lottery
- Size and number of medical and dental claims for employees that are self-insured through the State Employee Group Health Plan
- Number of charter banks within Montana and level and complexity of concerns discovered through bank examinations
- Number of state buildings, level of maintenance, construction, and repair required on the various properties

Funding/Expenditure History

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



Funding/Expenditure History, cont.

In FY 2009, total fund expenditures of governmental funds derived from all sources of appropriations authority were \$354.0 million. In FY 2012 this amount had grown to \$410.5 million, a 15.9% increase. The majority of the increase is due to increased proprietary and state special revenue funding.

State special revenue spending increased in two areas:

- Payment for damages to buildings and structures for losses that fall above the state's commercial insurance deductible using insurance proceeds
- 9-1-1 wireless provider fund balance distributions to wireless providers as required by statute

Proprietary funding spending increased in five areas:

- Montana State Lottery –retailer commissions, prize expenses, and vendor fees resulting from increased wagering on various multi-state lottery games
- Rent and maintenance – contracted services
- Group benefit claims – state employee and retiree group health care costs
- Commercial insurance expenditures – commercial insurance premiums from worldwide catastrophic losses
- Insurance settlements and judgments – expenditures for settlements/judgments associated with catastrophic property and liability claims/lawsuits

The major reasons for expenditure growth between 2009 and 2012 are:

- Enhanced supervision of residential mortgage services to protect Montanans from mortgage fraud. In addition, there was a significant increase in the dollar amount of banking and credit union assets supervised in the State due to growth in the agricultural, energy and commercial real estate sectors. This resulted in more complex examinations.
- Montana State Lottery – expenditure growth is due to growth in sales revenue. Since 2009, the Montana Lottery has increased revenue by \$8,765,559 and increased the transfer to the state general fund by \$2,946,489. This is a 19.99% growth in revenue between 2009 and 2012. Retailer commissions, prize expenses and vendor fees are all in direct relation to this increase in revenue.

Major Legislative Changes in the Last Ten Years

It should be noted that legislative changes listed below do not include the long-range planning bills which are generally approved by the legislature each session and contains both approved building projects and information system projects.

Computer Systems

The 2003 Legislature required Process Oriented Integrated System (POINTS) computer system of the Department of Revenue be replaced and the data in the current system that is needed for the replacement system be corrected and transferred to the new system. (SB 271)

The 2005 Legislature appropriated \$2.1 million general fund as a supplemental appropriation for FY 2005 to make payments to the contractor developing the Process Oriented Integrated Tax System (POINTS) for the Department of Revenue for existing work to complete the phase of the project funded by SB 271 of the 2003 Legislature. (HB 745)

Major Legislative Changes in the Last Ten Years, cont.

The 2005 Legislature created the Montana Land Information Act to develop a standardized, sustainable method to collect, maintain, and disseminate information in digital formats about the natural and artificial land characteristics of Montana. SB 98 increases the fee for recording land transactions with the county clerks and recorders. Revenues derived from the increased fees are deposited in a state special revenue account for fulfilling the new duties imparted on the department by SB 98 and for providing grants to state agencies, local governments, and Indian tribal governments. (SB 98)

The 2009 Legislature, in the long-range planning section of HB 645, provided \$4.5 million in general fund for two information technology projects: 1) \$3.5 million for enterprise system center equipment; and 2) \$1.0 million for interoperability Montana. (HB 645 implemented the federal American Reinvestment and Recovery Act)

The 2011 Legislature created a budget database website for taxpayer right to know. The legislature did not add funding of \$395,407 general fund for the 2013 biennium to develop the Internet database and did not add 1.00 FTE to administer it. (HB 444)

Banking and Financial Regulation

The 2003 Legislature – created the Montana Mortgage Broker and Loan Originator Licensing Act to license residential mortgage brokers and loan originators.

The 2007 Legislature (regular session) created a structure for licensing, supervising, and regulating of business and industry development corporations and assigned the regulatory oversight to the department. (SB 321)

The 2009 Legislature revised mortgage lending laws by expanding the mortgage broker and loan originator act to include mortgage lenders. (SB 351)

The 2011 Legislature required the licensure and regulation of residential mortgage loan servicers. (HB 90)

Pension funds

The 2005 Legislature – established a statutory appropriation for the annual general fund contribution to the highway patrol officers' retirement pension trust fund. (HB 102)

The 2007 Legislature (regular session) increased the employer contribution rates for certain public employee retirement plans. (HB 131)

Buildings maintenance and grounds

The 2005 Legislature transferred responsibility for capitol complex grounds maintenance from the Department of Fish, Wildlife, and Parks to the Department of Administration. In addition to transferring the responsibility for the function, the bill transferred associated assets and staff. (HB 109)

The 2009 Legislature provides guidance on the selection of a location for establishment of a veteran's home in southwestern Montana. (HB 213)

Purchasing

HB 745 appropriates \$2.1 million general fund as a supplemental appropriation for FY 2005 to make payments to the contractor developing the Process Oriented Integrated Tax System (POINTS) for the Department of Revenue for existing work to complete the phase of the project funded by SB 271 of the 2003 Legislature.

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

Major Legislative Changes in the Last Ten Years, cont.

Emergency telephone services (911)

The 2007 Legislature (regular session) increased the 9-1-1 fee from \$0.50 per subscriber to \$1.00 per subscriber for use to establish the enhanced 9-1-1 emergency capacity for wireless telephone services. (HB 27)

The 2009 Legislature reduced and redirects the portion of 9-1-1 fees collected by the state and used to fund costs to administer the fees for basic, enhanced, and wireless enhanced 9-1-1 services. (HB 82)

State Employee Group Health

The 2011 Legislature raised the age from 25 to 26 that dependents may remain covered under their parents state employee group health insurance. The change was made to comply with the federal Patient Protection and Affordable Care Act of 2010. (HB 53)

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

Department of Administration
125 N Roberts St
P.O. Box 200101
Helena, MT 59620-0101
Phone: (406) 444-2032
Webpage: <http://doa.mt.gov>

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	151.63	151.63	149.13	149.13	151.63	149.13	(2.50)	(1.65%)
Personal Services	9,462,117	9,956,483	10,172,697	10,178,582	19,418,600	20,351,279	932,679	4.80%
Operating Expenses	9,343,096	9,109,048	10,146,647	9,921,337	18,452,144	20,067,984	1,615,840	8.76%
Equipment & Intangible Assets	19,500	42,077	19,500	19,500	61,577	39,000	(22,577)	(36.66%)
Local Assistance	32,228	42,206	32,228	32,228	74,434	64,456	(9,978)	(13.41%)
Grants	0	0	0	0	0	0	0	n/a
Transfers	761,110	1,160,559	0	0	1,921,669	0	(1,921,669)	(100.00%)
Debt Service	122,027	85,827	89,977	89,977	207,854	179,954	(27,900)	(13.42%)
Total Costs	\$19,740,078	\$20,396,200	\$20,461,049	\$20,241,624	\$40,136,278	\$40,702,673	\$566,395	1.41%
General Fund	5,776,947	6,132,662	6,353,651	6,246,461	11,909,609	12,600,112	690,503	5.80%
State Special	6,430,943	6,883,075	6,072,276	6,070,416	13,314,018	12,142,692	(1,171,326)	(8.80%)
Federal Special	17,530	42,043	17,530	17,500	59,573	35,030	(24,543)	(41.20%)
Other	0	0	0	0	0	0	0	n/a
Other	7,514,658	7,338,420	8,017,592	7,907,247	14,853,078	15,924,839	1,071,761	7.22%
Total Funds	\$19,740,078	\$20,396,200	\$20,461,049	\$20,241,624	\$40,136,278	\$40,702,673	\$566,395	1.41%

Agency Mission - The Department of Administration’s (DOA) mission is to serve, satisfy, and support our customers.

For additional information please refer to the agency profile.

Agency Highlights

Department of Administration Major Budget Highlights
<ul style="list-style-type: none"> ◆ About 4% of the agency’s budget is appropriated in HB 2 ◆ State special revenue declines due to a proposal to transfer responsibilities for the Montana Land Information Act to the Montana State Library
Legislative Action Issues
<ul style="list-style-type: none"> ◆ General fund for the common areas with state agency buildings partially funded a rent holiday for state agencies ◆ Statute requires that the costs of administering the state employee group health care plan be included in HB 2 ◆ Montana State Lottery requests supplemental appropriations for lottery vendor fees ◆ State special revenue supporting the Banking and Financial Division has a fund balance that is 269% above a 60 day working capital need ◆ Fees for local government services are not commensurate with the cost of providing services ◆ Proposals for the State Human Resource Division include a policy choice for the legislature continuing the current tuition fee structure or establishing training as a fixed costs for state agencies

Agency Discussion

In FY 2012 the Department of Administration expended \$478.5 million, of which \$19.7 million or 4.1% was included as part of HB 2 appropriations as shown in the agency budget comparison on the previous page. Figure 1 shows the expenditures and funding sources, including statutory appropriations and non-budgeted proprietary funds, in FY 2012 for the agency.

Figure 1

Almost 24% of the funding supports operating expenses. DOA provides for a number of centralized functions for state agencies. Operating expenses includes:

- o Insurance and bond payments made by the state’s self-insurance program
- o Legal costs for defending tort claims
- o IT consulting services associated with maintaining the state’s computer systems
- o Data circuits and other communication costs for the states’ telephone and computer networks
- o Payments to lottery vendors, commissions to lottery retailers, and lottery prize awards

Local assistance includes payments to counties for statutorily appropriate funds, including payments for:

- o Local government employee pensions
- o School district employee pensions
- o Teacher retirement
- o Supplemental contributions to teachers retirement
- o Mineral fees distributed to counties from which the minerals were produced
- o Taylor Grazing Act Funds
- o Forest reserve funds

Benefit and claims payment include three categories:

- o Payments from state sources of \$150.3 million for medical, dental, and other costs associated with the Employee Group Health Plan
- o Insurance payments made by the Risk Management and Tort Defense Division of \$35.1 million including \$26.8 million for Montana asbestos victims
- o Payments of \$5.9 million refunded to the bond escrow agent that are non-budgeted

Department of Administration FY 2012		
Budget Item	FY 2012	% of Total
Expenditures		
Personal Services	\$35,218,743	7.36%
Operating Expenses	111,765,287	23.36%
Equipment	(5,292,733)	-1.11%
Capital Outlay	1,577,806	0.33%
Local Assistance	67,199,555	14.04%
Grants	198,545	0.04%
Benefits and Claims	191,271,385	39.98%
Transfers Out	55,589,123	11.62%
Debt Service	19,775,519	4.13%
Other Post Employment Benefits	<u>1,160,919</u>	<u>0.24%</u>
Total Expenditures	<u>\$478,464,150</u>	100.00%
Funding		
General Fund	\$57,211,875	11.96%
State Special Revenue	35,266,688	7.37%
Federal Special Revenue	22,577,378	4.72%
Long Range Building	27,328,401	5.71%
Proprietary		
Internal Services Funds	268,996,923	56.22%
Enterprise Funds	61,247,496	12.80%
Private Funds	4,121,018	0.86%
Trust Funds	<u>1,714,371</u>	<u>0.36%</u>
Total Funding	<u>\$478,464,149</u>	100.00%

Transfers out include \$10.0 million in general fund transferred to the Montana State Fund for Old Fund claims costs and \$13.1 million in transfers to the general fund from the Montana State Lottery. Both transfers are considered non-budgeted. Other transfers of appropriated funds include \$15.8 million in general fund for bond debt services and \$3.4 million in insurance proceeds on insurance claims for state buildings.

Debt service is provided for principle payments of \$13.5 million and interest of \$5.7 million associated with Long-Range Building Program and Trust Lands bonds.

Agency Personal Services

The personal services budget for the 2015 biennium increases due to:

- o An overall vacancy savings rate of 11.3% compared to a budgeted 4% vacancy rate in its HB 2 funded positions and 8.2% vacancy savings rate compared to 4% for proprietary funded positions

- Annualization of broadband pay increases that were granted throughout FY 2012. The total annual cost of salaries from all funding sources, both HB 2 and non-budgeted proprietary funds, is about \$0.7 million. The agency reviewed existing pay ranges and made adjustments to a limited number of positions. To be eligible for an adjustment, the agency indicated that a clear inequity needed to exist in the employee’s base rate when compared to other employees in similar positions
- As of December 8, 2012 there were 32 positions that have been vacant for longer than six months, the majority in either General Services Division or the State Information Technology Services Division.

LFD COMMENT Both of these divisions are supported by non-budgeted proprietary funds that are financed through legislatively approved rates. The rates are based in part on personal service costs that include the costs of the vacant positions. This can generate income beyond what is needed to fund personal service costs, allowing the division to either use the additional funding for unanticipated costs or to increase the fund balance. Further discussion can be found in the narrative section for each division.

Department of Administration indicates that about 9.4% of the employees are currently eligible for either early or full retirement. In FY 2012 the agency paid \$0.2 million in retirement and sick leave payouts that are not included as part of the 2015 biennium personal services funding.

Agency Wide Decision Package

The following proposal has a common decision packages in several programs across the agency.

- DP 102 Allocate Department Indirect/Administrative Cost. The Department of Administration’s Director’s Office uses a proprietary rate to allocate the costs of the Offices of Legal Services, Finance and Budget, and Human Resources. Additionally, the Director’s Office provides IT management and project management services. Figure 2 shows the agency-wide impact of the common decision packages

Figure 2

Department of Administration Allocate Department Indirect/Administrative Costs									
Division	FY 2014				FY 2015				2015 Biennium Total
	General Fund	State Special	Proprietary	Total	General Fund	State Special	Proprietary	Total	
Director's Office	\$0	\$0	\$10,795	\$10,795	\$0	\$0	\$10,693	\$10,693	\$21,488
State Accounting Division	3,366	0	2,801	6,167	3,142	0	2,140	5,282	11,449
Architecture and Engineering Division	0	10,219	0	10,219	0	9,921	0	9,921	20,140
General Services Division	2,973	(57)	19,056	21,972	2,842	(66)	19,583	22,359	44,331
State Information Technology Division	4,592	3,990	85,855	94,437	4,538	3,943	80,141	88,622	183,059
Banking and Finance Division	0	6,431	0	6,431	0	5,874	0	5,874	12,305
Montana State Lottery	0	0	(2,552)	(2,552)	0	0	0	(3,130)	(5,682)
Health Care and Benefits Division	0	0	56,867	56,867	0	0	56,339	56,339	113,206
State Human Resources Division	5,993	0	55,767	61,760	5,703	0	55,192	60,895	122,655
Risk Management & Tort Claims Division	0	0	20,714	20,714	0	0	19,144	19,144	39,858
State Tax Appeal Board	<u>3,299</u>	<u>0</u>	<u>0</u>	<u>3,299</u>	<u>3,205</u>	<u>0</u>	<u>0</u>	<u>3,205</u>	<u>6,504</u>
Total	\$20,223	\$20,583	\$249,303	\$290,109	\$19,430	\$19,672	\$243,232	\$282,334	\$572,443

As shown above, the proposal provides for increased costs in the Director’s Office by increases to general fund, state special, and proprietary funds in the other divisions within the agency. Three proprietarily funded programs, State Information Technology Division, Health Care and Benefits Division, and State Human Resources Division provide over 73% of the support for the increases proposed in the Director’s Office. The increases included for these divisions will be passed on to other state agencies through increased proprietary rates.

5% Reduction Plan

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

For this agency the general fund impact of the 5% is \$262,562 and the state special revenue impact is \$189,567.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- New
- Emerging
- Mature
- Declining
- Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- Current plans to address obsolescence
- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$12,600,112	\$0	\$75,058,880	\$87,658,992	10.8%
State Special Total	12,142,692	-	50,329,752	62,472,444	7.7%
Federal Special Total	35,030	-	41,214,186	41,249,216	5.1%
Proprietary Total	15,924,839	537,880,538	63,522,458	617,327,835	76.3%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	779,052	779,052	0.1%
Total All Funds	\$40,702,673	\$537,880,538	\$230,904,328	\$809,487,539	
Percent - Total All Sources	5.0%	66.4%	28.5%		

95% of the overall funding for the Department of Administration is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as a statutory appropriation.

Within HB 2 general fund supports the Board of County Printing and the Burial Preservation Board, and provides partial support for the State Accounting Division, General Services Division including facilities maintenance functions for common areas, and State Human Resources Division.

State special revenues include:

- Assessments, application fees, and examination fees paid by the regulated financial institutions
- Fees imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services that support 911 services throughout Montana
- Funds transferred from the long-range building capital projects fund for administrative expenses in support of the state Long-Range Building Program

Proprietary funds in HB 2 are appropriated to the Montana State Lottery Division (lottery). Profits from the lottery are deposited into the state’s general fund. As such, the legislature had made a policy decision to appropriate the funds for the lottery so that it can more closely examine the costs of its operations. The increased legislative oversight helps ensure the lottery continues to maximize general fund transfers.

The remaining proprietary funds, over half a billion, are proposed as non-budgeted. The legislature examines proposed rates for internal service funds in this agency as part of its consideration of HB 2. The internal service funds make up the majority of the proprietary funds in this agency. Proprietary funds are discussed in detail in the narrative sections of each program.

Statutory appropriations approved for the agency are discussed in detail in the narrative sections of each program. Included in the program funding tables are the applicable statutes and whether the appropriations have a direct bearing on the agency operations or are passed-thru to another entity such as federal forest reserve funds that are passed through to counties throughout Montana.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	5,776,947	5,776,947	11,553,894	91.70%	19,740,078	19,740,078	39,480,156	97.00%
Statewide PL Adjustments	602,216	495,833	1,098,049	8.71%	1,132,809	915,434	2,048,243	5.03%
Other PL Adjustments	(4,827)	(5,620)	(10,447)	(0.08%)	461,204	458,922	920,126	2.26%
New Proposals	(20,685)	(20,699)	(41,384)	(0.33%)	(873,042)	(872,810)	(1,745,852)	(4.29%)
Total Budget	\$6,353,651	\$6,246,461	\$12,600,112		\$20,461,049	\$20,241,624	\$40,702,673	

Statewide present law adjustments provide for the majority of the increases for the Department of Administration. About \$1.9 million of the increase is related to personal service adjustments and the remainder includes adjustments for fixed costs and inflation/deflation included in the operating expenses. Other present law adjustments proposed by the agency include:

- Burial Board funding
- Increases for the Director’s Office which is assessed to the other divisions as department indirect costs
- One-time-only request for lottery terminals

Under new proposals the executive requests to transfer the responsibilities for the Montana Land Information Act to the Montana State Library. Currently state statute makes the department responsible for the administration of the act.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	1.00	1.00	1.00	1.00	1.00	1.00	0.00	0.00%
Personal Services	60,356	61,572	58,779	58,713	121,928	117,492	(4,436)	(3.64%)
Operating Expenses	53,551	41,038	69,482	12,041	94,589	81,523	(13,066)	(13.81%)
Local Assistance	16,464	37,133	16,464	16,464	53,597	32,928	(20,669)	(38.56%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$130,371	\$139,743	\$144,725	\$87,218	\$270,114	\$231,943	(\$38,171)	(14.13%)
General Fund	113,907	102,033	128,261	70,784	215,940	199,045	(16,895)	(7.82%)
State Special	0	577	0	0	577	0	(577)	(100.00%)
Federal Special	16,464	37,133	16,464	16,434	53,597	32,898	(20,699)	(38.62%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$130,371	\$139,743	\$144,725	\$87,218	\$270,114	\$231,943	(\$38,171)	(14.13%)

Program Description

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

Program Highlights

Director's Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ Overall costs for the division in HB 2 are reduced due to changes included in statewide present law adjustments ◆ Proprietary rates requested for the 2015 biennium would generate higher revenues when compared to the FY 2012 base budget
Major LFD Issues
<ul style="list-style-type: none"> ◆ Budget transfers of authority and FTE in FY 2012 increase proprietary rates in the 2015 biennium

Program Discussion

The Director's Office costs decrease between the 2013 and 2015 biennia due to reductions included in:

- Statewide present law adjustments for legislative audit costs
- Personal service costs for employee benefits that are lower in the 2015 biennium

Funding

The following table shows program funding for the 2015 biennium from all sources of authority.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Director'S Office							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$199,045	\$0	\$70,674,796	\$70,873,841	51.3%	17-7-502	Direct
						19-3-319	Pass Thru
						19-20-604	Pass Thru
						19-20-607	Pass Thru
State Special Total	\$0	\$0	\$21,978,022	\$21,978,022	15.9%		
02858 Mineral Impact	\$0	\$0	\$21,978,022	\$21,978,022	15.9%	17-3-241	Pass Thru
Federal Special Total	\$32,898	\$0	\$41,214,186	\$41,247,084	29.8%		
03095 Taylor Grazing Act Dist.	\$0	\$0	\$240,712	\$240,712	0.2%	17-3-222	Pass Thru
03369 Flood Control Payments	\$32,898	\$0	\$0	\$32,898	0.0%		
03425 Forest Reserve Shared Revenue	\$0	\$0	\$40,973,474	\$40,973,474	29.6%	17-3-212	Pass Thru
Proprietary Total	\$0	\$3,353,667	\$0	\$3,353,667	2.4%		
06534 Management Services	\$0	\$3,353,667	\$0	\$3,353,667	2.4%		
Other Total	\$0	\$0	\$779,052	\$779,052	0.6%		
05008 Capitol Building Sr	\$0	\$0	\$779,052	\$779,052	0.6%	17-7-502	Direct
Total All Funds	\$231,943	\$3,353,667	\$134,646,056	\$138,231,666	100.0%		
Percent - Total All Sources	0.2%	2.4%	97.4%				

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

Within HB 2 general fund provides funding for the office's support of:

- o Board of County Printing
- o Burial Preservation Board
- o General management and legal support for statewide functions

Federal special revenue funds administration functions that support the allocation of federal flood control payments.

LFD COMMENT

The majority of the funding in the Director's Office is statutorily appropriated. The legislature may effect change in these appropriations through changes to the statutes listed in the table shown above.

Direct Bearing on Agency Operations

General fund statutory appropriations include the following appropriations that have a direct bearing on the agency's operations:

- o Cash Management Improvement Act returns
- o Paying debt service costs

Funding for general fund payments of debt service decreases by \$1.3 million over the biennium when compared with FY 2012 payments as long-term debt for building projects for the Department of Labor and Industry and Department of Public Health and Human Services are paid off.

Other funds include capital projects funding for debt service of long-range building projects that are financed through capital project funds.

LFD COMMENT	<u>Pass Thru</u>
	<p>General fund statutory appropriations that do not directly impact agency operations include state contributions for:</p> <ul style="list-style-type: none"> ○ Local government employee pensions ○ School district employee pensions ○ Teacher retirement ○ Supplemental contributions to teachers retirement <p>General fund contributions for retirement payments are estimated to increase by \$4.6 million over the biennium.</p> <p>State special revenues for mineral impact fees are distributed to counties from which the minerals were produced and that resulted in the deposit of the mineral royalty revenues. Federal funds include statutory appropriations for Taylor Grazing Act funds and forest reserve funds that are distributed to counties with federal forest lands.</p> <p>The methodology used by the federal government to establish the amount of the federal forest reserve funds is outlined in the federal Emergency Economic Stabilization Act of 2008. The amount for each county declined by 10% a year until FY 2012 when the act sunsets. Beginning in FY 2013 it is assumed that the previous methodology for determining the federal payment will be used, which is 25% of the value of timber sold averaged over the prior three years. As a result, the federal forest reserve funds is expected to decline about \$4.00 million each year.</p>

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	113,907	113,907	227,814	114.45%	130,371	130,371	260,742	112.42%
Statewide PL Adjustments	7,354	(50,123)	(42,769)	(21.49%)	7,354	(50,153)	(42,799)	(18.45%)
Other PL Adjustments	7,000	7,000	14,000	7.03%	7,000	7,000	14,000	6.04%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$128,261	\$70,784	\$199,045		\$144,725	\$87,218	\$231,943	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					872					804
Vacancy Savings					(2,449)					(2,447)
Inflation/Deflation					7					14
Fixed Costs					8,924					(48,524)
Total Statewide Present Law Adjustments		\$7,354	\$0	\$0	\$7,354		(\$50,123)	\$0	(\$30)	(\$50,153)
DP 101 - Burial Board	0.00	7,000	0	0	7,000	0.00	7,000	0	0	7,000
Total Other Present Law Adjustments	0.00	\$7,000	\$0	\$0	\$7,000	0.00	\$7,000	\$0	\$0	\$7,000
Grand Total All Present Law Adjustments	0.00	\$14,354	\$0	\$0	\$14,354	0.00	(\$43,123)	\$0	(\$30)	(\$43,153)

DP 101 - Burial Board - OTO - Burial Board requests a one-time-only appropriation of \$7,000 general fund for each year of the 2015 biennium to cover costs associated with repatriation hearings. There was no need for repatriation hearings in FY 2012, and as such the base budget does not include funding for them. Funding requested anticipates one repatriation hearing each fiscal year with costs for a hearing examiner and travel for members.

Proprietary Rates

The Director’s Office provides management services to other divisions within the agency. Costs of providing the services are charged to the divisions and used to support the activities within the office.

Proprietary Program Description

The Director’s Office provides services in the areas of legal, human resources, and financial management to other divisions of the agency and agencies and boards attached to the agency for administrative purposes. The Office of Legal Services advises the divisions on legal matters. The Office of Human Resources processes payroll; assists with recruitment, selection and orientation of new employees; classifies positions; and develops human resource policies for the department. 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. Additionally, the Director’s Office provides IT management and project management services.

Proprietary Program Narrative

LFD
ISSUE

Budget Transfers in FY 2012 Increase Rates in 2015 Biennium

The 2011 Legislature set the maximum amount the Director’s Office could charge to the divisions during the FY 2013 biennium as:

- o \$574 annually per FTE for human resources services
- o \$903,354 for legal services, financial management, and overall management services of the Director’s Office

Figure 3

During FY 2012 the agency transferred additional authority and FTE into the Director’s Office as shown in the Figure 3.

Department of Administration Director's Office Transfers of FTE and Appropriation Authority		
From	FTE	Authority
State Human Resource Division	0.68	\$49,667
State Accounting Division	0.50	23,940
General Services Division	<u>4.00</u>	<u>126,099</u>
Total Transfers	<u>5.18</u>	<u>\$199,706</u>

**LFD
ISSUE
CONT.**

Figure 4 shows the FY 2012 spending by the agency for legal services, financial management, and overall management services of the Director's Office for the proprietary fund, as recorded on the state's accounting records. The Director's Office spent more than \$140,390 above the maximum amount approved in the rates included in HB 2 for these functions. The agency did not increase the rates to recover the additional funding in the base year.

The Office of Human Resources uses an annual rate per FTE for human resource services. The amounts charged in FY 2012 are based on FTE numbers for FY 2010. In FY 2012 the department charged for 566.47 FTE at an approved rate of \$574 per FTE. This resulted in \$325,318 in revenues. Actual spending for the Office of Human Resources was \$335,065.

The transfer of FTE and appropriation authority in FY 2012 increases the spending of the program for FY 2012. This higher level of spending is the basis for the establishment of the rates for the 2015 biennium. While the transfers are within the legal authority of the agency, they do allow the agency to increase the proposed rates for the next budget cycle. It should be noted that the agency reduced the amounts charged in proprietary rates in the State Human Resources and State Accounting Divisions to the other divisions through the transfers. The General Services Division (GSD) is funded through set fees which were not reduced as a result of the transfer of authority, however GSD granted a two month rent holiday to state agencies which lowered excess fund balance in its rent proprietary fund.

Legislative Option

If the legislature wants to increase its oversight of the costs of the Director's Office it can consider including appropriations for personal services and operating costs in HB 2 rather than approving rates in the proprietary fund.

Figure 4

Department of Administration Director's Office	
Office	Costs
Director's Office	\$548,960
Office of Legal Services	105,928
Office of Finance and Budget	340,513
Non-budgeted Expenditures	48,343
Total	<u>\$1,043,744</u>
HB 2 Rate	\$903,354

Expenses

Significant costs for the program include:

- Personal services of \$1.45 million supporting 19.51 FTE. This is an increase of 5.18 FTE and \$320,500 in personal service costs from those included in the rates in FY 2012 as shown in Figure 2. New positions include:
 - 1.50 FTE - Human Resource Specialists
 - 1.00 FTE - Paralegal Assistant
 - 0.68 FTE - Budget Analyst
 - 1.00 FTE - Auditor
 - 1.00 FTE - Project Facilitation Specialist
- Operating Costs of \$227,000 supporting:
 - Consulting and Professional Services - \$26,500
 - ITSD services - \$38,500
 - Office space rent - \$33,200
 - Computers - \$15,800
 - Indirect costs - \$15,800

Revenues

All divisions of the agency and other agencies and boards designed in statute as being administratively attached to the agency use the services provided by the programs included in the Director's Office. Administratively attached agencies or boards with staff to perform the provided functions do not use some of the services and are not charged a fee.

The revenues for this program are allocated in three ways: 1) the human resource function based on an annual amount per FTE served; 2) the legal unit costs based on a time-use study; and 3) the remaining portion on the proportional size of the division, board, or agency’s budget to the total of all served.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund – 6.5%
- o State special revenue – 9.4%
- o Proprietary funds – 84.1%

Present Law Adjustments

As discussed in the LFD issue above, the agency transferred 5.18 FTE and related personal services costs into the agency. These costs are shown in Figure 5.

Figure 5

Department of Administration Director's Office Increases in Personal Services		
Cost	Budgeted FY 2014	Budgeted FY 2015
Salaries	\$241,430	\$241,430
Longevity	1,086	1,124
Benefits	38,719	38,240
Health Insurance	52,776	52,776
Vacancy Savings	(13,361)	(13,084)
Total	\$320,650	\$320,486

The increased costs are included in DP 102 in each applicable division budget. The allocation is an adjustment to the base budgets and includes the amount for the requested rate increase of \$297,730 in FY 2014 and \$286,953 in FY 2015. Costs are reduced by lower salaries budgeted for other positions within the Director’s Office. The allocation process allocates 6.9% of the increase to general funded programs and 93.1% to other funds.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 6.

Figure 6

Requested Rates for Director's Office (Management Services)				
	Actual FY 2012	Budgeted FY 2013	Budgeted FY 2014	Budgeted FY 2015
Fee/Rate				
Human resources portion of program (annually per FTE)	\$633	\$570	\$606	\$603
Remaining portion of the program (fixed amount for allocation)	\$1,009,516	\$902,951	\$1,269,878	\$1,269,231

As discussed previously, 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. These rates reflect a net biennium increase of \$776,780 from the costs of the 2013 biennium. The components of the increase to the two rates are:

- o \$150,284 for human resources
- o \$626,496 for other services including:
 - o \$246,409 for finance and budget services
 - o \$ 87,140 for legal services
 - o \$292,947 for Director Office’s management services

The rate is determined by estimating the amount of revenue necessary to cover all personal services and operation costs and to maintain a sufficient working capital balance.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	18.67	18.67	18.67	18.67	18.67	18.67	0.00	0.00%
Personal Services	1,082,891	1,105,372	1,185,844	1,184,902	2,188,263	2,370,746	182,483	8.34%
Operating Expenses	236,172	273,572	248,710	247,740	509,744	496,450	(13,294)	(2.61%)
Total Costs	\$1,319,063	\$1,378,944	\$1,434,554	\$1,432,642	\$2,698,007	\$2,867,196	\$169,189	6.27%
General Fund	1,269,360	1,325,274	1,378,384	1,376,552	2,594,634	2,754,936	160,302	6.18%
Federal Special	1,066	4,910	1,066	1,066	5,976	2,132	(3,844)	(64.32%)
Other	48,637	48,760	55,104	55,024	97,397	110,128	12,731	13.07%
Total Funds	\$1,319,063	\$1,378,944	\$1,434,554	\$1,432,642	\$2,698,007	\$2,867,196	\$169,189	6.27%

Program Description

The State Accounting Division is made up of the:

- o State Accounting Bureau
- o Local Government Services Bureau
- o Treasury Unit
- o Social Security Administrator

The State Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, prepares and negotiates the Statewide Cost Allocation Plan (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). Additionally, the bureau provides accounting assistance and training to state agencies. Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel. The bureau maintains and publishes the local government Budgetary, Accounting and Reporting System (BARS) chart of accounts and the county collection and accounting manuals. The Treasury Unit provides the central banking function for state agencies, reconciles the state bank accounts, and insures the collateralization of these bank accounts is maintained at the proper level. The State Social Security Administrator manages the Social Security Act Section 218 program for the State of Montana including interpreting its provisions, and insuring proper application of Social Security coverage to all State and political subdivision employees. The Administrator provides education and outreach to local governments to support them in this function.

Program Highlights

State Accounting Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The majority of the funding in this program is from non-budgeted proprietary funds that do not show on the HB 2 tables ◆ General fund support increases due to: <ul style="list-style-type: none"> • Increases included in the statewide present law adjustments • Increased general fund costs for 1.00 FTE transferred from other divisions to create a social security administrator

Major LFD Issues
<ul style="list-style-type: none"> ◆ Proprietary rates include positions that have been vacant for over two years ◆ Fees for local government services are not commensurate with the cost of providing services

Program Discussion

General fund support for the program increases between biennia due to increased personal service costs supported by general fund. In FY 2012 the agency transferred:

- 0.51 FTE and \$40,000 general fund annually in personal services from the State Human Resource Division
- 0.49 FTE and \$20,000 general fund annually in personal services from the Director's Office

The division used the FTE to create a regulatory program manager position within the accounting bureau for the state social security administrator. The costs of the position in the 2015 biennium are \$45,000 in general fund above the transferred authority.

Funding

The following table shows program funding for the 2015 biennium from all sources of authority.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - State Accounting Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$2,754,936	\$0	\$4,118,056	\$6,872,992	40.3%	17-6-101	Direct
Federal Special Total	\$2,132	\$0	\$0	\$2,132	0.0%		
03320 Cmia Funds	\$2,132	\$0	\$0	\$2,132	0.0%		
Proprietary Total	\$110,128	\$10,084,842	\$0	\$10,194,970	59.7%		
06042 Single Audit Review - Hb328	\$0	\$821,972	\$0	\$821,972	4.8%		
06511 Sabhrs Services Bureau	\$0	\$7,756,021	\$0	\$7,756,021	45.4%		
06527 Investment Division	\$110,128	\$0	\$0	\$110,128	0.6%		
06564 Warrant Writing	\$0	\$1,506,849	\$0	\$1,506,849	8.8%		
Total All Funds	\$2,867,196	\$10,084,842	\$4,118,056	\$17,070,094	100.0%		
Percent - Total All Sources	16.8%	59.1%	24.1%				

House Bill 2

General fund in the program supports development of statewide accounting standards, treasury functions, and accounting assistance for local governments. Proprietary funding in HB 2 is a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board. Federal support for cash management services declined 78% from budget projections for federal Cash Management Improvement Act funds which are deposited into the general fund.

Proprietary Funding

The majority of the office functions are funded with 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

About a quarter of the funding in the State Accounting Division is statutorily appropriated for use by the state treasurer. The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated, as provided in 17-7-502, MCA from the general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,269,360	1,269,360	2,538,720	92.15%	1,319,063	1,319,063	2,638,126	92.01%
Statewide PL Adjustments	107,427	105,823	213,250	7.74%	113,894	112,210	226,104	7.89%
Other PL Adjustments	3,366	3,142	6,508	0.24%	3,366	3,142	6,508	0.23%
New Proposals	(1,769)	(1,773)	(3,542)	(0.13%)	(1,769)	(1,773)	(3,542)	(0.12%)
Total Budget	\$1,378,384	\$1,376,552	\$2,754,936		\$1,434,554	\$1,432,642	\$2,867,196	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					152,366					151,381
Vacancy Savings					(49,413)					(49,370)
Inflation/Deflation					80					223
Fixed Costs					10,861					9,976
Total Statewide Present Law Adjustments		\$107,427	\$0	\$0	\$113,894*		\$105,823	\$0	\$0	\$112,210*
DP 102 - Allocate department indirect/admin costs	0.00	3,366	0	0	3,366	0.00	3,142	0	0	3,142
Total Other Present Law Adjustments	0.00	\$3,366	\$0	\$0	\$3,366	0.00	\$3,142	\$0	\$0	\$3,142
Grand Total All Present Law Adjustments	0.00	\$110,793	\$0	\$0	\$117,260*	0.00	\$108,965	\$0	\$0	\$115,352*

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

Increases for personal service costs are due to:

- o Increased costs for the social security administrator position
- o Market rate adjustments given in FY 2012 (discussed in the Summary section of this narrative)
- o Increased costs of providing longevity increases compared to the 2013 biennium
- o Increased employee benefits associated with market adjustments and longevity increases

DP 102 - Allocate department indirect/admin costs - This request funds the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	03	0.00	(1,769)	0	0	(1,769)	0.00	(1,773)	0	0	(1,773)
Total	0.00	(\$1,769)	\$0	\$0	(\$1,769)	0.00	(\$1,773)	\$0	\$0	(\$1,773)	

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the State Human Resources Division.

Proprietary Rates

The State Accounting Division provides the following functions with proprietary funds:

- o Statewide Accounting, Budgeting, and Human Resource Program (SABHRS)
- o Warrant Writer Program
- o Local Government Audit and Reporting Program

These programs are described separately along with a discussion of program expenses, revenues, and rates being requested to finance each program.

Statewide Accounting, Budgeting, and Human Resources Program - 06511

Program Description

The Statewide Accounting, Budgeting and Human Resource Finance and Budget Bureau (SFAB) is responsible for operational support and maintenance of the enterprise financial and budget development information systems. Budget development business processes are supported by the Montana Budget, Analysis, and Reporting System (MBARS) modules. MBARS supports the executive planning process (EPP), long range building program, general budget building process, narrative publications, and budget implementation.

Proprietary Program Narrative

Expenses

Significant costs for the program include:

- o Personal services costs of \$7.8 million over the biennium to support 18.00 FTE
- o Operating costs of \$5.0 million including:
 - o \$3.2 million for computer costs
 - o \$1.2 million for State Information Technology Services Division (SITSD) services such as application and server hosting

**LFD
COMMENT**

The SABHRS program experienced significant personal services turnover during FY 2012 with 2 positions vacant during the entire period and one position filled only 12.6% of the year. As part of the budgeting process, funding for the positions of \$158,200 in FY 2014 and \$157,900 in FY 2015 was reinstated. In addition, costs for SITSD were \$300,000 less than budgeted in FY 2012. The combination of the two cost reductions resulted in fund balance above that needed for operations.

The division reduced charges to other state agencies by \$600,000 in FY 2012 and projects it will reduce costs in FY 2013 by \$700,000 for similar cost reductions. As agency costs for this function were included in budgets approved by the legislature, the cost reductions resulted in additional authority within each agency that could be used for other costs or returned as reversions at the end of the budgeting period.

Revenues

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

- Costs to operate the program
- Maintaining a reasonable working capital balance, 60 working days

These components factor into the maximum allocation of costs in a rate that is approved by the legislature.

**LFD
COMMENT**

In FY 2012, SABHRS budgeted fees below costs to operate the program to ensure working capital was reduced to a 60 days reserve by the end of the 2013 biennium. In the 2015 biennium, the fund balance is not available to offset the costs of operating the program. This results in a difference of \$527,025 in FY 2014 and \$109,844 in FY 2015.

The program costs are allocated based on an agency's proportionate share of journal lines to the total journal lines of all agencies¹:

- 87% for financial system journal lines
- 13% for MBARS journal lines

Budget authority to pay the SABHRS allocation is a fixed cost in each agencies' budget and equals the revenues included in the proprietary rates for this program.

Funding Sources

The approximate FY 2012 funding (including the refund) for SFAB was as follows:

- General fund 33%
- State special revenue 17%
- Federal special revenue 25%
- Proprietary 11%
- All other funds 14%

Significant Present Law Adjustments

Statewide present law adjustments included in the rates are:

- Personal services
 - \$171,638 in FY 2014
 - \$172,325 in FY 2015

¹ A journal line is a line of data on the statewide accounting system or budgeting system that describes the details of one accounting or budgeting transaction. It includes such data as the transaction date, amount, purpose, and impacted expenditure, revenue, or balance sheet accounts.

- o Operating costs
 - o \$139,488 in FY 2014
 - o \$65,165 in FY 2015

LFD
ISSUE

Rates Include Positions that Have Been Vacant For Over Two Years

Two of the positions that are refinanced through the statewide present law adjustment process have been vacant in excess of two years including:

- o Computer security specialist vacant since 5/8/2010 at a cost of \$44,500 each year of the 2015 biennium
- o Computer programmer vacant since 7/17/2010 at a cost of \$54,300 each year of the 2015 biennium

As discussed earlier, the positions have not been needed for the SABHRS function in the previous biennium and state agency costs have been refunded or reduced, resulting in appropriation authority in state agencies beyond what was needed for state agency SABHRS costs. As 33% of the revenues are generated from general fund, savings of approximately \$32,600 in general fund would result if SABHRS rates were reduced by eliminating funding for the positions.

Legislative Option
Eliminate personal service support for the 2.0 FTE vacant positions in the program and reduce the rates for SABHRS costs by \$98,800 in each year of the biennium.

New Proposals

DP 102 - Allocate Department Indirect/Administrative Costs – An increase of \$2,801 in FY 2014 and \$2,140 in FY 2015 for the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions in the Director’s Office is requested.

DP 6101 – Professional Development Center Training Fee -

The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the State Human Resources Division.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are in Figure 7. The rates charged in the base year are shown for comparison purposes.

Figure 7

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
SABHRS Services Fee	\$2,961,333	\$3,554,526	\$3,388,062	\$3,731,090
Working Capital	<u>\$505,849</u>	<u>\$505,849</u>	<u>\$505,849</u>	<u>\$505,849</u>
*Note: This analysis does not include OBEP expenses.				

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

Warrant Writer Program - 06564*Program Description*

The department provides the check writing and automatic-deposit services for most state agencies through the Warrant Writer Program. The program produces and processes these payments and tracks them on SABHRS. The program generates, tracks, and reconciles each warrant. Warrant printing is provided by Print and Mail Services within the General Services Division. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, vendor file maintenance, and federal 1099-MISC processing.

*Program Narrative*Expenses

Significant costs for the program include:

- Personal services costs of \$0.4 million over the biennium to support 5.33 FTE
- Operating costs of \$1.1 million including:
 - \$0.6 million for mailing costs
 - \$0.3 million for printing costs

Revenues

As the service is mandated by statute, no alternative exists for state agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system. Revenues are derived from monthly billings based on actual warrants issued.

Budget authority to pay the costs is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget is \$450,000 lower for the 2015 biennium than the funding approved by the 2013 Legislature. All fees, except the duplicate payment processing, decreased for fiscal years 2014 and 2015. This results from savings generated by a move of the printing processes to the Print and Mail function in the General Services Division and the continued increase in the use of electronic payments by the agencies.

Funding Sources

The approximate FY 2012 funding for warrant writer was as follows:

- | | |
|---------------------------|-----|
| ○ General fund | 33% |
| ○ State special revenue | 21% |
| ○ Federal special revenue | 19% |
| ○ Proprietary | 14% |
| ○ All other funds | 13% |

Significant Present Law Adjustments

Statewide present law adjustments included in the rates are:

- Personal services
 - \$3,076 in FY 2014
 - \$2,785 in FY 2015
- Operating costs
 - \$30,705 in FY 2014
 - \$ 7,248 in FY 2015

New Proposals

DP 102 - Allocate Department Indirect/Administrative Costs – A decrease of \$441 in FY 2014 and \$520 in FY 2015 for the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions in the Director's Office is included in the proposed rates.

DP 6101 – Professional Development Center Training Fee -

The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the State Human Resources Division.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 8. The rates charged in the base year are shown for comparison purposes.

Figure 8

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual	Budgeted	Budgeted	Budgeted
	FYE 12	FY 13	FY 14	FY 15
Fee Group A				
Mailer	0.74392	0.74464	0.67693	0.67112
Non-Mailer	0.28392	0.28464	0.24493	0.24912
Emergency	14.11292	14.11364	9.88544	9.88963
Duplicates	3.35417	3.35489	7.08394	7.08812
Externals				
Externals - Payroll	0.20512	0.21239	0.18730	0.19149
Externals - Universities	0.13859	0.13907	0.12394	0.12260
Direct Deposit				
Direct Deposit - Mailer	0.81859	0.82907	0.70654	0.69520
Direct Deposit - No Advice Printed	0.13859	0.13907	0.12394	0.12260
Unemployment Insurance				
Mailer - Print Only	0.14533	0.14557	0.12099	0.12652
Direct Deposit - No Advice Printed	0.04769	0.04785	0.03618	0.03614
	Actual	Estimated	Estimated	Estimated
	FY12	FY13	FY14	FY15
Fiscal Year End Working Capital	41,320	52,291	58,208	56,466
Note: This analysis does not include OPEB expenses.				

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

Local Government Audit and Reporting Program - 06042

Program Description

The Audit Review program is responsible for administering the provisions of the Montana Single Audit Act, which specifies the audit requirements for about 900 Montana local government entities. The work of the Audit Review program is mandated primarily in 2-7-5, MCA. The program reviews financial reports and enters selected data into a statewide data base and notifies state agencies of audit findings related to financial assistance programs that they administer. The program also maintains a roster of independent auditors authorized to conduct local government audits.

Additionally this program provides technical accounting and reporting assistance to local governments and the other staff within the bureau on an as needed basis.

Program Narrative

Expenses

Significant costs for the program include:

- Personal services costs of \$0.6 million over the biennium to support 5.00 FTE
- Operating costs of \$0.2 million including:
 - \$60,200 for office rent
 - \$26,600 for indirect costs paid for management services provided by the Director's Office

Revenues

Fees include a:

- Report filing fee based upon costs incurred by the department for administering the Audit Review Program. All local government entities that are required to submit audits pay the filing fee
- Financial review fee collected from local governments that are required to submit financial reviews
- 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 payment penalty incurred when a local government entity fails to file a report as required
- Fine for failure to file audits or reports as required

The program also may receive reimbursement for audited entities for costs to contract for special audits as requested.

LFD ISSUE

Fees Not Commensurate with Cost of Providing Services

The 2015 Biennium Report on Internal Service and Enterprise Funds for fund 06042 shows that the fund balance for the enterprise fund used to finance the operations of the Local Government Audit and Reporting Program is projected to be more than four times the amount needed to maintain a 60 day working capital reserve at the end of FY 2015. This indicates that fees are not commensurate with the costs of operating the program. The legislature may wish to discuss plans the program has for addressing fees and operating costs of the program.

Reasonable Reserves

At the end of FY 2012 the fund balance was more than five times a level sufficient to finance 60 days of costs. A 60-day working capital reserve is generally recognized as a reasonable level for internal service funds. Although this fund is an enterprise fund, it functions the same as an internal service fund except that local governments rather than state agencies are paying the fees. LFD consulted with Legislature Services Division legal staff to determine if there were any restrictions that would prohibit the legislature from transferring proprietary funds to the general fund. The legal staff could not find any provisions in the constitution, code, or case law that would prevent the legislature from "sweeping" an enterprise account.

Legislative Options

The legislature does not appropriate the fund, nor does it approve the fees, which are outlined in rule. If the legislature considers in its review of the fund that the fees are not commensurate with costs it can:

- Request that the Department of Administration lower fees to bring fees in line with the costs of the program after factoring in the excess balance over a reasonable reserve in the rate determination; or
- Transfer a portion of the fund to the general fund

Significant Present Law Adjustments

Statewide present law adjustments included in the rates:

- Personal services
 - \$22,974 in FY 2014

- \$22,773 in FY 2015
- Operating costs
 - \$9,880 in FY 2014
 - \$9,602 in FY 2015

New Proposals

DP 102 - Allocate Department Indirect/Administrative Costs – A decrease of \$1,026 in FY 2014 and \$1,096 in FY 2015 for the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions in the Director's Office is included in the rates.

DP 6101 – Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the State Human Resources Division.

Proprietary Rates

Funding for the program is with enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for this proprietary funded program. The fees shown in Figure 9 are adopted in the Administrative Rules of Montana or required in statute.

Figure 9

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15 Variable fee,
Variable fee, as follows:				as follows:
Major Fee: Local Government Report Filing Fee:				
Annual revenues less than \$200,000	\$0	\$0	\$0	\$0
Annual revenues equal to or greater than \$200,000, but less than \$500,000	\$0	\$0	\$0	\$0
Annual revenues equal to or greater than \$500,000, but less than \$1,000,000	\$435	\$435	\$435	\$435
Annual revenues equal to or greater than \$1,000,000, but less than \$1,500,000	\$635	\$635	\$635	\$635
Annual revenues equal to or greater than \$1,500,000, but less than \$2,500,000	\$760	\$760	\$760	\$760
Annual revenues equal to or greater than \$2,500,000, but less than \$5,000,000	\$845	\$845	\$845	\$845
Annual revenues equal to or greater than \$5,000,000, but less than \$10,000,000	\$890	\$890	\$890	\$890
Annual revenues are equal to or greater than \$10,000,000, but less than \$50,000,000	\$965	\$965	\$965	\$965
Annual revenues are equal to or greater than \$50,000,000	\$1,000	\$1,000	\$1,000	\$1,000
Minor Fee: Auditor Roster Fee: Annual Fee: Annual Fee: Annual Fee: Annual Fee:				
Annual Fee	\$100	\$100	\$100	\$100
	Actual FY12	Estimated FY13	Estimated FY14	Estimated FY15
Working Capital (November)	\$366,738	\$342,942	\$324,781	\$307,170
Note:	Because of the timing of revenue collections, the low point on working capital for this fund is in November of each year.			
*Note: This analysis does not include OPEB expenses.				

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	17.00	17.00	17.00	17.00	17.00	17.00	0.00	0.00%
Personal Services	1,295,638	1,305,035	1,332,445	1,332,830	2,600,673	2,665,275	64,602	2.48%
Operating Expenses	580,784	576,549	530,553	529,746	1,157,333	1,060,299	(97,034)	(8.38%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$1,876,422	\$1,881,584	\$1,862,998	\$1,862,576	\$3,758,006	\$3,725,574	(\$32,432)	(0.86%)
State Special	1,876,422	1,881,584	1,862,998	1,862,576	3,758,006	3,725,574	(32,432)	(0.86%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$1,876,422	\$1,881,584	\$1,862,998	\$1,862,576	\$3,758,006	\$3,725,574	(\$32,432)	(0.86%)

Program Description

The Architecture and Engineering Division (A&E) manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The division also formulates a long-range building plan for legislative consideration each session. This division operates under the authority found in Titles 17 and 18, MCA, as well as other state mandates.

Program Highlights

Architecture & Engineering Major Budget Highlights
<ul style="list-style-type: none"> ◆ Reductions in operating expenses funded with state special revenue costs are due to changes in the statewide indirect costs allocated to the program

Program Discussion

Biennial changes between 2013 biennium and 2015 biennium result from changes to the state indirect costs allocated to the program. Costs for state indirect costs are reduced by \$194,400 over the 2015 biennium, offsetting increases for other operating costs and overall reducing operating expenses in the 2015 biennium.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Architecture & Engineering Pgm							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$3,725,574	\$0	\$0	\$3,725,574	100.0%		
02030 Arch & Engin Construction	\$3,725,574	\$0	\$0	\$3,725,574	100.0%		
Total All Funds	\$3,725,574	\$0	\$0	\$3,725,574	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Architecture & Engineering Program is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses in support of the state Long-range Building Program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	1,876,422	1,876,422	3,752,844	100.73%
Statewide PL Adjustments	0	0	0	0.00%	(23,719)	(23,838)	(47,557)	(1.28%)
Other PL Adjustments	0	0	0	0.00%	10,219	9,921	20,140	0.54%
New Proposals	0	0	0	0.00%	76	71	147	0.00%
Total Budget	\$0	\$0	\$0		\$1,862,998	\$1,862,576	\$3,725,574	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2014-----						-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					92,326					92,726
Vacancy Savings					(55,519)					(55,534)
Inflation/Deflation					(1,055)					(546)
Fixed Costs					(59,471)					(60,484)
Total Statewide Present Law Adjustments		\$0	(\$23,719)	\$0	(\$23,719)		\$0	(\$23,838)	\$0	(\$23,838)
DP 102 - Allocate Department Indirect/Admin Costs	0.00	0	10,219	0	10,219	0.00	0	9,921	0	9,921
Total Other Present Law Adjustments	0.00	\$0	\$10,219	\$0	\$10,219	0.00	\$0	\$9,921	\$0	\$9,921
Grand Total All Present Law Adjustments	0.00	\$0	(\$13,500)	\$0	(\$13,500)	0.00	\$0	(\$13,917)	\$0	(\$13,917)

DP 102 - Allocate department indirect/admin costs - This request funds the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

New Proposals											
-----Fiscal 2014-----						-----Fiscal 2015-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation	04	0.00	0	76	0	76	0.00	0	71	0	71
Total	0.00	\$0	\$76	\$0	\$76	0.00	\$0	\$71	\$0	\$71	

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Resources Division of this narrative.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	11.25	11.25	11.25	11.25	11.25	11.25	0.00	0.00%
Personal Services	631,242	668,361	681,346	681,031	1,299,603	1,362,377	62,774	4.83%
Operating Expenses	1,339,564	1,337,919	1,384,735	1,336,893	2,677,483	2,721,628	44,145	1.65%
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	32,050	0	0	0	32,050	0	(32,050)	(100.00%)
Total Costs	\$2,002,856	\$2,006,280	\$2,066,081	\$2,017,924	\$4,009,136	\$4,084,005	\$74,869	1.87%
General Fund	1,949,942	1,953,234	2,004,079	1,956,123	3,903,176	3,960,202	57,026	1.46%
State Special	52,914	53,046	62,002	61,801	105,960	123,803	17,843	16.84%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$2,002,856	\$2,006,280	\$2,066,081	\$2,017,924	\$4,009,136	\$4,084,005	\$74,869	1.87%

Program Description

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

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

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

The Print and Mail Services Bureau provides print and mail services to state agencies. Services include internal and external (contracted) printing, photocopy pool services, mail preparation, central mail operations, and inter-agency (deadhead) mail. The bureau also operates the United States post office in the Capitol and provides two quick copy locations on the Capitol Complex.

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

Program Highlights

General Services Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ Non-budgeted proprietary funds provide over 90% of the support for the program ◆ Increases to personal services and operating expenses are made as part of the statewide present law adjustments ◆ Debt service is reduced due to a reduction in general fund supporting an installment purchase associated with the OPI building lease

Major LFD Issues
<ul style="list-style-type: none"> ◆ General fund for the common areas with state agency buildings partially funded a rent holiday for state agencies

The program is funded through a combination of general fund and proprietary funds.

LFD ISSUE	<u>General Fund for Common Areas Used to Partially Fund Rent Holiday for State Agencies</u>																																																							
	<p>Beginning in the 2009 biennium, the Facilities Management Bureau began charging common areas of three state buildings rent and maintenance fees to fund the related operations and maintenance costs. The common areas include:</p> <ul style="list-style-type: none"> ○ Hallways and bathrooms in the Capitol Building ○ Office space for the Senate and House of Representatives in the Capitol Building ○ Governor’s mansion ○ Public display areas in the Montana Historical Society Museum ○ Office space in the Montana Historical Society Museum <p>The percentage of the total revenues provided by the general fund has varied since the practice of charging the common areas began in FY 2008. Figure 10 shows the revenues generated by the common areas, other state agencies paying rent, and the total revenues received by the program for rent and maintenance.</p>																																																							
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	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Funding Source</th> <th style="text-align: right;">FY 2008</th> <th style="text-align: right;">% of Total</th> <th style="text-align: right;">FY 2009</th> <th style="text-align: right;">% of Total</th> <th style="text-align: right;">FY 2010</th> <th style="text-align: right;">% of Total</th> <th style="text-align: right;">FY 2011</th> <th style="text-align: right;">% of Total</th> <th style="text-align: right;">FY 2012</th> <th style="text-align: right;">% of Total</th> </tr> </thead> <tbody> <tr> <td>General Fund for Public Spaces</td> <td style="text-align: right;">\$1,798,074</td> <td style="text-align: right;">17.21%</td> <td style="text-align: right;">\$1,887,255</td> <td style="text-align: right;">16.79%</td> <td style="text-align: right;">\$1,365,874</td> <td style="text-align: right;">12.79%</td> <td style="text-align: right;">\$1,258,164</td> <td style="text-align: right;">13.55%</td> <td style="text-align: right;">\$1,196,468</td> <td style="text-align: right;">15.56%</td> </tr> <tr> <td>All Other Agency Payments</td> <td style="text-align: right;">8,650,134</td> <td style="text-align: right;">82.79%</td> <td style="text-align: right;">9,349,933</td> <td style="text-align: right;">83.21%</td> <td style="text-align: right;">9,313,917</td> <td style="text-align: right;">87.21%</td> <td style="text-align: right;">8,027,725</td> <td style="text-align: right;">86.45%</td> <td style="text-align: right;">6,493,276</td> <td style="text-align: right;">84.44%</td> </tr> <tr> <td>Total Rent and Maintenance</td> <td style="text-align: right;">10,448,208</td> <td style="text-align: right;">100.00%</td> <td style="text-align: right;">11,237,188</td> <td style="text-align: right;">100.00%</td> <td style="text-align: right;">10,679,791</td> <td style="text-align: right;">100.00%</td> <td style="text-align: right;">9,285,889</td> <td style="text-align: right;">100.00%</td> <td style="text-align: right;">7,689,744</td> <td style="text-align: right;">100.00%</td> </tr> <tr> <td>Fund Balance</td> <td style="text-align: right;">\$2,066,978</td> <td style="text-align: right;">19.78%</td> <td style="text-align: right;">\$4,686,452</td> <td style="text-align: right;">41.70%</td> <td style="text-align: right;">\$5,287,640</td> <td style="text-align: right;">49.51%</td> <td style="text-align: right;">\$3,423,544</td> <td style="text-align: right;">36.87%</td> <td style="text-align: right;">(\$404,934)</td> <td style="text-align: right;">-5.27%</td> </tr> </tbody> </table>	Funding Source	FY 2008	% of Total	FY 2009	% of Total	FY 2010	% of Total	FY 2011	% of Total	FY 2012	% of Total	General Fund for Public Spaces	\$1,798,074	17.21%	\$1,887,255	16.79%	\$1,365,874	12.79%	\$1,258,164	13.55%	\$1,196,468	15.56%	All Other Agency Payments	8,650,134	82.79%	9,349,933	83.21%	9,313,917	87.21%	8,027,725	86.45%	6,493,276	84.44%	Total Rent and Maintenance	10,448,208	100.00%	11,237,188	100.00%	10,679,791	100.00%	9,285,889	100.00%	7,689,744	100.00%	Fund Balance	\$2,066,978	19.78%	\$4,686,452	41.70%	\$5,287,640	49.51%	\$3,423,544	36.87%	(\$404,934)	-5.27%
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	<p>As shown, the percentage of support provided by the general fund has varied from 17.2% to 12.8%. During this same period, the fund balance for the account has grown, indicating that fees were not commensurate with the cost of providing the services. In FY 2012, GSD created a separate account for the general fund which is used to fund maintenance projects.</p> <p>To reduce the fund balance the Facilities Management Bureau granted a rent holiday for all state agencies for the months of December 2011 and January 2012, thereby reducing the fund balance. The \$1.3 million reduction in rent to state agencies allowed agencies to spend the freed up funding in other areas or to revert the funding at the end of the fiscal year. However, the full amount of the general fund appropriated for the common areas was charged for the period and used by A&E. This resulted in the general fund support increasing to 15.6% of total support from the legislative budgeted percentage in HB 2 of 15.1%.</p> <p>In FY 2014 and FY 2015 the percentage of general fund supporting the program is 11.6% and 11.4% respectively. To ensure the percentage of costs allocated to the common areas does not increase above that approved by the legislature, the legislature could consider restricting the funds to a percentage of the overall costs in language included in the general appropriations act.</p> <p>Legislative Option The legislature could consider restricting the general fund appropriation.</p>																																																							

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - General Services Program							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$3,960,202	\$0	\$266,028	\$4,226,230	9.3%	17-3-106	Direct
State Special Total	\$123,803	\$0	\$0	\$123,803	0.3%		
02211 Procurement Special Revenue	\$123,803	\$0	\$0	\$123,803	0.3%		
Proprietary Total	\$0	\$41,224,775	\$0	\$41,224,775	90.5%		
06066 Surplus Property	\$0	\$1,099,621	\$0	\$1,099,621	2.4%		
06528 Rent And Maintenance	\$0	\$18,195,162	\$0	\$18,195,162	39.9%		
06530 Print & Mail Services	\$0	\$21,786,748	\$0	\$21,786,748	47.8%		
06531 Central Stores	\$0	\$143,244	\$0	\$143,244	0.3%		
Total All Funds	\$4,084,005	\$41,224,775	\$266,028	\$45,574,808	100.0%		
Percent - Total All Sources	9.0%	90.5%	0.6%				

HB 2 Funding

General fund provides funding for the State Procurement Bureau and about 11.5% of the total costs for the Facilities Management Bureau. General fund supports facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor’s mansion, public display areas in the Historical Society Museum, and some office space in the museum building. See LFD Issue under Program Discussion for further discussion on these payments.

State special revenues from procurement rebates fund a portion of the procurement functions that provide the fueling and procurement card operations.

Proprietary Funds

The majority of the office functions are funded with 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.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,949,942	1,949,942	3,899,884	98.48%	2,002,856	2,002,856	4,005,712	98.08%
Statewide PL Adjustments	83,130	35,308	118,438	2.99%	92,446	44,433	136,879	3.35%
Other PL Adjustments	(29,077)	(29,208)	(58,285)	(1.47%)	(29,134)	(29,274)	(58,408)	(1.43%)
New Proposals	84	81	165	0.00%	(87)	(91)	(178)	0.00%
Total Budget	\$2,004,079	\$1,956,123	\$3,960,202		\$2,066,081	\$2,017,924	\$4,084,005	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					78,492					78,166
Vacancy Savings					(28,388)					(28,377)
Inflation/Deflation					64					119
Fixed Costs					42,278					(5,475)
Total Statewide Present Law Adjustments		\$83,130	\$9,316	\$0	\$92,446		\$35,308	\$9,125	\$0	\$44,433
DP 102 - Allocate Department Indirect/Admin Costs	0.00	2,973	(57)	0	2,916	0.00	2,842	(66)	0	2,776
DP 606 - Eliminate General Fund Installment Purchase Budget	0.00	(32,050)	0	0	(32,050)	0.00	(32,050)	0	0	(32,050)
Total Other Present Law Adjustments	0.00	(\$29,077)	(\$57)	\$0	(\$29,134)	0.00	(\$29,208)	(\$66)	\$0	(\$29,274)
Grand Total All Present Law Adjustments	0.00	\$54,053	\$9,259	\$0	\$63,312	0.00	\$6,100	\$9,059	\$0	\$15,159

DP 102 - Allocate department indirect/admin costs – The executive includes funding for indirect/administrative costs for services provided by proprietary funded centralized service functions in the Director’s Office.

DP 606 - Eliminate General Fund Installment Purchase Budget – The executive reduces general fund for the installment purchase associated with the OPI building lease that was completed June 30, 2012.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	06	0.00	84	(171)	0	(87)	0.00	81	(172)	0	(91)
Total		0.00	\$84	(\$171)	\$0	(\$87)	0.00	\$81	(\$172)	\$0	(\$91)

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Resources Division of this narrative.

Proprietary Rates

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

- o Facilities Management (Rent and Maintenance)
- o Print Services
- o Mail Services
- o Surplus Property
- o Central Stores

These programs are described in the following pages along with a discussion of each program’s revenues, expenditures, and rates being requested to finance the program.

Facilities Management Bureau - 06528*Program Description*

Rent and maintenance is managed by the Facilities Management Bureau, which is the custodian of all state property and grounds in the state capitol area. The state capitol area is the geographic area within a 10-mile radius of the state capitol. Services include providing facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area and providing statewide leasing assistance to agencies to negotiate co-location of agencies when procuring leased space for field offices. The bureau also manages the office waste paper products recycling program in the Helena area. The program services all agencies and units within state government.

*Program Narrative*Expenses

Significant costs for the program in the 2015 biennium include:

- Personal services for 35.05 FTE are \$3.9 million
- Operating costs are \$15.4 million for:
 - Janitorial services - \$2.7 million
 - Caretaker services - \$2.6 million
 - Electricity - \$2.9 million
 - Natural gas - \$0.6 million
 - Building and grounds maintenance and repair - \$2.6 million

Revenues

All agencies occupying office space in a state-owned building on the capitol complex pay rent to the program. Separate rental rates are established for office and storage space and for the grounds. In addition to rent payments, agencies pay a percentage of the costs for non-routine maintenance projects. These fees are charged at different rates depending on whether bureau or contracted employees are used to complete the project. The revenues from fees are budgeted in the following percentages:

- 92% - Square footage rental rate for office and warehouse space billed to agencies occupying space in state owned buildings controlled by the Department of Administration
- 5% - Grounds maintenance
- 2% - Construction and handyman services. These services are outside the scope of rent and include remodeling, relocating offices, repair and maintenance, and construction services
- 1% - Recycling

Significant Present Law Adjustments

Statewide present law adjustments for the bureau include:

- \$91,906 in FY 2014 and \$94,387 in FY 2015 for changes in salaries and related employee benefits
- \$84,840 in FY 2014 and \$135,995 in FY 2015 for increases in operating expenses including changes of:
 - \$131,239 in FY 2014 and \$152,218 in FY 2015 for insurance and bonds
 - \$49,765 in FY 2014 and \$49,765 in FY 2015 for ITSD fixed costs
 - (\$108,261) in FY 2014 and FY 2015 in natural gas
 - \$39,958 in FY 2014 and \$76,045 in FY 2015 for electricity

In addition the bureau proposes the following present law changes that are included in the rates:

- \$216,416 in FY 2014 and \$222,590 in FY 2015 for projected increases for contracted services
- \$38,918 in FY 2014 and \$53,084 in FY 2015 for projected increases in utilities above those included in the statewide present law adjustments discussed above
- \$350,000 in FY 2015 and \$75,000 in FY 2015 for a new maintenance management system

The bureau has also included the new proposals for the changes to the agency indirect administrative costs and Professional Development Center fees.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

The following rates have been requested for the next biennium:

	-----Requested-----			
	FYE 12	FY 13	FY 14	FY 15
Office Rent (per sq. ft.)	8.412	8.460	8.434	8.217
Storage Rent (per sq. ft.)	4.844	4.876	4.625	4.637
Project Management (In-house)	15%	15%	15%	15%
Project Management (contracted)	5%	5%	5%	5%
Grounds Maintenance (per sq. ft.)	0.494	0.494	0.491	0.493

Rent is based on square feet occupied and is assessed each agency in the buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services, operating expenses including maintenance and equipment. Grounds maintenance charges are also based on square feet of office space occupied in buildings controlled by the Department of Administration. Again, the rates are established to cover the cost of personal services, operating expenses including maintenance, and equipment replacement.

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 & Mail Services Bureau (Fund 06530)

Program Description

The Print & Mail Services 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) photocopy pool; 4) mail preparation; 5) central mail operations; 6) inter-agency (deadhead mail); and 7) a 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 67 % of printing expenditures are procured through commercial vendors.

The Postal Contract Station provides mail services to the public.

Program Narrative

Expenses

Significant costs for the program are for:

- o Personal services for 36.80 FTE at a biennial cost of \$3.2 million
- o Operating expenses of \$17.5 million over the 2015 biennium including:
 - o Postage and mailing, \$8.4 million
 - o Printing, \$5.2 million
 - o Direct materials for printing, \$0.9 million

LFD ISSUE	<u>Positions Vacant for a Number of Years Included within 2015 Biennium Costs</u>
Figure 11 shows positions that have been vacant for over a year or more. In addition, the function transferred four other positions to the Director’s Office proprietary function.	

**LFD
ISSUE CONT.**

Figure 11

Department of Administration General Services Program Print and Mail Services Function				
Position	Date of Vacancy	FTE	FY 2014	FY 2015
Administrative Clerk	10/20/2001	0.50	\$21,748	\$21,725
Accounting Technican	9/30/2006	0.50	21,970	21,947
Mail Clerk	6/29/2009	1.00	28,577	28,543
Accounting Technican	2/2/2008	0.77	29,168	29,132
Mail Clerk	4/3/2004	0.50	18,511	18,493
Duplicating Machine Operator	5/7/2011	3.61	118,206	118,061
Printing Duplicating Svc SupMgr	5/2/2011	0.39	9,271	9,254
Total Funding		7.27	\$247,451	\$247,155

The statewide present law adjustments include changes to reinstate the funding for the vacant positions. Including the positions in the costs of the program that are allocated to the rates overstates the costs of the services.

The revenues for the function have declined since FY 2010, from \$12.2 million to \$10.2 million or 15.8% in three years. By increasing fees above the amount needed for operations, the function compensates for a lower volume of business. Over one quarter of the revenue is received from overseeing contracted printing, and between FY 2010 and FY 2012 the dollar amount of the printing declined by 27.9%. Agencies continue to reduce overall printing costs, instead using internet and web based publications. Additionally, volume of mail declined 14.9% between FY 2011 and FY 2012. Central mail operations reflect 42% of the revenues for the function.

To determine the viability of the program the legislature may wish to examine the costs of the program and the associated rates without the vacant positions included. The Legislative Audit Division recently completed a performance audit of the Central Stores Bureau within the division that compared the costs of maintaining the Central Stores Bureau as a state agency with contracting with a private contractor to offer the services. The legislature may wish to request a similar audit of the print and mail functions to determine if a less costly alternative exists.

Legislative Option

The legislature may wish to consider:

- Reducing the operational costs of the program for the 2.50 FTE that are not used and correspondingly reducing the rates for the function to reflect the reduction in operational costs
- Requesting a performance audit to examine if cost effective solutions exist for providing print and mail functions

Revenues

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

Revenue is received in the following percentages:

- Internal Printing - 16.45%
- External (contracted) printing - 26.72%
- Photocopy Pool - 4.94%
- Mail Preparation - 6.60%
- Central Mail Operations - 42.00%
- Inter-agency (Deadhead Mail) - 2.91%
- Postal Contract Station (\$3,248 monthly form the U.S. Postal Service for operation of the Capitol Post Office) - .38%

Significant Present Law Adjustments

Statewide present law adjustments for the program include:

- Personal services - \$269,025 in FY 2014 and \$269,742 in FY 2015
- Operating expenses - \$185,530 in FY 2014 and \$266,521 in FY 2015 including:
 - Postage changes - \$118,630 in FY 2014 and \$213,050 in FY 2015
 - ITSD fixed costs - \$37,478 in both FY 2014 and FY 2015

The only other changes requested in the rates are for adjustments to the agency indirect administrative costs and charges for the Professional Development Center.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 12. The rates charged in the base year are shown for comparison purposes.

Requested Rates - Print and Mail - Printing Rates				
Fee group and fees	FY 2012	FY 2013	FY 2014	FY 2015
Internal Printing				
Impression Cost				
1-20	\$0.0762	\$0.0762	\$0.0800	\$0.0800
21-100	0.0336	0.0336	0.0360	0.0360
101-1000	0.0193	0.0193	0.0200	0.0200
1001-5000	0.0078	0.0078	0.0080	0.0080
5000+	0.0039	0.0039	0.0040	0.0040
Color Copy				
8 1/2 x 11	0.2500	0.2500	0.2500	0.2500
11 x 17	0.5000	0.5000	0.5000	0.5000
Ink				
Black per Sheet	0.0002	0.0002	0.0002	0.0002
Color	15.0000	15.0000	15.0000	15.0000
Special Mix	25.0000	25.0000	25.0000	25.0000
Large format color per ft.	12.7000	12.7000	12.7000	12.7000
Collating machine	0.0072	0.0072	0.0080	0.0080
Collating hand	0.6000	0.6000	0.6000	0.6000
Stapling hand	0.0180	0.0180	0.0180	0.0180
Stapling In-line	0.0120	0.0120	0.0120	0.0120
Saddle Stitch	0.0360	0.0360	0.0360	0.0360
Folding (base + per sheet)	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006
Folding Rt Angle (base + per sheet)	12.00 + .006	12.00 + .006	12.00 + .006	12.00 + .006
Folding In-line	0.0360	0.0360	0.0360	0.0360
Punching Standard 3-hole	0.0012	0.0012	0.0012	0.0012
Punching Nonstandard (base + per sheet)	3.60 + .0012	3.60 + .0012	3.60 + .0012	3.60 + .0012
Cutting	0.6600	0.6600	0.6600	0.6600
Padding	0.0024	0.0024	0.0024	0.0024
Scoring, perf, numb (setup + duplicating rate)	6.00 + Dup Rate			
Perfect Binding (setup + per sheet)	18.00 + .66	18.00 + .66	18.00 + .66	18.00 + .66
Spiral Binding	0.6900	0.6900	0.6900	0.6900
Laminating				
8 1/2 x 11	0.5700	0.5700	0.5700	0.5700
11 x 17	0.8500	0.8500	0.8500	0.8500
Tape Binding	0.6000	0.6000	0.6000	0.6000
Tabs	0.6000	0.6000	0.6000	0.6000
Transparencies	0.6000	0.6000	0.6000	0.6000
Shrink Wrapping	0.3000	0.3000	0.3000	0.3000
Hand work Production	0.6000	0.6000	0.6000	0.6000
Overtime	22.1500	22.1500	24.0000	24.0000
Desktop	46.3600	46.3600	50.0000	50.0000
Scan	9.5200	9.5200	9.5200	9.5200
Proof	0.2500	0.2500	0.2500	0.2500
Programming	45.4600	45.4600	50.0000	50.0000
File Transfer	22.7300	22.7300	25.0000	25.0000
Variable Data	0.0090	0.0090	0.0200	0.0200
Mainframe printing	0.0690	0.0690	0.0690	0.0690
CD Duplicating	1.7500	1.7500	1.7500	1.7500
DVD Duplication	3.5000	3.5000	3.5000	3.5000
CTP Plates				
8 1/2 x 11	9.2000	9.2000	9.2000	9.2000
11 x 17	10.3500	10.3500	10.3500	10.3500
External Printing (% markup on invoice)	6.7300%	6.7300%	6.7300%	6.7300%
Photocopy Pool (% markup on invoice)	15.9000%	15.9000%	15.9000%	15.9000%
Inventory (% markup on invoice)	0.0000%	0.0000%	15.0000%	15.0000%
Mail Preparation				
Tabbing	0.0210	0.0210	0.0210	0.0210
Labeling	0.0210	0.0210	0.0210	0.0210
Ink Jet	0.0340	0.0340	0.0340	0.0340
Inserting	0.0300	0.0300	0.0300	0.0300
Winsort	0.0620	0.0620	0.0690	0.0690
Permit mailings	0.0620	0.0620	0.0690	0.0690
Mail Operations				
Machinable	0.0430	0.0430	0.0430	0.0430
Nonmachinable	0.0800	0.0800	0.1000	0.1000
Seal Only	0.0200	0.0200	0.0200	0.0200
Postcards	0.0490	0.0490	0.0600	0.0600
Certified Mail	0.6140	0.6140	0.6140	0.6140
Registered Mail	0.6140	0.6140	0.6140	0.6140
International Mail	0.4000	0.4000	0.5000	0.5000
Flats	0.1100	0.1100	0.1400	0.1400
Priority	0.6140	0.6140	0.6140	0.6140
Express Mail	0.6140	0.6140	0.6140	0.6140
USPS Parcels	0.4000	0.4000	0.5000	0.5000
Insured Mail	0.6140	0.6140	0.6140	0.6140
Media Mail	0.3070	0.3070	0.3070	0.3070
Standard Mail	0.2000	0.2000	0.2000	0.2000
Postage Due	0.0610	0.0610	0.0610	0.0610
Fee Due	0.0610	0.0610	0.0610	0.0610
Tapes	0.2450	0.2450	0.2450	0.2450
Express Services	0.5000	0.5000	0.5000	0.5000
Interagency Mail	297,657.0000	297,657.0000	314,750.0000	314,750.0000
Postal Contract (Capitol)	\$38,976.0000	\$38,976.0000	\$38,976.0000	\$38,976.0000

Print & Mail Services has over 100 rates used to provide services to agencies. Overall volume of services is projected to remain constant. Direct and administrative overhead is allocated to each program. Costs are recovered by charging for each unit of service provided. External printing and the photocopy pool recover costs by charging a percentage markup on the invoice for the printing job and/or photocopier. Each rate includes personal services costs, operating costs, and administrative overhead.

Central Stores Program (Fund 06531)

Program Description

The Central Stores program contracts with a large warehouse distribution center to provide on-line ordering for office supplies. The program also develops standard specifications and procures, warehouses and delivers commonly used office supplies, paper products, and janitorial supplies to all state agencies and participating local governments. 18-4-221, MCA, requires the Department of Administration to procure or supervise the procurement of all supplies and services needed by the state. Customers include all agencies and units within state government, and participating local governments.

18-4-302(3),MCA, requires state agencies to use Central Stores unless an alternate supplier's publicly advertised price, established catalog price, or discount price offered to the agency is less than the price offered by the Central Stores program if the office supply conforms in all material respects to the terms, conditions, and quality offered by the Central Stores program. Local governments and University System employees are provided optional use of central stores.

Program Narrative

The Legislative Audit Division (LAD) examined the central stores function with the objectives of:

- Determining if the processes in place for office supply acquisition obtain products at the lowest available price
- Evaluating management of the office supply acquisition processes

The audit determined that the state may be able to generate savings and shorten delivery time by eliminating the products sold directly through the central stores function. To ensure that the contractor for the function complies with contract requirements the audit also concluded that the bureau should periodically review contractor performance. According to the auditors, the department has recently added a position with the capacity to complete such work.

The audit recommended that the Department of Administration:

- Seek a statewide contract for office supplies that features direct delivery of products from a vendor to the ordering agency
- Include the office supplies currently sold through Central Stores in a new direct delivery statewide contract for online ordering of office supplies
- Establish a process to coincide with contractor reporting periods to review the office supply contractor's performance in comparison to contract terms and conditions

The bureau proposes to eliminate 7.0 FTE and \$9.2 million from the program to implement the audit division recommendation. As of October 25, 2012 the department had not requested a bill to amend statutory requirements related to state agencies use of central stores.

Expenses

Significant costs for the program are for:

- Personal services support of \$105,200 for 1.0 FTE to monitor the contract
- Operating costs of \$38,000 for office space and related costs of the contract administrator

Revenues

The costs associated with contract administration would be assessed a rate of 2.00% generating \$95,600 each year of the biennium.

Significant Present Law Adjustments

The bureau proposes to eliminate the central stores warehouse and related personnel to operate the program reducing total program costs by \$9.2 million over the biennium.

LFD
ISSUE

Projected Net Assets of \$930,000 Available for Legislative Appropriation

Elimination of the Central Stores Program also eliminates the need to maintain a significant fund balance in the central stores account for cash flow purposes. Based on the 2015 Biennium on Internal Service and Enterprise Funds, the net assets needed to maintain 60 day working capital would be \$12,000 or less leaving about \$930,000 of net assets available for legislative appropriation. The legislature could direct a transfer of the fund balance to the general fund and direct the funds to other uses.

Legislative Option
Transfer the net assets of \$930,000 from the central stores proprietary fund to the general fund for other legislative uses

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 13. The rates charged in the base year are shown for comparison purposes.

Figure 13

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual	Budgeted	Budgeted	Budgeted
	FY 12	FY 13	FY 14	FY 15
Fee Group A	-	-	-	-
Central Stores Supplies	20%	20%	2%	2%
Central Stores requests a maximum markup of 25% This is the same rate that was approved last biennium.				

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 Program - 06066

Program Description

The Property & Supply Bureau operates the surplus property program to administer the sale of surplus property no longer needed by agencies. This property is distributed to state agencies or other eligible organizations. The program sells property through on-line auction, fixed price warehouse sales, public auction and garage sales. The surplus property program services include extending the life of state property by providing a mechanism to transfer surplus property between agencies, providing accountability in the disposal of surplus state property, providing agencies with a surplus equipment pick up service, and providing a screening service to locate federal surplus property for state and local agencies.

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	9.50	9.50	7.00	7.00	9.50	7.00	(2.50)	(26.32%)
Personal Services	585,595	544,641	530,011	533,188	1,130,236	1,063,199	(67,037)	(5.93%)
Operating Expenses	174,109	240,701	311,652	310,845	414,810	622,497	207,687	50.07%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Grants	0	0	0	0	0	0	0	n/a
Transfers	761,110	1,160,559	0	0	1,921,669	0	(1,921,669)	(100.00%)
Total Costs	\$1,520,814	\$1,945,901	\$841,663	\$844,033	\$3,466,715	\$1,685,696	(\$1,781,019)	(51.37%)
General Fund	404,563	422,323	458,554	460,823	826,886	919,377	92,491	11.19%
State Special	1,116,251	1,523,578	383,109	383,210	2,639,829	766,319	(1,873,510)	(70.97%)
Federal Special	0	0	0	0	0	0	0	n/a
Total Funds	\$1,520,814	\$1,945,901	\$841,663	\$844,033	\$3,466,715	\$1,685,696	(\$1,781,019)	(51.37%)

Program Description

The State Information Technology Services Division (SITSD) is a proprietary program that manages central computing, data network, and telecommunications services for state government. SITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet, used by all agencies located throughout the state. SITSD provides local and long distance telephone network services used by all agencies, including the university system, and manages the state's video network. SITSD coordinates electronic government services for the state, and manages the state's Internet presence mt.gov. SITSD also manages the Security and Continuity and IT PM Enterprise Offices.

The division manages the Public Safety Services Office that includes the state's 911, public safety radio, and Montana broadband programs. These programs are funded by state special, federal special, and general funds.

Through the office of the Chief Information Officer, the division develops the Statewide Strategic IT Plan, coordinates information technology (IT) for the state, and reviews and approves IT acquisitions. The division also provides statewide IT training, and establishes hardware, software, and consulting services contracts used by agencies.

Program Highlights

State Information Technology Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The majority of the funding in this program is proprietary funds ◆ State special revenues and transfers are reduced due to a proposal contained in HB 38 to transfer responsibilities for the Montana Land Information Act to the Montana State Library (MSL). In FY 2012 the State Information Technology Division (SITSD) transferred funding to MSL but statutorily was responsible for the program

Major LFD Issues
<ul style="list-style-type: none"> ◆ Proprietary rates for SITSD include budgetary adjustments that were excluded from the FY 2012 base budget ◆ Proprietary rates, rather than the proposed 60 day working capital rate, can be established in HB 2 for SITSD

State special revenues decline significantly in the program due to a proposal to transfer responsibilities included in the Montana Land Information Act to the Montana State Library.

LFD COMMENT	<p>The Montana Land Information Act designates the Department of Administration as the department that must:</p> <ul style="list-style-type: none"> ○ Work with federal, state, local, private, and tribal entities to develop and maintain land information <ul style="list-style-type: none"> ○ Develop a land information plan annually ○ Work with the Land Information Advisory Council ○ Monitor grants to implement the land information plan ○ Coordinate technology standards for creating land information ○ Serve as primary point of contract for GIS coordinating groups ○ Provide administrative support staff ○ Report to the Governor and the legislature on the progress made in the ongoing collection, maintenance, standardization, and dissemination of land information ○ Implement conservation easement information requirements <p>Funding for the program is provided through a fee on land transaction recording documents within county offices throughout the state.</p> <p>The executive proposes to shift both the funding and the responsibilities outlined in the Montana Land Information Act from the State Information Technology Division to the Montana State Library, reducing funding in this program by \$1.9 million over the biennium. Functionally, the division transferred the responsibilities and funding under the Montana Land Information Act in FY 2012. However, because of the statutory designation, the legislature must first pass proposed legislation (HB 38) to transfer the responsibilities and funding for the program from the Department of Administration to the Montana State Library before the change can be completed.</p>
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - State Information Technology Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$919,377	\$0	\$0	\$919,377	0.9%		
State Special Total	\$766,319	\$0	\$27,451,730	\$28,218,049	26.9%		
02105 Basic 9-1-1 Emrgncy Phone Prog	\$0	\$0	\$6,572,348	\$6,572,348	6.3%	10-4-301	Direct
02397 Enhanced 9-1-1 Emerg Tel Pgm	\$0	\$0	\$6,559,230	\$6,559,230	6.2%	10-4-301	Direct
02594 Basic 911 Emerg Phone Program	\$766,319	\$0	\$0	\$766,319	0.7%		
02993 Wireless 911	\$0	\$0	\$6,582,980	\$6,582,980	6.3%	10-4-301	Direct
02994 Wireless 911 Providers	\$0	\$0	\$7,737,172	\$7,737,172	7.4%	10-4-301	Direct
Proprietary Total	\$0	\$75,905,664	\$0	\$75,905,664	72.3%		
06522 Isd Proprietary	\$0	\$75,905,664	\$0	\$75,905,664	72.3%		
Total All Funds	\$1,685,696	\$75,905,664	\$27,451,730	\$105,043,090	100.0%		
Percent - Total All Sources	1.6%	72.3%	26.1%				

House Bill 2 Funding

General fund provides funding for the administration of the Public Safety Services Office. State special revenues in the program provide support for the administrative costs related to 911 services. Fees are imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services.

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 telecommunications providers.

Proprietary Funding

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

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	404,563	404,563	809,126	88.01%	1,520,814	1,520,814	3,041,628	180.44%
Statewide PL Adjustments	49,399	51,722	101,121	11.00%	255,879	258,080	513,959	30.49%
Other PL Adjustments	4,592	4,538	9,130	0.99%	8,582	8,481	17,063	1.01%
New Proposals	0	0	0	0.00%	(943,612)	(943,342)	(1,886,954)	(111.94%)
Total Budget	\$458,554	\$460,823	\$919,377		\$841,663	\$844,033	\$1,685,696	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					156,607					159,635
Vacancy Savings					(29,689)					(29,810)
Inflation/Deflation					(86)					(59)
Fixed Costs					129,047					128,314
Total Statewide Present Law Adjustments		\$49,399	\$206,480	\$0	\$255,879		\$51,722	\$206,358	\$0	\$258,080
DP 102 - Allocate Department Indirect/Admin Costs	0.00	4,592	3,990	0	8,582	0.00	4,538	3,943	0	8,481
Total Other Present Law Adjustments	0.00	\$4,592	\$3,990	\$0	\$8,582	0.00	\$4,538	\$3,943	\$0	\$8,481
Grand Total All Present Law Adjustments	0.00	\$53,991	\$210,470	\$0	\$264,461	0.00	\$56,260	\$210,301	\$0	\$266,561

DP 102 - Allocate department indirect/admin costs - This request funds the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

New Proposals											
	-----Fiscal 2014-----					-----Fiscal 2015-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 703 - Montana Land Information Act - Housekeeping (Requires Legislation)	07	(2.50)	0	(943,612)	0	(943,612)	(2.50)	0	(943,342)	0	(943,342)
Total	(2.50)	\$0	(\$943,612)	\$0	(\$943,612)	(2.50)	\$0	(\$943,342)	\$0	(\$943,342)	

DP 703 - Montana Land Information Act - Housekeeping - The purpose of the Montana Land Information Act (MLIA) - housekeeping proposal is to finalize the transfer of the Base Map Service Center and administration of the MLIA from the Department of Administration to the Montana State Library. This proposal would reduce 2.5 permanent FTE and eliminate \$1.8 million in state special revenue in the 2015 biennium. The proposal is in response to the recommendations prepared by the Geographic Information System (GIS) Task Force.

This transfer of functions and authority from the Department of Administration to the Montana State Library presents changes to each respective agency budget but no change to the overall budget of the state.

Proprietary Rates

Program Description

The State Information Technology Services Division manages information technology services for state government. Responsibilities of the division include:

- o Hosting services, which includes servers, storage, web sites, applications, and enterprise email
- o Systems development services incorporating development for applications, web applications, and GIS application development
- o Communications and connectivity services for local and long-distance voice services, design and development of telephone equipment and voice applications, Internet access, data network services, and video conferencing services
- o Operations support providing for imaging scanning, content management, application printing, systems operations, tape management, local area network (LAN) administration
- o Enterprise services that include the following:

- Statewide Continuity Planning
- Information System Risk Management
- Enterprise Security and Computing Systems Monitoring
- Montana Information Technology Act (MITA) oversight of IT activities:
 - IT strategic planning and agency IT plan approval
 - IT policy, standards and procedures
- State Chief Information Officer and Geographic Information Officer activities, Enterprise IT Councils, Advisory Groups and Conference Support, Enterprise-wide IT procurement and contract management, IT training coordination, mt.gov and MINE portal development and website hosting
- Enterprise application hosting - Citrix and Oracle
- Public Safety Services:
 - 9-1-1 program
 - Interoperability Montana (IM) public safety radio program
 - Montana broadband program
- State of MT Data Center

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services costs of \$29.0 million for 188.50 FTE
- Operating costs of \$43.55 million including:
 - \$13.6 million in software programs
 - \$2.3 million in IT vendor services
 - \$3.4 million in computer hardware
 - \$7.6 million in converged traffic
 - \$3.0 million in computer maintenance
- Equipment costs for computers and terminals \$4.8 million

Revenues

Funding for SITSD is from charges to state agencies through the fixed cost process for server and application hosting, and data/network services. The majority of SITSD's budget is funded through proprietary funds.

Budget authority to pay the SITSD allocation is a fixed cost item in each agency's budget. The statewide fixed cost in the executive budget for SITSD is \$1.2 million higher in FY 2014 and \$1.5 million higher in FY 2015. A portion of the increase is related to using the billed invoice rates, with the remaining increase due to projected increases in services or the rates charged by SITSD for the rates.

SITSD uses a methodology to identify and allocate the full cost of each separate service it offers to the users of that service. This is known as the Full-Cost Transparency Model (FTM) and has been in place since the 2011 biennium. Over the past year SITSD has defined about 200 services, allocated costs and staff time to each service, and estimated units of service provided to each agency. Rates are based on a detailed allocation of expenditures and staff time to each service. SITSD also implemented a staff time tracking system to refine the accuracy of staff time allocation. Because SITSD continues to refine the model for the services and the costs to provide them, the allocation of costs to the various state agencies is changed from those allocated in the 2013 biennium.

**LFD
ISSUE****Proprietary Rates For SITSD Include Budgetary Adjustments that were Excluded From FY 2012 Base Budget**

In determining the fixed costs adjustments for SITSD services charged to each agency, the starting point used for the adjustment is the amount of the SITSD invoice billing for the year, not the actual amounts expended by each agency. Figure 14 below shows the differences between the amount each agency expended for SITSD services in the base year and the amount billed (billing invoices for services) to each agency for HB 2 services. The figure also shows the funding for the differences based on the funding of the FY 2012 base.

Figure 14

Department of Administration State Information Technology Services Division								
	Costs			Funding				
	In FY 2012	Invoiced Amount	Difference	General Fund	State Special	Federal	Proprietary	Total
Legislative Branch	\$427,951	\$435,886	\$7,935	\$6,560	\$1,375	\$0	\$0	\$7,935
Consumer Council	18,561	20,187	1,626	0	1,626	0	0	1,626
Judicial Branch	1,535,822	1,540,592	4,770	4,479	253	16	23	4,771
Governor's Office	190,165	194,197	4,032	4,024	8	0	0	4,032
Secretary of State	0	0	0	0	0	0	0	0
Commissioner of Political Practices	43,977	45,714	1,737	1,737	0	0	0	1,737
State Auditor's Office	170,756	192,597	21,841	0	21,841	0	0	21,841
Office of Public Instruction	180,949	182,666	1,717	1,352	21	345	0	1,718
Board of Crime Control	92,343	93,282	939	252	17	670	0	939
Department of Justice	2,886,611	3,235,701	349,090	120,890	215,005	5,132	8,064	349,091
Public Service Commission	52,934	53,992	1,058	0	1,037	21	0	1,058
Board of Public Education	19,778	19,767	(11)	(6)	(5)	0	0	(11)
Commissioner of Higher Education	57,991	64,460	6,469	4,703	519	1,245	0	6,467
School for the Deaf and Blind	23,476	23,467	(9)	(9)	0	0	0	(9)
Montana Arts Council	26,985	27,192	207	72	32	103	0	207
Montana State Library	156,812	274,322	117,510	67,227	20,165	30,118	0	117,510
Montana Historical Society	104,298	156,881	52,583	31,739	6,210	8,455	6,179	52,583
Department of Fish, Wildlife, & Parks	1,404,885	1,520,522	115,637	0	90,648	24,989	0	115,637
Department of Environmental Quality	532,758	602,829	70,071	7,582	36,227	26,263	0	70,072
Department of Transportation	3,768,638	3,769,581	943	0	333	610	0	943
Department of Livestock	182,739	189,997	7,258	721	5,537	999	0	7,257
Department of Natural Resources	1,511,359	1,515,355	3,996	1,779	2,052	165	0	3,996
Department of Revenue	2,450,459	2,430,404	(20,055)	(18,529)	(395)	(100)	(1,033)	(20,057)
Department of Administration	512,233	555,767	43,534	12,742	14,183	39	16,573	43,537
Office of the Public Defender	563,688	580,977	17,289	17,213	76	0	0	17,289
Department of Agriculture	257,295	265,910	8,615	579	6,581	1,165	290	8,615
Department of Corrections	1,708,423	1,711,338	2,915	2,826	78	0	10	2,914
Department of Commerce	96,888	99,466	2,578	483	542	1,553	0	2,578
Department of Labor and Industry	3,300,574	3,390,275	89,701	1,794	46,725	41,110	72	89,701
Department of Military Affairs	74,184	57,540	(16,644)	(2,956)	(566)	(13,122)	0	(16,644)
Economic Security Services	566,123	575,598	9,475	1,566	148	7,761	0	9,475
Director's Office	21,140	21,494	354	162	38	154	0	354
Operation Services	6,731,807	6,844,479	112,672	39,244	5,318	68,110	0	112,672
Public Health	127,184	129,313	2,129	129	531	1,469	0	2,129
Medicaid and Health Services	276,609	281,239	4,630	1,191	480	2,959	0	4,630
Total	\$30,076,395	\$31,102,987	\$1,026,592	\$309,546	\$476,640	\$210,229	\$30,178	\$1,026,593

The figure above shows the first component of the fixed cost adjustment for SITSD costs including the funding level by agency and funding source as compared to what the agency paid for the services in the base year. As shown, by including the billed amount rather than the actual costs incurred by the agencies in FY 2012, funding has been increased by \$1.0 million each year of the biennium. The direct impact on the general fund for these adjustments is \$0.3 million each year.

**LFD
ISSUE
CONT.**

As part of establishing the FY 2012 base amount, adjustments to the actual amounts expended by an agency are made to remove funding that is:

- Considered one-time-only in terms of continuing the appropriation authority
- Paying for expenditures made in the previous year
- Reclassified from one expense category to another, i.e. operating expenses to grant expenses

About \$0.7 million was removed from HB 2 expenditures for information technology services when the base amount was established in the budgeting system for these types of items. Using the invoiced billing rates as the basis of the 2015 biennial rates bypasses the analysis of the ongoing base funding and reinstates costs of the services that are not considered ongoing in the base budget. This can result in funding for services above the level needed by an agency included in the fixed cost adjustments. If an agency does not need this level of funding for information technology services, the state agencies can use the funding on other costs that may or may not have been reviewed by the legislature.

As the division built the rates for the 2015 biennium based on the invoice bill amounts plus adjustments for agencies' projected use of services, any changes in the rate will impact the level of services the division is able to provide. The legislature may wish to discuss potential impacts prior to reducing the level of funding to the FY 2012 base funding included in HB 2.

Legislative option

Reduce the funding for the SITSD division included in HB 2 by about \$0.7 million each year of the biennium to mitigate the impact of funding budgetary adjustments that were excluded from the FY 2012 base budget.

Once the adjustment to the billed amount is calculated, any changes to the level of services is made to reach a final number of the fixed cost adjustment for each agency.

**LFD
COMMENT**Agency Impacts of SITSD Allocations

Under the full-cost transparency model one difference between the 2013 biennium and the 2015 biennium is how SITSD charges for hosting rates. In previous years all of SITSD's hosting charges to state applications were based on their storage size only. The effect was that large storage applications subsidized smaller applications. SITSD now has the capability to track other metrics and are able to allocate costs not only to storage but also to backup, support, software licensing, servers, etc. This has caused some changes with lower rates and less subsidization for larger users. However, smaller applications are paying higher costs that reflect the actual costs of hosting the services.

Of the 177 services listed on the 2015 biennial rate sheet:

- 61 services declined in costs ranging between 3% and 99%
- 67 services increased in costs ranging between 3% and 511%

**LFD
COMMENT**

Figure 15 shows the amount of the change by each agency for SITSD fixed cost included in the statewide Present Law Adjustment.

Figure 15

Department of Administration State Information Technology Services Division		
Agency	FY 2014 ITSD Fixed Costs	FY 2015 ITSD Fixed Costs
Legislative Branch	76,105	208,755
Consumer Council	(880)	(880)
Judicial Branch	248,504	248,504
Governor's Office	2,129	2,129
Secretary of State	0	0
Commissioner of Political Practices	28,326	28,326
State Auditor's Office	57,283	58,013
Office of Public Instruction	5,687	5,687
Board of Crime Control	(14,747)	(14,747)
Department of Justice	444,218	481,229
Public Service Commission	8,988	8,988
Board of Public Education	(6,652)	(6,652)
Commissioner of Higher Education	3,177	3,177
School for the Deaf and Blind	13,827	13,827
Montana Arts Council	9,627	9,627
Montana State Library	74,552	74,552
Montana Historical Society	(3,266)	(3,266)
Department of Fish, Wildlife, & Parks	(165,165)	(165,165)
Department of Environmental Quality	22,589	22,589
Department of Transportation	175,891	175,891
Department of Livestock	(2,371)	(2,371)
Department of Natural Resources	24,417	24,407
Department of Revenue	39,757	39,757
Department of Administration	138,574	138,574
Office of the Public Defender	76,307	76,307
Department of Agriculture	(21,885)	(21,885)
Department of Corrections	(6,337)	(6,337)
Department of Commerce	4,953	4,953
Department of Labor and Industry	165,620	345,022
Department of Military Affairs	62,997	62,997
Department of Public Health and Human Services	(268,492)	(294,947)
Total	<u>\$1,193,733</u>	<u>\$1,517,061</u>
Increases for Billing Invoices Included in Rates	\$1,026,593	\$1,026,593
Increases for additional services or increases to rates	\$167,140	\$490,468

As shown, the large users of the systems such as DPHHS and FWP have reduced costs overall in part due to the impact of the changes to the hosting rates.

Significant Present Law Adjustments

SITSD is requesting to make 12.49 FTE modified positions permanent. The costs of the personal services for the modified FTE were included in the rates for the 2013 biennium. Due mostly to turnover, the personal service costs associated with the positions funded through the SITSD rates are \$366,000 less in the 2015 biennium.

Proprietary Rates

For the 2015 biennium SITSD is requesting to charge various rates in order to maintain a 30-day working capital.

**LFD
ISSUE**Proprietary Rates Can Be Established in HB 2 for SITSD

The division proposes that instead of approving fees, the legislature provide the program the flexibility to operate as it determines necessary to maintain a 30-day working capital balance to operate the division. As stated above, the previous legislature approved a number of rates for SITSD services and the remaining costs were approved using 30-day working capital. Approving a limit on the maximum working capital a program can maintain does not limit how much can be charged for the services. It only limits the amount of cash the program can accumulate.

Because the 30-day capital rate proposed does not provide a means of limiting either rates or expenditures, the legislature may wish to approve rates that limit the charges for services of SITSD. The 2011 Legislature approved a number of rates for SITSD services including those for enterprise services, web content management, GIS services, voice services, and email.

SITSD's FTM model employs a separate unit for each service. The unit is the increment in which the agency buys the service or product. SITSD offers almost 200 services and establishes a specific rate for each. The allocation of units of service within the state's budget is done based on state agency planned utilization and on the rates for services in the 2015 biennium. There are a few services such as enterprise services and some asset brokerage where the unit allocation is not based on agency specific services. Enterprise services costs are associated with state-wide services and benefits, not agency specific services, and therefore are distributed to agencies on an agency FTE basis. Asset brokerage or fixed enterprise software costs, such as Microsoft, are also allocated to FTEs. See Appendix for the Department of Administration for a list of the proposed rates for FY 2014 compared with FY 2012 invoiced billed rates.

Statute requires that the executive budget submission contain a report for internal services that includes:

“Fees and charges in the internal service fund type, including changes in the level of fees and services, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.”

One argument agencies make in requesting a working capital rate is that otherwise the legislature would have to approve hundreds of rates. Proprietary funded programs also argue that the costs are subject to the choices of service users who control the level of services they purchase from the service provider. State agencies must use most of the services provided by SITSD and as such they are captive to the charges as determined by SITSD.

However, state agencies do control the amount of the services they purchase from SITSD in any given year. The agencies' funding as provided by the legislature and the flexibility to choose the type and amount of services places constraints on SITSD to control costs.

Legislative Option

- Approve the rates as proposed by SITSD.
- Approve the working capital rate as requested.

By approving the working capital rate the legislature would allow SITSD to charge establish the rates for its customers. SITSD would be allowed to set and change the level of the rates throughout the interim.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	37.00	37.00	37.00	37.00	37.00	37.00	0.00	0.00%
Personal Services	2,464,400	2,704,811	2,745,823	2,747,170	5,169,211	5,492,993	323,782	6.26%
Operating Expenses	920,956	719,479	1,018,344	1,015,659	1,640,435	2,034,003	393,568	23.99%
Total Costs	\$3,385,356	\$3,424,290	\$3,764,167	\$3,762,829	\$6,809,646	\$7,526,996	\$717,350	10.53%
State Special	3,385,356	3,424,290	3,764,167	3,762,829	6,809,646	7,526,996	717,350	10.53%
Total Funds	\$3,385,356	\$3,424,290	\$3,764,167	\$3,762,829	\$6,809,646	\$7,526,996	\$717,350	10.53%

Program Description

The Banking and Financial Division licenses, supervises, regulates, and examines financial institutions doing business in Montana. Those institutions include:

- Banks and trust companies
- Credit unions
- Consumer finance companies
- Sales finance companies
- Deferred deposit lender
- Escrow companies

The division also licenses and examines mortgage brokers and broker branch offices, mortgage lenders and lender branch offices, mortgage servicers and mortgage servicer branch offices, and mortgage loan originators.

The safety and soundness of Montana state chartered banks and credit unions, which hold over \$25 billion in assets as of July, 2012, is supervised by the division. Supervision of regulated financial institutions is accomplished primarily through examinations. Banks are statutorily required to be examined at least once every 24 months. Credit unions are examined at least once in every 18-month intervals. Consumer loan, mortgage broker, deferred deposit loan, title loan companies, escrow companies, and sales finance companies may be examined at any time.

The examinations investigate the methods of operation and review compliance with state and federal financial and banking laws. The supervision assures the protection of bank and credit union depositors and determines whether the institutions are operating in a safe and sound manner. The division examines mortgage brokers and loan originators to assure disclosures are provided to Montana borrowers in accordance with federal and state laws. In addition, the division provides a consumer complaint process to the general public to assist with the resolution of complaints against the financial institutions under its regulation.

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

Program Highlights

<p>Banking and Financial Division Major Budget Highlights</p>
<ul style="list-style-type: none"> ◆ The division is solely funded through state special revenues from fees paid by regulated financial institutions ◆ Statewide present law adjustments for the division increase personal services due to high turnover of bank examiner positions
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ◆ State special revenue supporting the division has a fund balance that is 269% above a 60-day working capital need

Personal services increase between biennia due to high turnover in the division during FY 2012. In FY 2012, 32.4% of the division’s 37 positions were vacant at least 21.7% of the year. According to the division, significant recruitment and retention problems exist within the division due in part to the pay freeze. Other issues related to staff retention include:

- Significant travel associated with examinations
- Workplace conditions as bank examiners may generate concern and anxiety among the bank employees being examined

The division has several measures in place to address the issue including:

- Career tracks for bank examiners
- Alternate work schedules
- Compensation based on the number of nights an individual is on the road

A review of 20 positions included in the broadband pay plan shows that as of June 5, 2012, 8 positions or 40% of the workforce’s salaries were below 80% of the market midpoint for the positions. According to the division, one of the issues related to these positions is an inability of state salaries to compete with federal government and private sector salaries. Many of the staff are trained by the state and then transfer to higher paying positions with the federal government or private sector.

In addition, five of the staff will be eligible for retirement during the 2015 biennium. Two of the five are members of the division's examination staff and three are members of the division's senior management team. Succession planning of senior management and examiners is a priority of the division.

<p>LFD COMMENT</p>	<p>Due to the high number of positions that were vacant the division realized savings of \$230,000 in personal services above the legislatively budgeted vacancy savings of \$112,772. The division used the funds to acquire a database that:</p> <ul style="list-style-type: none"> ○ Consolidated the division's current and anticipated future business processes into one central database ○ Provided remote access to field staff <p>The database is a commercial off-the-shelf (COTS) system with ongoing support features including data synchronization with the federally mandated National Mortgage Licensing System. According to the division, increased efficiencies will result from:</p> <ul style="list-style-type: none"> ○ Improved data access for both office and field employees ○ Secure transfer of financial information and documents from regulated entities and the public ○ Online payment processing ○ Built-in workflows that allow for cross-training and improved performance management.
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Banking And Financial Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$7,526,996	\$0	\$0	\$7,526,996	100.0%		
02077 Financial Institutions Div	\$7,526,996	\$0	\$0	\$7,526,996	100.0%		
Total All Funds	\$7,526,996	\$0	\$0	\$7,526,996	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

LFD ISSUE State Special Revenue Fund Balance 269% Above 60 Day Working Capital Needs

The fund balance in the state special revenue fund that supports the operations of the Banking and Financial Divisions has grown significantly since FY 2009, from \$0.45 million at the beginning of FY 2009 to \$2.14 million at the end of FY 2012, or a 375% increase over the period. Figure 16 shows the estimated fund balance for the fund based on static revenues and budgeted expenditures.

Figure 16

Department of Administration Banking and Financial Division Financial Institution				
	FY 2012	FY 2013	FY 2014	FY 2015
Beginning Fund Balance	\$1,734,159	\$2,141,953	\$2,141,953	\$2,141,953
Revenues	3,934,237	3,934,237	3,934,237	3,934,237
Expenditures				
Personal Services	2,463,295	2,704,811	2,745,823	2,747,170
Operating Expenses	<u>1,063,149</u>	<u>719,479</u>	<u>1,018,344</u>	<u>1,015,659</u>
Total Expenditures	\$3,526,444	\$3,424,290	\$3,764,167	\$3,762,829
Ending Fund Balance	<u>\$2,141,953</u>	<u>\$2,651,900</u>	<u>\$2,312,023</u>	<u>\$2,313,361</u>
60 day working capital	\$587,741	\$570,715	\$627,361	\$627,138
% Above working capital	264.44%	364.66%	268.53%	268.88%

As shown, the ending fund balance in FY 2015 will be 269% above the funding needed to maintain 60 days of operating capital. The figure shows increasing fund balance in spite of increased costs for personal services and operating expenditures.

The majority of the revenues collected by the division are fees that are set in rule. Based on the increasing fund balance, fees are not commensurate with the cost of providing the program. In part due to the increased fund balance, in 2012 the department adopted a one-time 50% reduction in the semiannual assessment for banks.

LFD ISSUE CONT.	As stated in the notice, the department is expecting a significant change in the number of state-chartered banks in calendar year 2012 and will be reviewing the assessment rates after the impact of the change is known.
<p>The legislature may wish to discuss with the division proposed permanent changes to the assessments during its budget deliberations. Topics would include the changes in the number of state-chartered banks, the proposed change to the fees, revenue impacts of the proposed changes, the effect on fund balance, and other assessments and fees the department is considering changing.</p>	
<p>Legislative Option Discuss permanent changes in bank assessments and other fees assessed financial institutions with the division in light of the increasing fund balance.</p>	

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	3,385,356	3,385,356	6,770,712	89.95%
Statewide PL Adjustments	0	0	0	0.00%	280,742	279,971	560,713	7.45%
Other PL Adjustments	0	0	0	0.00%	6,431	5,874	12,305	0.16%
New Proposals	0	0	0	0.00%	91,638	91,628	183,266	2.43%
Total Budget	\$0	\$0	\$0		\$3,764,167	\$3,762,829	\$7,526,996	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					395,822					397,226
Vacancy Savings					(114,399)					(114,456)
Inflation/Deflation					(1,831)					(1,091)
Fixed Costs					1,150					(1,708)
Total Statewide Present Law Adjustments		\$0	\$280,742	\$0	\$280,742		\$0	\$279,971	\$0	\$279,971
DP 102 - Allocate Department Indirect/Admin Costs	0.00	0	6,431	0	6,431	0.00	0	5,874	0	5,874
Total Other Present Law Adjustments	0.00	\$0	\$6,431	\$0	\$6,431	0.00	\$0	\$5,874	\$0	\$5,874
Grand Total All Present Law Adjustments	0.00	\$0	\$287,173	\$0	\$287,173	0.00	\$0	\$285,845	\$0	\$285,845

DP 102 - Allocate department indirect/admin costs – The executive requests funding for the department’s indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

Program	-----Fiscal 2014-----					-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 1401 - Licensing and Enforcement System Maintenance	14	0.00	0	92,000	0	92,000	0.00	0	92,000	0	92,000
DP 6101 - Professional Development Center Fee Allocation	14	0.00	0	(362)	0	(362)	0.00	0	(372)	0	(372)
Total	0.00	\$0	\$91,638	\$0	\$91,638	0.00	\$0	\$91,628	\$0	\$91,628	

DP 1401 - Licensing and Enforcement System Maintenance - The Banking and Financial Division is requesting \$184,000 for the 2015 biennium for ongoing support, maintenance, and hosting of the COTS database. The division's current fee structure supports this project and no fee increases are anticipated. Cost savings would be recognized by improved efficiency, improved communication with customers, and increased security of sensitive documents. The project is part of the overall department's IT strategic plan.

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Resources Division in this narrative.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	31.50	31.50	31.50	31.50	31.50	31.50	0.00	0.00%
Personal Services	1,791,766	1,800,905	1,794,578	1,795,998	3,592,671	3,590,576	(2,095)	(0.06%)
Operating Expenses	5,564,778	5,360,851	6,058,433	5,946,748	10,925,629	12,005,181	1,079,552	9.88%
Equipment & Intangible Assets	19,500	42,077	19,500	19,500	61,577	39,000	(22,577)	(36.66%)
Debt Service	89,977	85,827	89,977	89,977	175,804	179,954	4,150	2.36%
Total Costs	\$7,466,021	\$7,289,660	\$7,962,488	\$7,852,223	\$14,755,681	\$15,814,711	\$1,059,030	7.18%
State Special	0	0	0	0	0	0	0	n/a
Other	7,466,021	7,289,660	7,962,488	7,852,223	14,755,681	15,814,711	1,059,030	7.18%
Total Funds	\$7,466,021	\$7,289,660	\$7,962,488	\$7,852,223	\$14,755,681	\$15,814,711	\$1,059,030	7.18%

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 type. The lottery receives no funding from the State of Montana but rather generates money for the state general fund. Lottery is required to transfer its net revenue to the general fund on a quarterly basis.

The Montana State Lottery is attached to the Department of Administration for administrative purposes only.

Program Highlights

Montana State Lottery Major Budget Highlights
◆ The executive proposes \$0.5 million in one-time-only funding to lease lottery equipment in FY 2014
Major LFD Issues
◆ Montana State Lottery requested supplemental appropriations for lottery vendor fees
◆ The Legislative Finance Committee is recommending legislation to make the vendor fees part of the division's statutory appropriation

Program Discussion

The lottery deposited \$13.0 million of net revenues into the general fund in FY 2012, which was a 23.0% increase from the previous year. Figure 17 shows the lottery profits that were deposited into the general fund for the last five years. During the period of the Great Recession, the profits declined, not rebounding until FY 2012. Part of the reason for the significant increase in FY 2012 was the national publicity surrounding the large jackpot for one of the MegaMillions lottery games. However, lottery ticket sales have continued at a higher pace than forecasted since. Further discussion on the impacts of the increased sales are discussed in the LFD issue in the funding narrative.

Figure 17

Department of Administration Montana State Lottery Profits to the General Fund		
Fiscal Year	Actual	% Change
FY 2008	\$11,029,000	
FY 2009	10,136,000	-8.10%
FY 2010	10,631,000	4.88%
FY 2011	10,611,000	-0.19%
FY 2012	13,061,000	23.09%

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Montana State Lottery							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
Proprietary Total	\$15,814,711	\$0	\$63,522,458	\$79,337,169	100.0%		
06001 State Lottery Fund	\$15,814,711	\$0	\$63,522,458	\$79,337,169	100.0%	23-7-402	Direct
Total All Funds	\$15,814,711	\$0	\$63,522,458	\$79,337,169	100.0%		
Percent - Total All Sources	19.9%	0.0%	80.1%				

House Bill 2 Funding

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund and by law its funding for operations must be appropriated by the legislature.

Statutory Appropriations

About 80% of the funding for the lottery is statutorily appropriated for lottery prizes and commissions paid to lottery ticket or chance sales agents. In FY 2012 the operating costs for these expenditures increased more than 15% due to increased lottery ticket sales. The costs above are estimated at the FY 2012 funding level.

LFD ISSUE	<p><u>Supplemental Appropriations Needed to Pay Vendor Fees</u></p> <p>In June 2012, the lottery requested a supplemental appropriation to transfer appropriation authority from FY 2013 to FY 2012. Two factors were stated as the drivers for this request:</p> <ul style="list-style-type: none"> o Increased lottery ticket sales and corresponding increase in vendor fees, which are 5.8% of every dollar in lottery sales o Increased instant (scratch) ticket stock to provide for game sales in June <p>The 2011 Legislature included \$2.8 million in authority for vendor fees anticipating that lottery revenues would be maintained at approximately \$47.0 million each year. Actual revenues for ticket sales for FY 2012 were \$52.6 million or 11.9% over the anticipated level. Additional authority for vendor fees was needed at the actual level of lottery sales.</p>
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A part of the increase was due to instant ticket sales, which were ahead of FY 2011 sales by about 10.2% by the end of the year. To maintain the ability to sell instant tickets the Montana State Lottery needed to print additional game cards.

Statute requires agencies to present a plan for reducing expenditures in the second year of the biennium to ensure that the agency does not overspend its appropriation authority overall. In relation to the lottery’s plan to reduce expenditures in FY 2013, staff raised the following concerns:

- FY 2013 budgeted expenditures are authorized based on anticipated revenues of about \$47.0 million in ticket sales. If sales maintain the level attained in FY 2012, additional costs for vendor fees and ticket stock will be realized and unfunded
- Reductions identified for FY 2013 range between \$416,000 and \$501,000. At the high end of the range this is sufficient to offset the transfer of appropriation authority from FY 2013 to FY 2012. However, the impact of the reductions could affect lottery sales, reducing income to the proprietary fund and transfers to the general fund

Vendor fees are directly related to the amount of lottery sales and vary based on the sales, requiring supplemental appropriations whenever lottery sales significantly exceed projections. This is the second biennium in a row that lottery ticket sales have exceeded projections requiring a supplemental transfer of funding between fiscal years to allow for vendor fees to be paid. During the 2011 Legislature the lottery requested a supplemental appropriation for two reasons:

- Additional vendor fees
- Equipment purchases/rental

The Legislative Finance Committee requested legislation (HB 20) to include vendor fees as part of the lottery’s statutorily appropriated expenditures rather than be included in HB 2.

Legislative Option

The legislature may wish to allow for the elimination of vendor fees in the HB 2 appropriation contingent upon passage and approval of HB 20 in a form that moves these expenses to the statutory appropriation.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	7,466,021	7,466,021	14,932,042	94.42%
Statewide PL Adjustments	0	0	0	0.00%	51,307	(58,372)	(7,065)	(0.04%)
Other PL Adjustments	0	0	0	0.00%	445,448	444,870	890,318	5.63%
New Proposals	0	0	0	0.00%	(288)	(296)	(584)	0.00%
Total Budget	\$0	\$0	\$0		\$7,962,488	\$7,852,223	\$15,814,711	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					77,541					79,021
Vacancy Savings					(74,729)					(74,789)
Inflation/Deflation					(2,771)					(1,321)
Fixed Costs					51,266					(61,283)
Total Statewide Present Law Adjustments		\$0	\$0	\$0	\$51,307*		\$0	\$0	\$0	(\$58,372)*
DP 102 - Allocate Department Indirect/Admin Costs	0.00	0	0	0	(2,552)*	0.00	0	0	0	(3,130)*
DP 1501 - Montana Lottery Coronis MP Terminals - OTO	0.00	0	0	0	448,000*	0.00	0	0	0	448,000*
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$445,448*	0.00	\$0	\$0	\$0	\$444,870*
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$496,755*	0.00	\$0	\$0	\$0	\$386,498*

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

DP 102 - Allocate department indirect/admin costs - This request funds the department's indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

DP 1501 - Montana Lottery Coronis MP Terminals - OTO - The executive is requesting a one-time-only appropriation of \$896,000 to lease 150 additional Coronis MP Terminals for the 2015 biennium. The lottery would acquire the terminals from its gaming contractor, Intralot, under an operating lease. Increasing the availability of these terminals would allow greater access to terminals to increase sales and net proceeds.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	15	0.00	0	0	0	(288)*	0.00	0	0	0	(296)*
Total	0.00	\$0	\$0	\$0	\$0	(\$288)*	0.00	\$0	\$0	\$0	(\$296)*

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

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Resources Division in this narrative.

Program Description

The Health Care and Benefits Division provides state employees, retirees, members of the Legislature, judges and judicial branch employees, and their dependents with group benefits 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.

Program Highlights

<p>Health Care & Benefits Division Major Budget Highlights</p>
<ul style="list-style-type: none"> ◆ The Health Care and Benefits Division is entirely funded with proprietary funds ◆ The executive proposes increases to the state share contributions in HB 13. The employer state share partially funds the cost of the state employee group health care ◆ FY 2013 rates include reductions for the impact of the Helena employee health clinic
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ◆ Statute requires that the administrative costs of the program be included in HB 2

Program Discussion

<p>LFD ISSUE</p>	<p><u>Statute Requires Administrative Costs of the Program to Be Included in HB 2</u></p> <p>As detailed in the funding section below, this function is funded through proprietary funds. The 1995 Legislature changed the way proprietary funds are budgeted. Rather than directly appropriate funds in HB 2 to support the function, the legislature removed proprietary funds (with very limited exceptions) from HB 2 and instead provided funding through one of two means, depending upon the type of proprietary fund:</p> <ul style="list-style-type: none"> ○ Internal services funds – The legislature approves a maximum rate the function can charge to client agencies. Most of the funding for this division is from this type ○ Enterprise funds - The legislature does not approve rates for the program; instead, the legislature reviews the report submitted by the executive and identifies any concerns with the financial position of the fund <p>Even though the funding is from the proprietary fund, 2-18-812, MCA requires that administrative costs of the State Employee Group Health Plan (SEGHP) be funded from temporary appropriations. Appropriations made in the General Appropriations Act (usually HB 2) are considered temporary appropriations, as they expire at the end of each biennium and must be considered and approved by the following legislature.</p> <p>A review of HB 2 shows the executive has not included the administrative costs in the bill but rather considered the appropriations part of the proprietary funding that is budgeted through statutory authority and not routinely considered</p>
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by the legislature each biennium. The division also relies on authority included in 17-8-102, MCA that allows for funds to be disbursed if established on the state's accounting records. This practice has been in place since the change in budgeting for proprietary funds. The LFD requested a legal opinion from legislative legal staff on the question of where the costs for administering the program should be budgeted and received the following:

“Question Presented

Whether § 2-18-812, MCA, requires that administrative costs related to the State Employee Group Benefit Plan be made from temporary appropriations, as described in 17-7-501, MCA.

Short Answer

Yes, § 2-18-812, MCA, specifically provides that costs for the administration of SEGBP be made from temporary appropriations. While § 17-8-101(2), MCA, generally allows for funds to be disbursed if a subclass is established on the Statewide Accounting, Budgeting and Human Resource System (SABHRS), § 2-18-812, MCA, controls because it identifies a particular legislative intent with regard to administrative costs related to SEGBP.” For the entire legal opinion please refer to the Appendix for the Department of Administration.

Figure 18 shows the costs that should, by statute, be included in HB 2.

Figure 18

Department of Administration Health Care and Benefits Division Health Care Administration				
	Actuals FY 2012	Budgeted FY 2013	Budgeted FY 2014	Budgeted FY 2015
FTE	19.64	13.87	19.64	19.64
Personal Services				
Salaries	\$1,003,354	\$758,728	\$1,030,831	\$1,035,117
Employee Benefits	326,213	123,078	165,669	164,288
Health Insurance	0	123,144	173,891	173,891
Vacancy Savings	0	(40,197)	(54,816)	(54,933)
Total Personal Services	1,329,567	964,753	1,315,575	1,318,363
Operating Expenses				
Other Services	596,570	1,148,481	655,401	646,584
Supplies and Materials	73,906	83,514	72,233	72,301
Communications	72,806	98,048	69,197	70,183
Travel	18,565	11,084	18,484	18,510
Rent	102,468	108,279	102,468	102,468
Repair and Maintenance	439	1,780	439	439
Other Expenses	<u>144,314</u>	<u>224,221</u>	<u>199,335</u>	<u>198,866</u>
Total Operating Expenses	1,009,068	1,675,407	1,117,557	1,109,351
Total Administrative Costs	<u>\$2,338,635</u>	<u>\$2,640,160</u>	<u>\$2,433,132</u>	<u>\$2,427,714</u>

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Legislative Option:

Include the costs of administering the program in HB 2 as intended by statute.

**LFD
COMMENT**

During FY 2012 the division contracted for an employee health center in Helena, a new healthcare delivery model being piloted in Helena. Statute allows the division to establish alternatives to conventional insurance for providing state employee group benefits. Under the new model, active employees covered on the state's health plan and their dependents age two and over covered on the plan may receive:

- Primary care
- Same day services
- Urgent care
- Health screenings
- Flu shots
- Health coaching

Retirees may have health screenings and flu shots at the health center. To encourage use of the facility copayments are not incurred by employees for services offered by the center.

The change in the health care delivery model was not considered during the 2011 Legislative Session and raised concerns with members of the legislature in relation to:

- Lack of transparency
- Poorly defined scope of services
- Financial commitments associated with the center

The division provided a written response to the concerns addressed to the Senate President and the Speaker of the House. See the Appendix for the Department of Administration for the response.

In addition, the State Administration and Veteran's Affairs Interim Committee (SAVA) discussed the implementation of the employee health center with the division as part of its oversight responsibilities during the interim. The SAVA committee requested a bill to require that expenditures and alternatives for providing state employee group benefits be subject to legislative approval and appropriation.

As shown in Figure 18, the division increased the number of permanent full-time FTE for the program by 5.77 FTE. The following positions were added:

- Computer Supervisor – 1.0 FTE
- Computer Support Specialist – 1.0 FTE
- Benefit Technicians – 2.0 FTE
- Accounting Technician – 1.0 FTE
- Communications Specialist – 1.0 FTE

Four of the positions were transferred from the State Human Resource Division (SHRD). In previous biennia, under a memorandum of understanding the division paid the salaries and benefits of the positions to the SHRD and the individuals worked for the division. Since the positions and appropriation authority were transferred to the division the memorandum is no longer needed and the positions are included in the division that benefits from their work. This change is the reason for the reduction in other services costs and part of the increase in salaries. Two positions were transferred from the General Services Division Print and Mail Services Bureau. The positions were no longer needed due to changes in technology and business processes (for a further discussion see the narrative for that bureau). Until this biennium, the division was using a modified position for an accounting technician.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Health Care & Benefits Division							
Funds	Non-		Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
	HB 2	Budgeted Proprietary					
Proprietary Total	\$0	\$374,065,725	\$0	\$374,065,725	100.0%		
06027 Flexible Spending Funds	\$0	\$14,523,400	\$0	\$14,523,400	3.9%		
06559 Group Benefits Claims A/c	\$0	\$358,996,567	\$0	\$358,996,567	96.0%		
06575 Workers' Comp Management Program	\$0	\$545,758	\$0	\$545,758	0.1%		
Total All Funds	\$0	\$374,065,725	\$0	\$374,065,725	100.0%		
Percent - Total All Sources	0.0%	100.0%	0.0%				

Proprietary Funding

As shown above, 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:

- Health Care Benefits Bureau provides oversight and administrative functions for the state employee group benefit plan, including administration of health, dental, life insurance, and flexible spending accounts. It is funded from the Group Benefits Claims A/c, an account used for the administrative costs of the bureau and benefit and claim cost
- Workers' Compensation Management Bureau is the central resource for state agencies in working to:
 - Enhance worker safety
 - Provide for loss-prevention
 - Develop and provide return-to-work programs
 - Coordinate workers' compensation coverage and policy management issues
- Flexible spending funds accounts for employee deductions for flexible spending, including medical and child care

Proprietary Rates

The Healthcare and Benefits Division manages two proprietary programs:

- Health care benefits for employees, which includes the state's health and other benefit insurance plans, and contract administration of the flexible spending accounts
- Management of the state agency workers' compensation insurance

Employee Benefits Program - 06559

Program Description

The Health Care and Benefits Bureau manages the following:

- State employee group benefit health plan
- State employee sick leave fund
- Employee assistance services
- Health promotion
- Voluntary employee benefit health care expense trust

Program Narrative

Expenses

Significant costs for the program include:

- Personal services costs of \$2.6 million over the biennium to support 19.64 FTE

- Operating expenses of \$2.2 million related to program administration
- Operating expenses of \$12.3 million for the state employee group benefit plan including:
 - \$2.8 million for consulting and professional services
 - \$0.4 million in medical services
 - \$1.2 million in prescription services
 - \$3.9 million for state accounting transaction services
 - \$1.8 million for wellness program costs
- \$341.8 million in benefits and claims including:
 - \$247.3 million for projected medical and dental claims – an increase of 10.27% above the FY 2012 base amount in FY 2014 and 16.7% in FY 2015
 - \$83.3 million for projected prescription drug payments – an increase of 41.5% above the FY 2012 base amount in FY 2014 and 67.5% in FY 2015

Primary cost drivers for both medical and dental claims and prescription drug payments are projected costs and service utilization. The projected budget anticipates cost increases of \$58.8 million over the biennium for medical and prescription drug cost and utilization increases compared to the FY 2012 base budget of \$141.5 million. By comparison the projected budget increase for the 2013 biennium was \$57.8 million over the biennium compared to a base budget of \$101.4 million.

It should be noted that for FY 2012 the projected costs for these benefits was \$131.0 million, or \$10.5 million less than actual costs. Higher costs in the base year were driven by higher incurred medical payments. Measurements related to medical costs for the first six months of the plan year include:

- Medical expenses per eligible participant were up 9.9% for the period January through June
- Medical paid claims loss ratio of 87.7% compared to 78.7% a year ago for active employees. A loss ratio is the amount of health care costs incurred during the year compared to the amount of premium
- Medical paid claims loss ratio of 104.0% compared to 85.7% a year ago for retirees
 - Early retirees medical paid loss ratio of 151.8% compared to 138.5% a year ago
 - Retirees eligible for Medicare medical paid loss ratio of 72.3% compare to 48.4% a year ago

Revenues

The state group plan is self-insured, and as such is responsible for medical costs incurred by its members. The health plan is funded by the state (employer share) and premium payments by members. The state share is \$733 per month and is established in 2-18-703(2), MCA. As a component of employee compensation, the state contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees.

Plan revenues from premiums are estimated at \$165.0 million in FY 2014 and \$175.0 million in FY 2015. The state share for the state employee group health plan is budgeted at \$121.0 million in both FY 2014 and FY 2015 or 73.3% of the estimated plan costs in FY 2014 and 69.1% in FY 2015, with the remainder primarily from additional premiums paid by members and investment income.

LFD COMMENT	<p>In June of 2012 the Governor and three public employee unions reached a negotiated settlement that will be presented as part of the executive budget pay plan proposal. The proposal includes:</p> <ul style="list-style-type: none"> ○ Across-the-board pay raises of 5% beginning July 1, 2013 ○ A further across-the-board pay raise of 5% beginning July 1, 2014 ○ A 10% increase in the state’s health insurance contribution beginning January 2013 for state employees and July 2012 for university employees ○ A further 10% increase in state’s health insurance contribution beginning January 2014 for state employees and July 2013 for university employees <p>These proposals are included in the Governor’s proposed pay plan bill, HB 13. At the time the unions ratified the agreement, the Budget Director estimated the proposal would cost up to \$138 million in total funds, including \$71 million in general fund. For a further discussion, see Volume 1 of the LFD 2015 Biennium Budget Analysis.</p>
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Significant Present Law Adjustments

Anticipated health care cost increases of \$22.6 million in FY 2014 and \$36.7 million in FY 2015 are due to medical, pharmacy, and dental claims and administrative expenses and include:

- Consulting and professional services - \$225,000 each year
- Medical and dental claims - \$11,191,247 in FY 2014 and \$17,203,622 in FY 2015
- Prescription drug payments - \$11,191,246 in FY 2014 and \$18,203,622 in FY 2015

Proprietary Rates

For the 2015 biennium, the following rates are proposed by the executive and are shown in Figure 19. The rates charged in the base year are shown for comparison purposes.

Figure 19

Requested Rates for Internal Service Funds				
Fee/Rate Information for Legislative Action				
	Actual	Budgeted	Budgeted*	Budgeted*
	FY 12	FY 13	FY 14	FY 15
Fee Group A				
State share per employee per month	733	733	806	887
<small>Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for each fiscal year. Rates for FY 2014 and 2015 have not been determined at this time.</small>				

The rates shown above are the state contribution for each state employee each month. The rates are contained in the proposed pay plan and, if adopted by the legislature, will be included in statute. The various premium costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claims costs for each insurance type. Any difference between the state contribution and actual costs are made up by employee premiums 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 premiums from two plan years. Figure 20 shows the premiums, by plan year, for a single employee for FY 2012 and FY 2013. For additional rates see Appendix for Department of Administration.

Figure 20

Department of Administration Healthcare and Benefits Division Premium Rates				
Insurance Plan*	2012	2013	% Increase	
Health Care HMO	682.00	709.00	3.96%	
Health Care Traditional	696.00	745.00	7.04%	
Dental - Basic	0	17.50	0.00%	
Dental - Premium	34.90	35.00	0.29%	
Vision	7.64	7.64	0.00%	
Basic Life Insurance	1.90	1.90	0.00%	
* Per member, per month				

As shown above, premium rates for health insurance are estimated to increase 4.0% and 7.0% from plan year 2012 costs depending on choice of insurance plan. The division does not forecast premium rates for the FY 2015 biennium. According to the division, the budget is not based on actual plan rates because those rates have not been set.

As shown in the 2015 Biennium Report on Internal Service and Enterprise Funds in the appendix, the premium costs are less than the projected operating expenses of the plan by \$4.3 million in FY 2014 and \$7.9 million in FY 2015. The Governor proposes to use fund balance to reduce the amount of the increase that would otherwise be generated from premium increases. For a discussion on reserve levels, risk based capital, and funding above the recommended reserve level. See Appendix for Department of Administration.

Impacts of the Affordable Care Act in relation to the State Employee Group Benefit Plan are discussed in the Appendix for the Department of Administration.

Workers' Compensation Management Program – 06575

Program Description

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

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services of \$375,492 over the biennium
- Operating costs of \$73,796 over the biennium

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period. The rate proposed in HB 2 is \$0.82 for each payroll warrant in FY 2014 and FY 2015.

Proprietary Rates

For the 2015 biennium the following rates proposed by the executive are shown in Figure 21. The rates charged in the base year are shown for comparison purposes.

Figure 21

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A				
Administrative Fee (per payroll warrant)	\$1.09	\$1.08	\$0.82	\$0.82

Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.

Note: Prior to fiscal year 2010, the program expenditures were included in the General Fund.

Note also: This analysis does not include OPEB expenses.

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 In October 2011 and March 2012 the division did not assess state agencies for the Workers' Compensation Management Program. The fee holiday allowed state agencies to spend the freed up funding in other areas or to revert the funding at the end of the fiscal year. The other impact of the fee reduction was to drive the fund balance negative by \$43,800 at the end of FY 2012. A review of the budgeted costs for the program shows anticipated costs of \$164,306 for consulting and professional services that did not occur in FY 2012, resulting in significant savings on operating costs for the program that was passed on to the state agencies funding the program.

Flexible Spending Account Program – (06027)

Program Description

The Flexible Spending Account Program allows employees to defer part of their gross pay into an account for reimbursement of qualified:

- Medical expenses
- Childcare expenses

Program Narrative

HCBD contracts to administer a flexible spending account program for state employees, who can set aside a certain amount of their pay into accounts for costs throughout the year. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims for allowable expenses to use funds deposited into the accounts. Employees forfeit any unspent funds.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are \$2,500 per year for medical and \$5,000 per year for dependent care.

Expenses

Significant costs for the program are for the administration contract.

Revenues

The flexible spending account program is funded from an administrative fee of \$2.26 per month on each account. The fee was waived in the 2013 biennium. At times the flexible spending account program has accumulated additional funds due to forfeited funds. In the 2013 biennium the program used the additional funds to waive the monthly \$2.26 fee charged to participants.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 22. The rates charged in the base year are shown for comparison purposes.

Figure 22

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual	Budgeted	Budgeted	Budgeted
	FY 12	FY 13	FY 14	FY 15
Fee Group A				
Administrative Fee (per member per month)	\$0.00	\$0.00	\$2.26	\$2.26
Administrative fees charged and collected from plan participants are determined through the competitive bid process as part of the selection of a plan administrator.				

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	18.21	18.21	18.21	18.21	18.21	18.21	0.00	0.00%
Personal Services	1,165,887	1,315,245	1,380,827	1,380,997	2,481,132	2,761,824	280,692	11.31%
Operating Expenses	396,099	470,211	437,123	434,725	866,310	871,848	5,538	0.64%
Total Costs	\$1,561,986	\$1,785,456	\$1,817,950	\$1,815,722	\$3,347,442	\$3,633,672	\$286,230	8.55%
General Fund	1,561,986	1,785,456	1,817,950	1,815,722	3,347,442	3,633,672	286,230	8.55%
Total Funds	\$1,561,986	\$1,785,456	\$1,817,950	\$1,815,722	\$3,347,442	\$3,633,672	\$286,230	8.55%

Program Description

The State Human Resources Division (SRHD) provides statewide human resource services utilizing the following functions and programs:

- The Human Resources Policy and Programs (HRPP) Bureau, establishing the human resource rules, policies and standards for Montana’s executive branch
- The State Office of Labor Relations, representing the Governor’s Office in all matters relating to collective bargaining
- The Professional Development Center (PDC), offering training and other professional development services to Montana state government and other organizations
- The Human Resources Information Services Bureau, supplying payroll and other HR information systems for all branches of state government.

Program Highlights

State Human Resources Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The majority of the funding for this program is from non-budgeted proprietary funds that are included in the proprietary rate section of HB 2 ◆ Personal services cost increases are included as part of statewide present law adjustments
Major LFD Issues
<ul style="list-style-type: none"> ◆ Policy choice for the legislature includes continuing the current tuition fee structure for training provided by the division or establishing training as a fixed cost for state agencies

The State Human Resource Division personal services budget increases include the following changes:

- Reclassification of one position
- Salary increases, including longevity and broadband pay adjustments
- Vacancy savings rate of 12.9% compared to a budgeted rate of 4%
- Transfer of 0.51 FTE to State Accounting Division

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - State Human Resources Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$3,633,672	\$0	\$0	\$3,633,672	32.5%		
Proprietary Total	\$0	\$7,534,071	\$0	\$7,534,071	67.5%		
06525 Intergovernmental Training	\$0	\$1,002,928	\$0	\$1,002,928	9.0%		
06563 Payroll Fund	\$0	\$6,531,143	\$0	\$6,531,143	58.5%		
Total All Funds	\$3,633,672	\$7,534,071	\$0	\$11,167,743	100.0%		
Percent - Total All Sources	32.5%	67.5%	0.0%				

HB 2

General fund supports the operations of HRPP and the State Office of Labor Relations.

Proprietary Funding

The majority of the division budget is supported by proprietary funds that fund two programs:

- o Professional Development Center (PDC)
- o Human Resource Information Services (HRIS) bureau

The PDC has previously been supported through fees in the form of tuition paid by state agencies that enroll employees in the various classes provided by PDC and fees for other services offered by the PDC. The Governor is proposing to change the funding mechanism for the PDC from the current process of charging tuition to each participant for attending a training course to a fixed cost rate to agencies based on their FTE. See the LFD Issue in the “Proprietary Rate” section of the narrative for further information and legislative options in regard to the proposed shift in the funding mechanism.

The HRIS bureau is funded through a fee charged state agencies for each employee payroll processed in a pay period. Both of these funds are considered and approved as rates charged to other state agencies and are discussed in the “Proprietary Rates” section of the narrative.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,561,986	1,561,986	3,123,972	85.97%	1,561,986	1,561,986	3,123,972	85.97%
Statewide PL Adjustments	269,199	267,266	536,465	14.76%	269,199	267,266	536,465	14.76%
Other PL Adjustments	5,993	5,703	11,696	0.32%	5,993	5,703	11,696	0.32%
New Proposals	(19,228)	(19,233)	(38,461)	(1.06%)	(19,228)	(19,233)	(38,461)	(1.06%)
Total Budget	\$1,817,950	\$1,815,722	\$3,633,672		\$1,817,950	\$1,815,722	\$3,633,672	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					272,473					272,651
Vacancy Savings					(57,533)					(57,541)
Inflation/Deflation					77					239
Fixed Costs					54,182					51,917
Total Statewide Present Law Adjustments		\$269,199	\$0	\$0	\$269,199		\$267,266	\$0	\$0	\$267,266
DP 102 - Allocate department indirect/admin costs	0.00	5,993	0	0	5,993	0.00	5,703	0	0	5,703
Total Other Present Law Adjustments	0.00	\$5,993	\$0	\$0	\$5,993	0.00	\$5,703	\$0	\$0	\$5,703
Grand Total All Present Law Adjustments	0.00	\$275,192	\$0	\$0	\$275,192	0.00	\$272,969	\$0	\$0	\$272,969

Statewide present law adjustments include increases in personal services for broadband pay adjustment and longevity increases. The positions that received increases include human resource specialists that are 84.4% of the 2012 market midpoint for their positions after the adjustments and an operations manager that is at 59.8% of the market. Changes to fixed costs include:

- o \$45,000 in FY 2014 and \$43,000 in FY 2015 for adjustments of rent for the building
- o \$5,300 each year of the biennium for increases to SITSD costs
- o \$2,600 each year of the biennium for increases in maintenance of the grounds

DP 102 - Allocate department indirect/admin costs - This request funds the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	23	0.00	(19,228)	0	0	(19,228)	0.00	(19,233)	0	0	(19,233)
Total	0.00	(\$19,228)	\$0	\$0	(\$19,228)	0.00	(\$19,233)	\$0	\$0	(\$19,233)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates

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

- o Professional Developmental Center, which trains state employees
- o Human Resource Information Services, including payroll and benefits eligibility processing

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

The Professional Development Center (PDC) program provides training and related services throughout locations in Montana. The PDC offers training directed toward improving state practices, meeting state and federal regulations, and providing professional services such as facilitation, mediation, or curriculum design.

*Program Narrative*Expenses

Significant costs for the program are for:

- Personal services of \$0.4 million over the biennium
- Operating costs of \$0.3 million over the biennium

Revenues

In the 2013 biennium, two sources of revenue cover the personal services and operating expenses for the PDC:

- Open-enrollment fees, which is a per-person tuition charged for attendance. Tuition rates are based on two factors: 1) projected attendance; and 2) competitive pricing. Tuition rates for the 2013 biennium were 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 is a flat fee charged for providing a service. The amount per service varies by length of the service and number of services arranged in a single contract.

The executive proposes changing the funding mechanism for the Professional Development Center.

- Rather than the current process of charging tuition to each participant for attending a training course, the PDC proposes charging a fixed cost rate to agencies based on their FTE
- The center calculated this rate by projecting the annual expenses of the program at \$445,086 and allocating it to each agency based on its number of employees
- The expense figure represents an increase from an average \$297,419 over the 2011 and 2013 biennia
- The center projects increases in participation in training programs, rising from an average of 3,163 a year to over 8,200
- The program projects the fixed-cost rate to be \$34.59 per FTE each fiscal year of the biennium

Significant Present Law Adjustments

The center is proposing an additional 1.0 FTE for a trainer to meet the increased demand they anticipate due to the change in the funding of services. The program also includes increased expenses for supplies and materials, and printing and instructional supplies as part of the proposal. These costs would increase the overall budget for the PDC by \$0.2 million over the 2015 biennium

**LFD
ISSUE**Policy Choice for the Legislature Includes Continuing the Current Tuition Fee Structure or Establishing Training as a Fixed Costs

The Governor proposes broadening the programs and services offered to train state employees while changing the funding mechanism for the center from one based on consumer demand for services to one funded by all state agencies. Figure 23 shows the number of state employees that took classes during the previous five years, the percentage change in the participants between years, the projected and actual revenues for the center, and the percentage change in the actual revenues between years.

Figure 23

Department of Administration State Human Resources Division Professional Development Center Intergovernmental Training Revenues					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Number of Participants	3,806	3,225	2,401	3,645	2,699
Change from Previous Year		-15.27%	-25.55%	51.81%	-25.95%
Charges for Services					
Projected	\$299,000	\$281,801	\$259,440	\$261,940	\$395,000
Actual	<u>321,139</u>	<u>343,528</u>	<u>281,820</u>	<u>274,757</u>	<u>317,962</u>
Difference	<u>\$22,139</u>	<u>\$61,727</u>	<u>\$22,380</u>	<u>\$12,817</u>	<u>(\$77,038)</u>
Change from Previous Year		6.97%	-17.96%	-2.51%	15.72%

As shown, with the exception of FY 2011, the number of participants in the program has declined. In FY 2011 the division conducted comprehensive training for the State Information Technology Services Division, which increased the participants by 1,600 under the methodology used by SHRD. In addition, projected revenues decreased between FY 2008 and FY 2011 while actual revenues decreased in FY 2010 and FY 2011. In FY 2012 revenues increased but not to the extent projected by the center. As shown by the various measures, the demand for program services is declining. Under the enterprise model of providing for program support by charging for services, the center may need to adjust the services provided. This period also corresponds with reductions in state agency budgets impacted by declining state revenues.

The executive proposes the new funding model and FTE to support a change in the delivery of services. As part of the review of state agency employee retention, SHRD has identified that one reason employees are leaving state government or transferring to other agencies is issues with supervisors. Through review of agency exit interviews SHRD has identified under-developed management and supervisory skills for individuals who are promoted into management positions as an issue for the state as an employer. The new program would provide management and supervision skills on a statewide basis.

The PCD is considering changing the delivery method for classes from ones offered at various times per year to having agency tailored classes provided at the agency for a short period of time. PCD is looking at methods to create efficiencies in providing training while expanding the number of employees who receive it. Another policy choice included in the proposal is eliminating services to local governments and providing training exclusively to state employees. The legislature may wish to discuss the changes envisioned in the proposal further to clarify such aspects as:

- o Does PDC envision a change to state job listings to require either supervision experience or completion of management and supervision classes?

**LFD
ISSUE
CONT.**

○ How does this proposal fit into the succession planning for the state of Montana as an employer and how will it impact training costs overall?

Figure 24 shows the total additional revenues above current expenditures for PDC that the executive is proposing be added for this fixed cost, by agency. Please note that the figures do not represent all training costs of any agency. Training provided in-house, jointly with other agencies, or by outside parties is not included, nor are any travel costs incurred by agencies in conjunction with training.

Figure 24

Department of Administration State Human Resources Division Professional Development Center												
State Agency	FY 2014					FY 2015					Biennial Total	
	General Fund	State Special	Federal Special	Proprietary	Total	General Fund	State Special	Federal Special	Proprietary	Total		
Governor's Office	\$344	\$0	\$0	\$0	\$344	\$344	\$0	\$0	\$0	\$344	\$688	
Commissioner Of Political Practices	(551)	0	0	0	(551)	(551)	0	0	0	(551)	(1,102)	
State Auditor's Office	0	1,452	0	0	1,452		1,452	0	0	1,452	2,904	
Crime Control Division	(264)	0	0	0	(264)	(264)	0	0	0	(264)	(528)	
Department Of Justice	17,536	0	0	0	17,536	17,536	0	0	0	17,536	35,072	
Public Service Regulation	0	(193)	0	0	(193)	0	(193)	0	0	(193)	(386)	
Board Of Public Education	17	16	0	0	33	17	16	0	0	33	66	
Commissioner Of Higher Education	1,473	0	1,474	0	2,947	1,473	0	1,474	0	2,947	5,894	
Montana School For The Deaf & Blind	3,065	0	0	0	3,065	3,065	0	0	0	3,065	6,130	
Montana Arts Council	(7)	(3)	(9)	0	(19)	(7)	(3)	(9)	0	(19)	(38)	
Montana State Library	(766)	0	0	0	(766)	(766)	0	0	0	(766)	(1,532)	
Montana Historical Society	1,245	259	0	476	1,980	1,245	259	0	476	1,980	3,960	
Department Of Fish, Wildlife & Parks	0	154,214	(1,867)	0	152,347		154,017	(1,867)	0	152,150	304,497	
Department Of Environmental Quality	(1,451)	(4,926)	(6,157)	0	(12,534)	(1,451)	(4,926)	(6,157)	0	(12,534)	(25,068)	
Department Of Transportation	0	58,862	0	0	58,862		58,862	0	0	58,862	117,724	
Department Of Livestock	0	4,333	0	0	4,333		4,333	0	0	4,333	8,666	
Department Of Natural Resources & Conservation	2,838	2,739	0	0	5,577	2,838	2,739	0	0	5,577	11,154	
Department Of Revenue	8,506	0	0	470	8,976	8,506	0	0	470	8,976	17,952	
Department Of Administration	(20,685)	(457)	0	(288)	(21,430)	(20,699)	(473)	0	(296)	(21,468)	(42,898)	
Office Of The Public Defender	6,767	0	0	0	6,767	6,767	0	0	0	6,767	13,534	
Department Of Agriculture	(82)	38	0	0	(44)	(82)	38	0	0	(44)	(88)	
Department Of Corrections	33,924	381	0	2,429	36,734	33,924	381	0	2,429	36,734	73,468	
Department Of Commerce	(105)	(104)	(642)	0	(851)	(105)	(104)	(642)	0	(851)	(1,702)	
Department Of Labor & Industry	(458)	(6,217)	(4,025)	0	(10,700)	(458)	(6,217)	(4,025)	0	(10,700)	(21,400)	
Department Of Military Affairs	542	360	1,782	0	2,684	542	360	1,782	0	2,684	5,368	
Department of Public Health and Human Services	18,906	2,435	37,761	0	59,102	18,906	2,435	37,761	0	59,102	118,204	
Grand Total	\$70,794	\$213,189	\$28,317	\$3,087	\$315,387	\$70,780	\$212,976	\$28,317	\$3,079	\$315,152	\$630,539	

There are two policy proposals inherent in this change:

- 1) The executive is proposing to increase the amount of funding for training within the agencies and to provide a consistent training budget by asking the legislature to fund a per person training budget through fixed costs each biennium
 - a. The executive therefore assumes that state employees should be provided with more training opportunities
- 2) The executive inherently assumes that it is desirable to have a professional training function as a part of state government, and that the function should have a reliable funding source

The legislative policy decisions in relationship to state employee training are:

- Provide a dependable source of funding to make training available to state agencies through an assessment to state agencies based on the number of employees in the agency. This option may ensure that the agencies have a consistent training staff that understands the challenges of state agencies as compared to the private sector. However if state agencies do not use the facility they would be receiving funds through the fixed cost that they may not use for that purpose
- Continue the current funding mechanism, which establishes a training fee for the classes if state agencies determine their employees need specific training and they have funding in their budgets to pay for the training.



Legislative Options:

The policy choices for the legislature include:

- o Continue the program utilizing the current tuition structure
- o Change the funding mechanism to a fixed cost rate for all state agencies

Proprietary Rates

For the 2015 biennium the following rates proposed by the executive are shown in Figure 25. The rates charged in the base year are shown for comparison purposes.

Figure 25

Requested Rates for Internal Service Funds				
Fee/Rate Information for Legislative Action				
	Actual	Projected	Projected	Projected
	FY 12	FY 13	FY 14	FY 15
PDC Fee per FTE	N/A	N/A	34.59	34.59
Fee Group A				
Training Services per hour				
Open Enrollment Courses				
Two-Day Course (per participant)	\$187.00	\$190.00	N/A	N/A
One-Day Course (per participant)	\$120.00	\$123.00	N/A	N/A
Half-Day Course (per participant)	\$93.00	\$95.00	N/A	N/A
Eight-Day Management Series (per participant)	\$565.00	\$570.00	N/A	N/A
Six-Day Management Series (per participant)	\$465.00	\$440.00	N/A	N/A
Four-Day Administrative Assistant Series (per participant)	\$330.00	\$333.00	N/A	N/A
Contract Courses				
Full Day Training (flat fee)	\$825.00	\$830.00	N/A	N/A
Half Day Training (flat fee)	\$565.00	\$570.00	N/A	N/A
The Training Program determines rates by analyzing its billable staff hours, overhead costs, and variable costs which are directly associated with providing a specific training service. Service fees include an allocation of total overhead costs based on an estimate of total billable hours during the year. Rates are established to build up to a 60-day working capital.				
Note: This analysis does not include OPEB expenses.				

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.

HRIS Bureau - 06563

Program Description

The Human Resources Information Services (HRIS) operates the payroll, benefits, and human resources system of the State Accounting Budgeting and Human Resources (SABHRS). SABHRS is used to process, distribute, report, and account for payroll, benefits and associated withholding and deductions for over 13,500 state employees in the executive, legislative, and judicial branches. The bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll, benefits, and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs including employee benefits (group insurance, FSA, deferred compensation, and pension) classification, pay, labor relations, policy, and training.

Program Narrative

During FY 2012 the State Human Resource Division transferred 4.0 FTE to the Health Care and Benefits Division (HCBD) and 0.68 FTE to the Director’s Office. The 4.0 FTE that were transferred to the HCBD had previously worked for HCDB under a memorandum of understanding. The result of the transfer is that the expenses for personal services included in the HRIS Bureau have decreased by \$244,500 a year.

Expenses

Significant costs for the program are for:

- o Personal services of \$3.3 million over the biennium for 23.29 FTE
- o Operating costs of \$3.2 million over the biennium including a \$29,200 increase for projected license and maintenance fee increases for SABHRS-HR software

Revenues

The revenues are collected from two sources: 1) central payroll processing fees are assessed to each agency based on the average number of paychecks processed during the prior two fiscal years; and 2) costs associated with processing the benefit eligibility elections for the 35,000 plan members are collected from the Health Care and Benefits Division.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 26. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds				
Fee/Rate Information for Legislative Action				
	Actual	Projected	Projected	Projected
	FY 12	FY 13	FY 14	FY 15
Fee Group A				
HRIS fees (per employee processed per pay period)	\$8.06	\$8.10	\$8.13	\$8.15
Health Resources Information Services (HRIS) rates have been established under the authority of 2-18-401, MCA, and 2-18-403, MCA. Projected HRIS expenditures anticipated for the 2013 biennium are distributed as a fixed cost fee to the Health Care Benefits Division for services rendered by HRIS to support benefit operations associated with managing the state's payroll system; and as a fixed cost rate to state agencies based on an estimated average number of payroll warrants/advice per pay period per agency. The agencies' payroll warrant/advice counts are based upon FY 2009 and FY 2010 data.				
Note: This analysis does not include OPEB expenses.				

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 Description

The Risk Management & Tort Defense Division (division) administers a comprehensive plan of property/casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers and machinery, bonds (various), crime, fine art, property, professional liability, and miscellaneous. The state self-insures most commercial insurance risks under \$1,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss. The division investigates, evaluates, and resolves tort claims (i.e. personal injury or property damage to third parties) and coordinates the adjudication and settlement of other claims involving property damage.

Program Highlights

Risk Management & Tort Defense Major Budget Highlights
<ul style="list-style-type: none"> ◆ The division is solely funded through proprietary funds generated through state agencies and the Montana University System premium payments ◆ The executive proposes to increase insurance costs to state agencies by \$2.3 million each year of the biennium or 19.7 % ◆ The executive is requesting \$26.8 million in the supplemental bill (HB 3) to replenish the fund following payments in the Libby asbestos lawsuit

Program Discussion

The state of Montana self-insures for risks including automobile, aviation, general liability, and property. State agencies and the Montana University System pay premiums to the Risk Management and Tort Defense Division (division). General liability claims include settlements of lawsuits in which the state is found at fault. In September 2011 Judge Sherlock approved a \$43 million settlement with the victims in Libby who had been impacted by asbestos. \$26.8 million of the settlement was paid from the State Property/Casualty Insurance Fund (fund).

The effect the settlement payment of \$26.8 million for Montana asbestos victims had on the fund was that it:

- Eliminated reserves for all insurance risks for FY 2012, not only general liability but automobile, aviation, and property
- Reduced assets in the account to \$3.5 million at the end of FY 2012
- Created an unfunded liability of (\$17.1) million at FYE 2012

In addition a large hail storm in Bozeman resulted in high property claims for the state buildings in the area, most notably the campus of the Montana State University.

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. Payments for claims and the operational expenses incurred by the division are expended from the fund. In addition, reserves for each insurance risk are maintained within the fund. Reserves are used for higher than anticipated claims costs or loss adjustment expenses and for incurred but not yet reported claims. The Governor has included \$26.8 million in the supplemental bill (HB 3) to pay the state's settlement costs on the Libby asbestos case.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Risk Management & Tort Defense							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$0	\$0	\$900,000	\$900,000	3.4%		
02098 Insurance Proceeds - State Bld	\$0	\$0	\$900,000	\$900,000	3.4%	2-17-105	Direct
Proprietary Total	\$0	\$25,711,794	\$0	\$25,711,794	96.6%		
06532 Agency Insurance Int. Svc.	\$0	\$25,711,794	\$0	\$25,711,794	96.6%		
Total All Funds	\$0	\$25,711,794	\$900,000	\$26,611,794	100.0%		
Percent - Total All Sources	0.0%	96.6%	3.4%				

Proprietary Funding

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

Statutory Appropriations

Less than 20% of the division's funding is derived from statutory appropriations for the receipts of insurance reimbursements on state agency buildings.

Proprietary Rates

Program Description

The Risk Management and Tort Defense Division administers a comprehensive plan of property and casualty insurance protection on behalf of state government.

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services of \$2.4 million for 17.00 FTE over the biennium
- Operating expenses of \$11.8 million over the biennium including
 - \$5.6 million for commercial insurance
 - \$3.4 million for legal fees and court costs
 - \$0.5 million for application development of computer systems
- Benefits and Claims costs estimated at \$11.5 million over the biennium

Revenues

Montana self-insures its property via this program so all state agencies pay insurance premiums to the Risk Management and Tort Defense Division. Depending on the type of property owned and the agency's claims history, insurance premiums paid by agencies can vary.

Budget authority to pay insurance premiums is a fixed cost item in the agencies' budgets. The statewide fixed cost in the executive budget increases from the 2013 biennium due to an increases in all insurance risks. Increase by insurance risk are shown in Figure 27.

Figure 27

As shown, the executive proposes to increase insurance costs to state agencies by \$2.3 million each year of the biennium or 19.7 %. Premiums for the 2015 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

- o Automobile - comprised of two separate components: 1) comprehensive and collision based upon total values of reported vehicles; and 2) auto liability premium based upon agency losses and the number of vehicles reported
- o Aviation - allocated to those agencies that have aircraft based upon charges from commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft. Airport premium is apportioned to those agencies that have airports based upon the number of airports
- o General Liability - comprised of commercial coverage, which is based on commercial coverage negotiated with commercial insurance carriers and self-insured
- o Property - allocated to each agency based on its percentage of reported exposures (e.g. building replacement cost values, boilers & machinery, etc.).

Department of Administration Risk Management and Tort Defense Division Changes to Premium Costs for State Agencies		
Insurance Risk	FY 2014	FY 2015
Auto/Comp/Collision	\$217,153	\$217,153
Aviation	(42,490)	(42,490)
General Liability	825,000	825,000
Property/Miscellaneous	<u>1,306,980</u>	<u>1,306,980</u>
Total Increase	<u>\$2,306,643</u>	<u>\$2,306,643</u>

For further information on the specific risks insured by the program See the Appendix for the Department of Administration.

Significant Present Law Adjustments

The program has included a reduction of \$30.8 million to the FY 2012 base budget for benefits and claims each year of the biennium. The reduction eliminates costs associated with a settlement to Montana asbestos victims of \$26.8 million and \$4.00 million for catastrophic property losses associated with hail damage.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive are shown in Figure 28. The rates charged in the base year are shown for comparison purposes.

Figure 28

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual	Budgeted	Budgeted	Budgeted
	FYE 12	FY 13	FY 14	FY 15
Premium				
Auto/Comp/Collision	1,031,347	1,037,665	1,248,500	1,248,500
Aviation	212,451	212,451	169,961	169,961
General Liability	6,750,000	6,750,000	7,575,000	7,575,000
Property/Miscellaneous	3,733,020	3,783,090	5,040,000	5,040,000
Total	11,726,818	11,783,206	14,033,461	14,033,461

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	7.50	7.50	7.50	7.50	7.50	7.50	0.00	0.00%
Personal Services	384,342	450,541	463,044	463,753	834,883	926,797	91,914	11.01%
Operating Expenses	77,083	88,728	87,615	86,940	165,811	174,555	8,744	5.27%
Local Assistance	15,764	5,073	15,764	15,764	20,837	31,528	10,691	51.31%
Total Costs	\$477,189	\$544,342	\$566,423	\$566,457	\$1,021,531	\$1,132,880	\$111,349	10.90%
General Fund	477,189	544,342	566,423	566,457	1,021,531	1,132,880	111,349	10.90%
Total Funds	\$477,189	\$544,342	\$566,423	\$566,457	\$1,021,531	\$1,132,880	\$111,349	10.90%

Program Description

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

Program Highlights

State Tax Appeal Board Major Budget Highlights	
◆	The increase is due to statewide present law adjustments

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - State Tax Appeal Board							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,132,880	\$0	\$0	\$1,132,880	100.0%		
Total All Funds	\$1,132,880	\$0	\$0	\$1,132,880	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The board is fully funded with general fund. General fund also provides support for travel expenses, compensation, and all other incidental expenses of county tax appeal boards, except that counties fund office and equipment expenses of their respective county boards.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	477,189	477,189	954,378	84.24%	477,189	477,189	954,378	84.24%
Statewide PL Adjustments	85,707	85,837	171,544	15.14%	85,707	85,837	171,544	15.14%
Other PL Adjustments	3,299	3,205	6,504	0.57%	3,299	3,205	6,504	0.57%
New Proposals	228	226	454	0.04%	228	226	454	0.04%
Total Budget	\$566,423	\$566,457	\$1,132,880		\$566,423	\$566,457	\$1,132,880	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					97,976					98,715
Vacancy Savings					(19,274)					(19,304)
Inflation/Deflation					29					63
Fixed Costs					6,976					6,363
Total Statewide Present Law Adjustments		\$85,707	\$0	\$0	\$85,707		\$85,837	\$0	\$0	\$85,837
DP 102 - Allocate Department Indirect/Admin Costs	0.00	3,299	0	0	3,299	0.00	3,205	0	0	3,205
Total Other Present Law Adjustments	0.00	\$3,299	\$0	\$0	\$3,299	0.00	\$3,205	\$0	\$0	\$3,205
Grand Total All Present Law Adjustments	0.00	\$89,006	\$0	\$0	\$89,006	0.00	\$89,042	\$0	\$0	\$89,042

The statewide present law adjustments include the following changes:

- o Personal services increases for broadband pay adjustments, increased costs for county tax appeal board secretaries, and longevity
- o Fixed cost increases for rent and SITSD costs

DP 102 - Allocate department indirect/admin costs - This request funds the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	37	0.00	228	0	0	228	0.00	226	0	0	226
Total	0.00	\$228	\$0	\$0	\$228	0.00	\$226	\$0	\$0	\$226	

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Services Division of this narrative.

Total Department Of Administration Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$12,600,112	\$0	\$75,058,880	\$87,658,992	10.8%
State Special Total	\$12,118,072	\$0	\$50,329,752	\$62,447,824	7.7%
02030 Arch & Engin Construction	3,700,954	-	-	3,700,954	0.5%
02077 Financial Institutions Div	7,526,996	-	-	7,526,996	0.9%
02098 Insurance Proceeds - State Bld	-	-	900,000	900,000	0.1%
02105 Basic 9-1-1 Emrgncy Phone Prog	-	-	6,572,348	6,572,348	0.8%
02211 Procurement Special Revenue	123,803	-	-	123,803	0.0%
02397 Enhanced 9-1-1 Emerg Tel Pgm	-	-	6,559,230	6,559,230	0.8%
02594 Basic 911 Emerg Phone Program	766,319	-	-	766,319	0.1%
02858 Mineral Impact	-	-	21,978,022	21,978,022	2.7%
02993 Wireless 911	-	-	6,582,980	6,582,980	0.8%
02994 Wireless 911 Providers	-	-	7,737,172	7,737,172	1.0%
Federal Special Total	\$35,030	\$0	\$41,214,186	\$41,249,216	5.1%
03095 Taylor Grazing Act Dist.	-	-	240,712	240,712	0.0%
03320 Cmia Funds	2,132	-	-	2,132	0.0%
03369 Flood Control Payments	32,898	-	-	32,898	0.0%
03425 Forest Reserve Shared Revenue	-	-	40,973,474	40,973,474	5.1%
Proprietary Total	\$15,924,839	\$537,880,538	\$63,522,458	\$617,327,835	76.3%
06001 State Lottery Fund	15,814,711	-	63,522,458	79,337,169	9.8%
06027 Flexible Spending Funds	-	14,523,400	-	14,523,400	1.8%
06042 Single Audit Review - Hb328	-	821,972	-	821,972	0.1%
06066 Surplus Property	-	1,099,621	-	1,099,621	0.1%
06511 Sabhrs Services Bureau	-	7,756,021	-	7,756,021	1.0%
06522 Isd Proprietary	-	75,905,664	-	75,905,664	9.4%
06525 Intergovernmental Training	-	1,002,928	-	1,002,928	0.1%
06527 Investment Division	110,128	-	-	110,128	0.0%
06528 Rent And Maintenance	-	18,195,162	-	18,195,162	2.2%
06530 Print & Mail Services	-	21,786,748	-	21,786,748	2.7%
06531 Central Stores	-	143,244	-	143,244	0.0%
06532 Agency Insurance Int. Svc.	-	25,711,794	-	25,711,794	3.2%
06534 Management Services	-	3,353,667	-	3,353,667	0.4%
06559 Group Benefits Claims A/c	-	358,996,567	-	358,996,567	44.3%
06563 Payroll Fund	-	6,531,143	-	6,531,143	0.8%
06564 Warrant Writing	-	1,506,849	-	1,506,849	0.2%
06575 Workers' Comp Management Progra	-	545,758	-	545,758	0.1%
Other Total	\$0	\$0	\$779,052	\$779,052	0.1%
05008 Capitol Building Sr	-	-	779,052	779,052	0.1%
Total All Funds	\$40,678,053	\$537,880,538	\$230,904,328	\$809,462,919	100.0%

5% Base Budget Reduction Form

[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 61010 Administration

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 262,562	\$ 189,567
SERVICE(S) TO BE ELIMINATED OR REDUCED		General Fund Annual Savings	State Special Revenue Annual Savings
1	06 GSD	\$ 97,497	
2	03 SAD	\$ 67,428	
3	07 ITSD		\$ 23,312
4	07 ITSD	\$ 24,933	
5	23 SHRD	\$ 72,704	
6	14 BFID		\$ 166,255
7			
8			
9			
10			
TOTAL SAVINGS		\$ 262,562	\$ 189,567
DIFFERENCE			0 0

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 6 - General Services Division**

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

The Facilities Management Bureau receives a general fund appropriation in lieu of rent for common space in the Capitol, the Executive Residence, the display portion of the Montana Historical Society and the Old Governor's Mansion. The bureau uses general fund to supplement rent charge to agencies to fund our major maintenance projects in the capitol complex.

#2 THE SAVINGS THAT ARE EXPECTED:

The 5% reduction amounts to \$97,497.

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

Either we reduce major maintenance projects or state agencies will see their rental rate charge increase by approximately \$0.083 per square foot.

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

If the bureau doesn't charge the additional \$0.083 per square foot in the rental rate, this will reduce funds available to do major maintenance projects. Any reduction in funding will result in projects being eliminated or delayed.

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

Yes. 2-17-811, MCA

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 3 - State Accounting Division**

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

Move one of the Local Government Systems supervisory positions to the Local Government Services Proprietary Fund

#2 THE SAVINGS THAT ARE EXPECTED:

Personal services of \$67,428, FY 2014 and \$67,327, FY 2015

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

This will increase costs to the Enterprise Fund and eventually could lead to an increase in the local government report filing fees providing the funding.

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

Eventually passing the increased proprietary fund costs on to the local governments as increased filing fees.

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

A service would not be discontinued as a result of this funding change.

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 7 - ITSD**

- #1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:**
The 911 program was charged \$29,552 for Web Development from SITSD. Since the application is up and running now, the projected spend on this service will be significantly reduced in the 2015 biennium.
- #2 THE SAVINGS THAT ARE EXPECTED:**
Expected savings is estimated to be \$23,312.
- #3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:**
There would be no consequences or impacts of the proposed reduction.
- #4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:**
Not applicable.
- #5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:**

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 7 - ITSD**

- #1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:**
The Public Safety Services Office would have to at a minimum reduce their permanent FTE by 0.44 FTE that is assigned to the Frequency Coordination.
- #2 THE SAVINGS THAT ARE EXPECTED:**
If the PSSO were to reduce by 0.44 FTE, the expected savings would be estimated at \$24,933
- #3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:**
The Public Safety Services Bureau (PSSB) is responsible for managing radio and mutual aid frequencies, including state-held frequency licenses and the application and permitting of public safety radio mutual aid frequencies. PSSB serves as a liaison with the Federal Communications Commission (FCC), the Association of Public-Safety Communications Officials (APCO), and tribal, state and local users of public safety radio. Consequences of the budget reduction and subsequent FTE reduction would reduce the amount and timeliness of the radio frequency services that the PSSB provides.
- #4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:**
Cuurently the PSSB has not identified any other alternatives than what is proposed.
- #5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:**

Radio frequency coordination is required by statute and the Department of Administration is the designated agency in statute (MCA 2-17-541 et. seq.)

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 23 - State Human Resources Division**

- #1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:**
Permanently remove 1.00 FTE, Sr. HR Generalist position
- #2 THE SAVINGS THAT ARE EXPECTED:**
A savings of \$72,704 in general fund (\$72,704 - Personal Services savings)
- #3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:**
Division will continue to prioritize work assignments, manage increased workloads, and complete tasks behind optimal deadlines. In addition, some work in support of agencies will be turned away such as classifications, assistance with recruitments, training, and program development.
- #4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:**
It cannot be mitigated.
- #5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:**

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 14 - Division of Banking & Financial Institutions**

- #1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:**
Reduce Personal Services by \$84,583 and eliminate \$81,672 from the operating budget.
- #2 THE SAVINGS THAT ARE EXPECTED:**
\$166,255
- #3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:**

Loss of personal services funding would create an extreme hardship on the Division which is already struggling to maintain an acceptable number of trained examination staff. Failure to have enough trained and qualified examiners could result in loss of accreditation and an inability to examine all state-chartered banks and financial institutions on the statutorily required basis. Trained bank examiners are commonly lured away by higher paying federal regulatory agencies and private lending institutions. Bank examinations are critical to maintaining the safety and soundness of Montana's financial institutions. Without adequate supervision, constituents could experience increased risk at local lending institutions and changes in local bank services. The loss of this funding would also create a greater strain on remaining examination staff resulting in increased overtime and travel which would result in higher fees charged to licensees and leads to greater turnover due to burnout in experienced examiners.

Reduction in operating expenses will have the greatest impact on examiner travel in mortgage supervision. Reduction in this area would severely impact the Division's ability to conduct examinations of Montana's licensed institutions that are located out-of-state, preventing Montana borrowers from having the protection of state regulatory examiners reviewing Montana loans for compliance with Montana's laws.

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

There are no mitigation options that can compensate for the loss of a trained bank examiner. The Division is currently working on an electronic examination format that will reduce the number of examiners that are required to be onsite during an examination. This process will be implemented during FY2013 and will hopefully result in increased savings. However, due to the transition period, the associated savings will not be instantaneous.

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

Yes - 32-1-211 MCA

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6101 Department of Administration

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6101 Department of Administration

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Department of Administration Goals and Objectives

2015 Biennium

Department Goals:

Goal 1: Advance the department's mission, vision, and values by providing excellent, timely, and cost-effective customer service.

Objectives:

- Challenge the status quo by embracing and initiating beneficial changes that result in continuous improvement in service delivery and customer satisfaction.
- Improve communication and collaboration with customers and among DOA divisions to build and support relationships.
- Provide transparency and information security in program operations.
- Promote a culture of openness, trust, diversity, and equality.
- Promote efficient use of department resources by expanding energy conservation measures and use of existing technology.

Goal 2: Create and maintain a highly qualified, professional, diverse, and responsive workforce that accurately reflects the labor force in Montana and supports the department's mission, vision, and values.

Objectives:

- Provide employees with a work environment where teamwork is paramount, ideas are rewarded, creativity and risk-taking are encouraged, and successes are celebrated.
- Encourage managers to be mentors and leadership role models to their staff.
- Promote professional growth and development opportunities through an improved employee recruitment, selection, retention and training process as outlined in the department's Workforce Development Plan.
- Assess job performance based on meaningful standards and measures.
- Create an atmosphere of openness, trust, and support so employees can readily admit mistakes, assume responsibility, and apply resources to fix problems.
- Promote work life balance.

Goal 3: Promote a safe and healthy work environment for employees to experience job satisfaction in their achievements and contributions to the agency's mission and vision.

Objectives:

- Provide ongoing safety training.
- Report accidents/incidents in an accurate and timely manner.
- Increase employees' awareness and understanding of their individual safety responsibilities.
- Reduce costs associated with accidents by maintaining an active safety program that promotes a safe and healthy work environment, and is committed to bringing injured employees back to work as quickly as possible following an injury or occupational disease.

Specific goals and objectives of the DOA divisions:

- Architecture and Engineering
- Banking and Financial Services
- Director's Office
- General Services
- Health Care and Benefits
- Risk Management and Tort Defense
- State Accounting
- State Human Resources
- State Information Technology Services

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06042	Fund Name Single Audit Review	Agency # 61010	Agency Name Administration	Program Name State Accounting Division
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Audit Review Roster Fees	5,500	5,300	5,200	1,000	22,500	22,500
Revenue from Annual Report Filing Fees	350,815	357,760	364,340	355,800	370,600	370,600
Net Fee Revenue	356,315	363,060	369,540	356,800	393,100	393,100
Other Operating Revenues	6	-	15,374	-	-	-
Total Operating Revenue	356,321	363,060	384,914	356,800	393,100	393,100
Operating Expenses:						
Personal Services	219,274	307,584	295,709	291,286	315,981	315,780
Other Operating Expenses	83,836	78,094	86,762	89,310	95,280	94,931
Total Operating Expenses	303,110	385,678	382,471	380,596	411,261	410,711
Operating Income (Loss)	53,211	(22,618)	2,443	(23,796)	(18,161)	(17,611)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	53,211	(22,618)	2,443	(23,796)	(18,161)	(17,611)
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	53,211	(22,618)	2,443	(23,796)	(18,161)	(17,611)
Total Net Assets- July 1 - As Restated	306,246	359,457	336,839	339,282	315,486	297,325
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	306,246	359,457	336,839	339,282	315,486	297,325
Net Assets- June 30	359,457	336,839	339,282	315,486	297,325	279,714
60 days of expenses (Total Operating Expenses divided by 6)	50,518	64,280	63,745	63,433	68,544	68,452

Requested Rates for Enterprise Funds

Fee/Rate Information

	Actual FY 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15	Authority
Variable fee, as follows:							
Major Fee: Local Government Report Filing Fee:							Variable fee,
Annual revenues less than \$200,000	\$0	\$0	\$0	\$0	\$0	\$0	2-7-514, MCA & ARMI 2.4.402
Annual revenues equal to or greater than \$200,000, but less than \$500,000	\$0	\$0	\$0	\$0	\$0	\$0	
Annual revenues equal to or greater than \$500,000, but less than \$1,000,000	\$435	\$435	\$435	\$435	\$435	\$435	
Annual revenues equal to or greater than \$1,000,000, but less than \$1,500,000	\$635	\$635	\$635	\$635	\$635	\$635	
Annual revenues equal to or greater than \$1,500,000, but less than \$2,500,000	\$760	\$760	\$760	\$760	\$760	\$760	
Annual revenues equal to or greater than \$2,500,000, but less than \$5,000,000	\$845	\$845	\$845	\$845	\$845	\$845	
Annual revenues equal to or greater than \$5,000,000, but less than \$10,000,000	\$890	\$890	\$890	\$890	\$890	\$890	
Annual revenues are equal to or greater than \$10,000,000, but less than \$50,000,000	\$965	\$965	\$965	\$965	\$965	\$965	
Annual revenues are equal to or greater than \$50,000,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	
Minor Fee: Auditor Roster Fee:	Annual Fee:	Annual Fee:	Annual Fee:	Annual Fee:	Annual Fee:	Annual Fee:	2-7-506, MCA & ARMI
Annual Fee	\$100	\$100	\$100	\$100	\$100	\$100	

	Actual FY10	Actual FY11	Actual FY12	Estimated FY13	Estimated FY14	Estimated FY15
Working Capital (November)	227,356	351,516	366,738	342,942	324,781	307,170

Note: Because of the timing of revenue collections, the low point on working capital for this fund is in November of each year.

*Note: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06066	Fund Name Surplus Property	Agency # 6101	Agency Name Department of Administration	Program Name General Services
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
State Surplus Property Handling Fee	647,935	463,504	365,079	451,050	402,225	414,043
Federal Surplus Property Handling Fee	14,452	12,522	11,004	13,950	12,350	12,970
Misc. Revenue	-	-	-	-	-	-
Net Fee Revenue	662,387	476,026	376,083	465,000	414,575	427,013
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	662,387	476,026	376,083	465,000	414,575	427,013
Operating Expenses:						
Personal Services	246,548	245,856	245,875	245,143	407,344	407,504
Other Operating Expenses	344,728	690,349	360,541	125,343	142,424	142,349
Total Operating Expenses	591,276	936,205	606,416	370,486	549,768	549,853
Operating Income (Loss)	71,111	(460,179)	(230,333)	94,514	(135,193)	(122,840)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(3,757)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(3,757)	-	-	-	-	-
Income (Loss) Before Operating Transfers	67,354	(460,179)	(230,333)	94,514	(135,193)	(122,840)
Contributed Capital*	408,464	281,468	390,777	465,000	465,000	465,000
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	475,818	(178,711)	160,443	559,514	329,807	342,160
Total Net Assets- July 1 - As Restated	6,735	482,553	303,842	464,285	1,023,799	1,353,606
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	6,735	482,553	303,842	464,285	1,023,799	1,353,606
Net Assets- June 30	482,553	303,842	464,285	1,023,799	1,353,606	1,695,766
60 days of expenses (Total Operating Expenses divided by 6)	98,546	156,034	101,069	61,748	91,628	91,642

The State Surplus handling fees are: If property is sold for less than \$500, the program retains the proceeds. The program retains \$500 plus 3% and unusual expenses for property sold for more than \$500. The Federal Surplus Property program fees are an allocation of freight expense and 14% of acquisition cost. This is included in the Federal Plan of Operation, which has been approved by the Federal General Services Administration.

*Inventory adjustment is a non-budgeted, non-cash expenditure. Contributed Capital is a non-budgeted, non-cash revenue.

**This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name			
06511	SABHRS	6101	Administration	State Accounting Division			
					Actual	Actual	Actual
					FY10	FY11	FY12
							Budgeted
							FY13
							Budgeted
							FY14
							Budgeted
							FY15
Operating Revenues:							
Fee revenue							
SABHRS Services							
	Net Fee Revenue				4,157,446	4,158,942	2,961,333
					3,554,526	3,388,062	3,731,090
					4,157,446	4,158,942	2,961,333
					3,554,526	3,388,062	3,731,090
Premiums							
					-	-	-
Other Operating Revenues							
					24	1,837	-
Total Operating Revenue							
					4,157,470	4,160,779	2,961,333
					3,554,526	3,388,062	3,731,090
Operating Expenses:							
Personal Services							
					1,408,878	753,628	990,910
Other Operating Expenses*							
					3,013,017	2,687,397	2,111,626
					2,473,100	2,546,291	2,471,451
Total Operating Expenses							
					4,421,895	3,441,025	3,102,536
					3,839,574	3,915,087	3,840,934
Operating Income (Loss)							
					(264,425)	719,754	(141,203)
					(285,048)	(527,025)	(109,844)
Nonoperating Revenues (Expenses):							
Gain (Loss) Sale of Fixed Assets							
					-	-	-
Federal Indirect Cost Recoveries							
					-	-	-
Other Nonoperating Revenues (Expenses)							
					-	-	-
					-	-	-
Income (Loss) Before Operating Transfers							
					(264,425)	719,754	(141,203)
					(285,048)	(527,025)	(109,844)
Contributed Capital							
					-	-	-
Operating Transfers In (Note 13)							
					-	-	-
Operating Transfers Out (Note 13)							
					-	-	-
Change in net assets							
					(264,425)	719,754	(141,203)
					(285,048)	(527,025)	(109,844)
Total Net Assets - July 1 - As Restated							
					1,161,748	897,324	1,617,078
Prior Period Adjustments							
					-	-	-
Cumulative effect of account change							
					-	-	-
Total Net Assets - July 1 - As Restated							
					1,161,748	897,324	1,617,078
					1,475,875	1,190,827	663,802
Net Assets - June 30							
					897,324	1,617,078	1,475,875
					1,190,827	663,802	553,958
60 days of expenses							
					736,982	573,504	517,089
					639,929	652,515	640,156
Requested Rates for Internal Service Funds							
Fee/Rate Information							
					Actual	Actual	Actual
					FYE 10	FYE 11	FYE 12
							Budgeted
							FY 13
							Budgeted
							FY 14
							Budgeted
							FY 15
SABHRS Services Fee							
					4,157,446	4,158,942	2,961,333
					3,554,526	3,388,062	3,731,090
Working Capital							
					688,090	1,125,460	505,849
					505,849	505,849	505,849

839,074 1,521,311 1,335,662
 (58,250.20) (95,766.45) (140,213.04)

Nonbudgetec

*Note: This analysis does not include OBEP expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06522	Fund Name SITSD Proprietary	Agency # 6101	Agency Name Department of Administration	Program Name State Information Technology Services
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue	41,430,278	40,289,866	36,988,678	39,000,000	39,600,000	39,600,000
Other Charges For Services	-	-	-	-	-	-
Net Fee Revenue	41,430,278	40,289,866	36,988,678	39,000,000	39,600,000	39,600,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	240	320	100	500	-	-
Other Operating Revenues	21,885	45,259	34,368	-	35,000	35,000
Total Operating Revenue	41,452,403	40,335,445	37,023,146	39,000,500	39,635,000	39,635,000
Operating Expenses:						
Personal Services	14,929,431	14,899,348	14,702,186	13,739,300	14,870,207	14,870,207
Other Operating Expenses	20,522,677	24,635,112	23,759,617	25,853,456	24,710,074	24,710,074
Total Operating Expenses	35,452,108	39,534,460	38,461,803	39,592,756	39,580,281	39,580,281
Operating Income (Loss)	6,000,295	800,985	(1,438,657)	(592,256)	54,719	54,719
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	696,638	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	696,638	-	-	-
Income (Loss) Before Operating Transfers	6,000,295	800,985	(742,019)	(592,256)	54,719	54,719
Contributed Capital	-	-	872,349	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	6,000,295	800,985	130,330	(592,256)	54,719	54,719
Total Net Assets- July 1 - As Restated	2,144,201	8,144,496	8,697,527	8,827,827	8,235,571	8,290,290
Prior Period Adjustments	-	(247,954)	(30)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	2,144,201	7,896,542	8,697,497	8,827,827	8,235,571	8,290,290
Net Assets- June 30	8,144,496	8,697,527	8,827,827	8,235,571	8,290,290	8,345,009
60 days of expenses (Total Operating Expenses divided by 6)	5,908,685	6,589,077	6,410,301	6,598,793	6,596,714	6,596,714
45 days of expenses (Total Operating Expenses divided by 8)	4,431,514	4,941,808	4,807,725	4,949,095	4,947,535	4,947,535

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15	Authority
State Information Technology Services Division	-	-	-	-	-	-	
Charge For Services	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	MCA 2-17 MCA 2-17

The State Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain a 30-day working capital.
Note: This analysis does not include OPEB expenses.

Operating Expenses for "Actual FY12" included the following in error:

	<u>Operating Exp</u>	<u>Personal Serv</u>
Was:	\$27,433,836	\$14,708,049
61404A State Fund Dividend-NONBUDG		5,494.30
61905 Compensated Absences-Nonbudget		(11,339.00)
62111 Capitalizable Other Serv - NB	(322,974.77)	
622A6 Capitalizable Sup & Mater - NB	(832,185.11)	
62475 Capitalizable Travel - NB	(2,996.86)	
62503 Capitalizable Rent - NB	(450,102.44)	
62763 Capitalizable Rep & Maint - NB	(249,904.00)	
62816 Bad Debt Write-Off-Nonbudgeted	(33.98)	
62887 Capitalizable Other Opr Exp NB	(53,472.61)	
63103 Autos & Trucks	(23,990.00)	
63106 Multi-User Computers & Terminals	(2,224,132.44)	
63198 NB Full Accrual Equip Offset	1,371,744.21	
Prior Year Expenses	(886,171.00)	

Should be: \$23,759,617 \$14,702,204
Ties to MBARS less equip plus depr.

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-501

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06522	Fund Name SITSD Proprietary	Agency # 6101	Agency Name Department of Administration	Program Name State Information Technology Services
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue	41,430,278	40,289,866	36,988,678	41,313,916	39,600,000	39,600,000
Other Charges For Services	-	-	-	-	-	-
Net Fee Revenue	41,430,278	40,289,866	36,988,678	41,313,916	39,600,000	39,600,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	240	320	100	500	-	-
Other Operating Revenues	21,885	45,259	34,368	-	35,000	35,000
Total Operating Revenue	41,452,403	40,335,445	37,023,146	41,314,416	39,635,000	39,635,000
Operating Expenses:						
Personal Services	14,929,431	14,899,348	14,708,049	13,739,300	14,515,237	14,523,128
Other Operating Expenses	20,522,677	24,635,112	27,433,836	25,853,456	24,962,313	24,904,986
Total Operating Expenses	35,452,108	39,534,460	42,141,885	39,592,756	39,477,550	39,428,114
 Operating Income (Loss)	 6,000,295	 800,985	 (5,118,739)	 1,721,660	 157,450	 206,886
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	696,638	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	696,638	-	-	-
 Income (Loss) Before Operating Transfers	 6,000,295	 800,985	 (4,422,101)	 1,721,660	 157,450	 206,886
Contributed Capital	-	-	872,349	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	6,000,295	800,985	(3,549,752)	1,721,660	157,450	206,886
Total Net Assets- July 1 - As Restated	2,144,201	8,144,496	8,697,527	5,147,745	6,869,405	7,026,855
Prior Period Adjustments	-	(247,954)	(30)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	2,144,201	7,896,542	8,697,497	5,147,745	6,869,405	7,026,855
Net Assets- June 30	8,144,496	8,697,527	5,147,745	6,869,405	7,026,855	7,233,741
 60 days of expenses (Total Operating Expenses divided by 6)	 5,908,685	 6,589,077	 7,023,648	 6,598,793	 6,579,592	 6,571,352
 45 days of expenses (Total Operating Expenses divided by 8)	 4,431,514	 4,941,808	 5,267,736	 4,949,095	 4,934,694	 4,928,514

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
State Information Technology Services Division	-	-	-	-	-	-
Charge For Services	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve	30-Day Working Capital Reserve

Authority
MCA 2-17
MCA 2-17

The State Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain a 30-day working capital.
Note: This analysis does not include OPEB expenses.

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2015 Biennium Report on Internal Service and Enterprise Funds

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

	Actual FY10	Actual FY11	Actual FY12	Projected FY13	Projected FY14	Projected FY15
Operating Revenues:						
Fee revenue						
Revenue from Training Fees	281,820	274,524	293,959	304,775	454,307	454,307
Net Fee Revenue	281,820	274,524	293,959	304,775	454,307	454,307
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	191	232	-	-	-	-
Total Operating Revenue	282,011	274,756	293,959	304,775	454,307	454,307
Operating Expenses:						
Personal Services	104,428	128,122	246,036	237,651	285,859	285,995
Other Operating Expenses	135,982	113,374	123,302	112,969	241,904	197,770
Total Operating Expenses	240,410	241,496	369,338	350,620	527,763	483,765
Operating Income (Loss)	41,601	33,260	(75,379)	(45,845)	(73,456)	(29,458)
Nonoperating Revenues (Expenses):						
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	41,601	33,260	(75,379)	(45,845)	(73,456)	(29,458)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	24,002	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	41,601	33,260	(51,377)	(45,845)	(73,456)	(29,458)
Total Net Assets- July 1 - As Restated	(72,492)	(30,891)	2,369	(49,008)	(94,853)	(168,309)
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	(72,492)	(30,891)	2,369	(49,008)	(94,853)	(168,309)
Net Assets- June 30	(30,891)	2,369	(49,008)	(94,853)	(168,309)	(197,767)
60 days of expenses (Total Operating Expenses divided by 6)	40,068	40,249	61,556	58,437	87,961	80,628

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

	Actual FY 10	Actual FY 11	Actual FY 12	Projected FY 13	Projected FY 14	Projected FY 15
PDC Fee per FTE	N/A	N/A	N/A	N/A	34.59	34.59
Fee Group A						
Training Services per hour						
Open Enrollment Courses						
Two-Day Course (per participant)	\$182.00	\$187.00	\$187.00	\$190.00	N/A	N/A
One-Day Course (per participant)	\$115.00	\$120.00	\$120.00	\$123.00	N/A	N/A
Half-Day Course (per participant)	\$90.00	\$93.00	\$93.00	\$95.00	N/A	N/A
Eight-Day Management Series (per participant)	\$560.00	\$565.00	\$565.00	\$570.00	N/A	N/A
Six-Day Management Series (per participant)	\$430.00	\$465.00	\$465.00	\$440.00	N/A	N/A
Four-Day Administrative Assistant Series (per participant)	\$325.00	\$330.00	\$330.00	\$333.00	N/A	N/A
Contract Courses						
Full Day Training (flat fee)	\$820.00	\$825.00	\$825.00	\$830.00	N/A	N/A
Half Day Training (flat fee)	\$560.00	\$565.00	\$565.00	\$570.00	N/A	N/A

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

Note: This analysis does not include OPEB expenses.

Authority:

MCA 2-18-102

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06528	Fund Name Rent & Maintenance	Agency # 6101	Agency Name Department of Administration	Program Name General Services
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	Actuals FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Office Rental Rate	9,528,412	8,083,543	6,757,577	8,127,453	8,070,316	7,862,673
Revenue from Warehouse Rental Rate	406,937	417,062	335,820	403,747	384,777	385,775
Revenue from Recycling Revenue	19,699	24,435	16,793	19,060	21,200	21,200
Revenue from Handyman Charges	96,231	50,867	67,659	15,426	80,000	80,000
Revenue from Project Work	128,090	227,475	114,298	25,041	210,000	210,000
Revenue from Grounds Maintenance	500,422	482,508	397,546	478,573	473,795	475,725
Net Fee Revenue	10,679,791	9,285,889	7,689,694	9,069,300	9,240,088	9,035,373
Other Operating Revenues	49	-	20,159	-	-	-
Total Operating Revenue	10,679,840	9,285,889	7,709,853	9,069,300	9,240,088	9,035,373
Operating Expenses:						
Personal Services	1,652,198	1,780,900	1,894,403	1,878,856	1,963,224	1,965,705
Other Operating Expenses	7,902,801	7,486,549	8,605,686	7,555,010	8,236,033	8,031,156
Total Operating Expenses	9,554,999	9,267,449	10,500,089	9,433,866	10,199,257	9,996,861
Operating Income (Loss)	1,124,841	18,440	(2,790,236)	(364,566)	(959,169)	(961,488)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(24,975)	4,296	269	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(24,975)	4,296	269	-	-	-
Income (Loss) Before Operating Transfers	1,099,866	22,736	(2,789,967)	(364,566)	(959,169)	(961,488)
Contributed Capital	-	-	-	-	-	-
LRBP Transfers Out	470,104	(1,555,032)	(787,845)	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	(289,000)	(289,000)
Change in net assets	1,569,970	(1,532,296)	(3,577,813)	(364,566)	(1,248,169)	(1,250,488)
Total Net Assets- July 1 - As Restated	4,268,061	5,838,031	4,305,735	727,923	363,357	(884,812)
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,268,061	5,838,031	4,305,735	727,923	363,357	(884,812)
Net Assets- June 30	5,838,031	4,305,735	727,923	363,357	(884,812)	(2,135,300)
60 days of expenses (Total Operating Expenses divided by 6)	1,592,500	1,544,575	1,750,015	1,572,311	1,699,876	1,666,144

Requested Rates for Internal Service Funds

Fee/Rate Information for Legislative Action

	Actual FYE 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Agency Number : 61010						
Fund Number: 06528						
Office Rent (per sq. ft.)	8.869	8.793	8.412	8.460	8.434	8.217
Warehouse Rent (per sq. ft.)	4.804	5.010	4.844	4.876	4.625	4.637
Grounds Maintenance (per sq. ft.)	0.541	0.509	0.494	0.494	0.491	0.493
Project Mgmt (In-house)	15%	15%	15%	15%	15%	15%
Project Mgmt (Contracted)	5%	5%	5%	5%	5%	5%

Note: This analysis does not include OPEB expenses.

Authority:

MCA 2-17-101

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06530	Fund Name Print & Mail Services	Agency # 6101	Agency Name Department of Administration	Program Name General Services
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Internal Printing	1,752,421	1,807,679	1,687,721	1,902,115	1,774,649	1,989,043
External Printing	3,801,568	3,008,249	2,739,014	2,739,014	2,739,014	2,739,014
Photocopy Pool	899,923	522,725	506,503	541,003	506,503	541,003
Mail Preparation	666,577	538,831	676,433	676,433	732,958	732,958
Mail Operations	4,735,725	4,465,030	4,305,899	4,683,749	4,469,580	4,727,801
Inter-agency (Deadhead Mail)	281,917	281,917	297,657	297,657	314,750	314,750
Postal Contract Station	38,976	38,976	38,976	38,976	38,976	38,976
Net Fee Revenue	12,177,107	10,663,407	10,252,203	10,878,947	10,576,430	11,083,545
Other Operating Revenues	7		65	-	-	-
Total Operating Revenue	12,177,114	10,663,407	10,252,268	10,878,947	10,576,430	11,083,545
Operating Expenses:						
Personal Services	1,350,421	1,364,387	1,307,139	1,514,887	1,578,440	1,579,157
Other Operating Expenses	10,765,885	9,453,818	8,794,732	9,528,356	9,453,446	9,538,458
Total Operating Expenses	12,116,306	10,818,205	10,101,871	11,043,243	11,031,886	11,117,615
Operating Income (Loss)	60,808	(154,798)	150,397	(164,296)	(455,456)	(34,070)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(78,147)	(28,395)	(28,650)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(78,147)	(28,395)	(28,650)	-	-	-
Income (Loss) Before Operating Transfers	(17,339)	(183,193)	121,747	(164,296)	(455,456)	(34,070)
Contributed Capital	-	-	32,695	-	-	-
Change in net assets	(17,339)	(183,193)	154,442	(164,296)	(455,456)	(34,070)
Total Net Assets- July 1 - As Restated	1,916,575	1,899,236	1,716,043	1,953,007	1,788,711	1,333,255
Prior Period Adjustments	-	-	82,522	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,916,575	1,899,236	1,798,565	1,953,007	1,788,711	1,333,255
Net Assets- June 30	1,899,236	1,716,043	1,953,007	1,788,711	1,333,255	1,299,185
60 days of expenses						
(Total Operating Expenses divided by 6)	2,019,384	1,803,034	1,683,645	1,840,541	1,838,648	1,852,936

Requested Rates for Internal Service Funds

Print and Mail Services requests that the Legislature approve the requested rates for FY 2014 and FY 2015 as shown.

Note: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06531	Fund Name Central Stores	Agency # 6101	Agency Name Department of Administration	Program Name General Services Division
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Central Stores Supplies	4,854,919	4,740,007	4,751,609	5,000,000	95,645	95,645
Net Fee Revenue	4,854,919	4,740,007	4,751,609	5,000,000	95,645	95,645
Other Operating Revenues	7	-	25	-	-	-
Total Operating Revenue	4,854,926	4,740,007	4,751,634	5,000,000	95,645	95,645
Operating Expenses:						
Personal Services	388,508	392,889	354,633	523,025	52,458	52,715
Other Operating Expenses	4,428,893	4,304,410	4,287,375	4,557,514	20,873	17,198
Total Operating Expenses	4,817,401	4,697,299	4,642,008	5,080,539	73,331	69,913
Operating Income (Loss)	37,525	42,708	109,626	(80,539)	22,314	25,732
Nonoperating Revenues (Expenses):						
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	37,525	42,708	109,626	(80,539)	22,314	25,732
Contributed Capital	-	-	-	-	-	-
Change in net assets	37,525	42,708	109,626	(80,539)	22,314	25,732
Total Net Assets- July 1 - As Restated	812,922	850,447	893,155	1,002,781	922,242	944,556
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	812,922	850,447	893,155	1,002,781	922,242	944,556
Net Assets- June 30	850,447	893,155	1,002,781	922,242	944,556	970,288
60 days of expenses (Total Operating Expenses divided by 6)	802,900	782,883	773,668	846,757	12,222	11,652

Requested Rates for Internal Service Funds

Fee/Rate Information

	Actual FYE 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A	-	-	-	-	-	-
Central Stores Supplies	20%	20%	20%	20%	2%	2%

Central Stores requests a maximum markup of 25% This is the same rate that was approved last biennium.

Note: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund		Fund Name	Agency #	Agency Name	Program Name		
06532	Agency Insurance Int Srv	61010	Department of Administration	Risk Management & Tort Defense			
	Actual	Actual	Actual	Budgeted	Budgeted	Budgeted	
	FY10	FY11	FY12	FY13	FY14	FY15	
Operating Revenues:							
Revenue from Fee F	-	-	-	-	-	-	
Net Fee Revenue	-	-	-	-	-	-	
Investment Earnings	76,737	82,601	27,923	7,000	7,000	7,000	
Securities Lending Income	11,741	15,517	3,051	-	-	-	
Premiums	11,757,470	11,750,214	11,736,438	11,783,206	14,033,461	14,033,461	
Other Operating Revenues	138	2,228	60	-	-	-	
Total Operating Revenue	11,846,086	11,850,560	11,767,472	11,790,206	14,040,461	14,040,461	
Operating Expenses:							
Personal Services	1,000,322	1,103,019	904,539	1,127,459	1,223,563	1,223,926	
Other Operating Expenses	10,692,129	10,330,643	43,951,709	9,263,038	15,649,321	15,614,984	
Total Operating Expenses	11,692,451	11,433,662	44,856,248	10,390,497	16,872,884	16,838,910	
Operating Income (Loss)	153,635	416,898	(33,088,776)	1,399,709	(2,832,423)	(2,798,449)	
Nonoperating Revenues (Expenses):							
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-	
Federal Indirect Cost Recoveries	-	-	-	-	-	-	
Other Nonoperating Revenues (Expenses)	235,093	227,171	120,542	169,000	169,000	169,000	
Net Nonoperating Revenues (Expenses)	235,093	227,171	120,542	169,000	169,000	169,000	
Income (Loss) Before Operating Transfers	388,728	644,069	(32,968,234)	1,568,709	(2,663,423)	(2,629,449)	
Contributed Capital	-	-	-	-	-	-	
Operating Transfers In (Note 13)	616,046	4,236,093	3,493,765	450,000	450,000	450,000	
Operating Transfers Out (Note 13)	(640,042)	(388,033)	(135,547)	-	-	-	
Change in net assets	364,732	4,492,129	(29,610,016)	2,018,709	(2,213,423)	(2,179,449)	
Total Net Assets- July 1 - As Restated	7,627,890	7,992,622	12,484,751	(17,125,265)	(15,106,556)	(17,319,979)	
Prior Period Adjustments	-	-	-	-	-	-	
Cumulative effect of account change	-	-	-	-	-	-	
Total Net Assets - July 1 - As Restated	7,627,890	7,992,622	12,484,751	(17,125,265)	(15,106,556)	(17,319,979)	
Net Assets- June 30	7,992,622	12,484,751	(17,125,265)	(15,106,556)	(17,319,979)	(19,499,428)	
60 days of expenses (Total Operating Expenses divided by 6)	1,948,742	1,905,610	7,476,041	1,731,750	2,812,147	2,806,485	
Requested Rates for Internal Service Funds							
Fee/Rate Information							
	Actual	Actual	Actual	Budgeted	Budgeted	Budgeted	Authority
	FYE 10	FYE 11	FYE 12	FY 13	FY 14	FY 15	
Premium							
Auto/Comp/Collision	1,043,146	1,044,540	1,031,347	1,037,665	1,248,500	1,248,500	MCA 2-9-202
Aviation	212,450	212,451	212,451	212,451	169,961	169,961	MCA 2-9-202
General Liability	6,749,999	6,750,000	6,750,000	6,750,000	7,575,000	7,575,000	MCA 2-9-202
Property/Miscellaneous	3,747,424	3,731,312	3,733,020	3,783,090	5,040,000	5,040,000	MCA 2-9-202
Total	11,753,019	11,738,303	11,726,818	11,783,206	14,033,461	14,033,461	MCA 2-9-202

Note: This analysis does not include OPEB expenses.

Requested Rates for Director's Office (Management Services)

Fee/Rate	Actual FY 2010	Actual FY 2011	Actual FY 2012	Budgeted FY 2013	Budgeted FY 2014	Budgeted FY 2015
Human resources portion of program (annually per FTE)	\$553	\$567	\$633	\$570	\$606	\$603
Remaining portion of the program (fixed amount for allocation)	\$1,002,940	\$1,016,821	\$1,009,516	\$902,951	\$1,269,878	\$1,269,231

Human Resource	574 337681 633.2627 1009516 903354 106162 31601 137763
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2015 Biennium Report on Internal Service and Enterprise Funds

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

	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Fee F	295,515	542,163	499,565	-	-	-
Net Fee Revenue	295,515	542,163	499,565	-	-	-
Investment Earnings	2,396,146	748,208	1,098,874	1,800,000	1,200,000	1,300,000
Securities Lending Income	40,629	46,784	61,265	960,000	-	-
Premiums	130,513,833	152,804,584	152,006,589	188,000,000	165,000,000	175,000,000
Other Operating Revenues	3,647,677	4,067,351	2,497,367	1,600,000	2,020,000	2,270,000
Total Operating Revenue	136,893,800	158,209,090	156,163,660	192,360,000	168,220,000	178,570,000
Operating Expenses:						
Personal Services	914,125	1,023,297	1,365,905	1,416,688	1,315,575	1,318,363
Other Operating Expenses	134,010,968	140,488,999	145,983,925	171,666,338	171,173,042	185,189,587
Total Operating Expenses	134,925,093	141,512,296	147,349,830	173,083,026	172,488,617	186,507,950
Operating Income (Loss)	1,968,707	16,696,794	8,813,830	19,276,974	(4,268,617)	(7,937,950)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	1,968,707	16,696,794	8,813,830	19,276,974	(4,268,617)	(7,937,950)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	1,968,707	16,696,794	8,813,830	19,276,974	(4,268,617)	(7,937,950)
Total Net Assets- July 1 - As Restated	40,901,745	42,870,452	60,039,221	67,921,274	87,198,248	82,929,631
Prior Period Adjustments	-	471,975	(931,777)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	40,901,745	43,342,427	59,107,444	67,921,274	87,198,248	82,929,631
Net Assets- June 30	42,870,452	60,039,221	67,921,274	87,198,248	82,929,631	74,991,681
60 working days of expenses (Total Operating Expenses divided by 6)	22,487,516	23,585,383	24,558,305	28,847,171	28,748,103	31,084,658

Requested Rates for Internal Service Funds

Fee/Rate Information for Legislative Action

	Actual FYE 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A						
State share per employee per month	\$653	\$706	733	733	n/a	n/a

Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for each fiscal year. Rates for FY 2014 and 2015 have not been determined at this time.

Authority

MCA 2-18-701 et seq

2015 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 Resource Division

	Actual FY10	Actual FY11	Actual FY12	Projected FY13	Projected FY14	Projected FY15
Operating Revenues:						
Fee revenue						
Revenue from HRIS Fees	4,265,937	3,658,895	2,835,394	3,309,455	3,299,768	3,320,064
Revenue from HRIS SABHRS	-	-	-	-	-	-
Revenue from Transfers from Benefits	-	-	-	-	-	-
Revenue from Miscellaneous Service Fees	-	-	-	-	-	-
Net Fee Revenue	4,265,937	3,658,895	2,835,394	3,309,455	3,299,768	3,320,064
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	4,265,937	3,658,895	2,835,394	3,309,455	3,299,768	3,320,064
Operating Expenses:						
Personal Services	1,764,283	1,370,340	1,520,347	1,598,895	1,643,939	1,647,553
Other Operating Expenses	1,991,037	1,826,150	1,623,486	1,750,442	1,648,461	1,591,190
Total Operating Expenses	3,755,320	3,196,490	3,143,833	3,349,337	3,292,400	3,238,743
Operating Income (Loss)	510,617	462,405	(308,439)	(39,882)	7,368	81,321
Nonoperating Revenues (Expenses):						
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	510,617	462,405	(308,439)	(39,882)	7,368	81,321
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	(49,667)	-	-	-
Change in net assets	510,617	462,405	(358,106)	(39,882)	7,368	81,321
Total Net Assets- July 1 - As Restated	4,105	514,722	977,127	619,021	579,139	586,507
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,105	514,722	977,127	619,021	579,139	586,507
Net Assets- June 30	514,722	977,127	619,021	579,139	586,507	667,828
60 working days of expenses (Total Operating Expenses divided by 6)	625,887	532,748	523,972	558,223	548,733	539,791

Requested Rates for Internal Service Funds

Fee/Rate Information for Legislative Action

	Actual FY 10	Actual FY 11	Actual FY 12	Projected FY 13	Projected FY 14	Projected FY 15
Fee Group A						
HRIS fees (per employee processed per pay period)	\$9.37	\$8.04	\$8.06	\$8.10	\$8.13	\$8.15

Health Resources Information Services (HRIS) rates have been established under the authority of 2-18-401, MCA, and 2-18-403, MCA. Projected HRIS expenditures anticipated for the 2013 biennium are distributed as a fixed cost fee to the Health Care Benefits Division for services rendered by HRIS to support benefit operations associated with managing the state's payroll system; and as a fixed cost rate to state agencies based on an estimated average number of payroll warrants/advises per pay period per agency. The agencies' payroll warrant/advice counts are based upon FY 2009 and FY 2010 data.

Note: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06564	Fund Name Warrant Writing	Agency # 61010	Agency Name Administration	Program Name Adminstrative Financial Services
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	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Warrant Writing Fees	994,227	828,939	680,596	950,000	700,000	700,000
Net Fee Revenue	994,227	828,939	680,596	950,000	700,000	700,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	994,227	828,939	680,596	950,000	700,000	700,000
Operating Expenses:						
Personal Services	206,612	208,892	203,233	194,627	212,331	212,040
Other Operating Expenses	699,856	621,535	539,231	726,594	609,008	585,470
Total Operating Expenses	906,468	830,427	742,464	921,221	821,339	797,510
Operating Income (Loss)	87,759	(1,488)	(61,868)	28,779	(121,339)	(97,510)
Nonoperating Revenues (Expenses):						
Income (Loss) Before Operating Transfers	87,759	(1,488)	(61,868)	28,779	(121,339)	(97,510)
Contributed Capital	-	-	-	-	-	-
Change in net assets	87,759	(1,488)	(61,868)	28,779	(121,339)	(97,510)
Total Net Assets- July 1 - As Restated	135,758	223,517	56,835	(5,033)	23,746	(97,593)
Prior Period Adjustments	-	(165,194)	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	135,758	58,323	56,835	(5,033)	23,746	(97,593)
Net Assets- June 30	223,517	56,835	(5,033)	23,746	(97,593)	(195,103)
60 days of expenses (Total Operating Expenses divided by 6)	151,078	138,405	123,744	153,537	136,890	132,918

Authority

	Actual FY10	Actual FY11	Actual FY12	Estimated FY13	Estimated FY14	Estimated FY15
Fiscal Year End Working Capital	211,001	79,189	41,320	52,291	58,208	56,466

Note: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06575	Worker's Comp Mgmt	61010	Department of Administration	Health Care and Benefits Division

	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Administrative Fees	450,946	186,234	195,159	388,298	296,302	297,317
Net Fee Revenue	450,946	186,234	195,159	388,298	296,302	297,317
Premiums	-	-	-	-	-	-
Other Operating Revenues	42	18	48	-	-	-
Total Operating Revenue	450,988	186,252	195,207	388,298	296,302	297,317
Operating Expenses:						
Personal Services	194,314	228,051	262,118	213,899	249,093	249,093
Other Operating Expenses	92,990	52,293	41,680	44,560	47,209	48,224
Total Operating Expenses	287,304	280,344	303,798	258,459	296,302	297,317
Operating Income (Loss)	163,684	(94,092)	(108,591)	129,839	-	-
Nonoperating Revenues (Expenses):						
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	163,684	(94,092)	(108,591)	129,839	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	163,684	(94,092)	(108,591)	129,839	-	-
Total Net Assets- July 1 - As Restated	(4,766)	158,918	64,826	(43,765)	86,074	86,074
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	(4,766)	158,918	64,826	(43,765)	86,074	86,074
Net Assets- June 30	158,918	64,826	(43,765)	86,074	86,074	86,074
60 days of expenses (Total Operating Expenses divided by 6)	35,913	35,043	37,975	32,307	37,038	37,165

**Requested Rates for Enterprise Funds
Fee/Rate Information**

	Actual FYE 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A						
Administrative Fee (per payroll warrant per pay period)	\$1.29	\$1.06	\$1.09	\$1.08	\$0.82	\$0.82

Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.

Note: Prior to fiscal year 2010, the program expenditures were included in the General Fund.

Note also: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06575	Worker's Comp Mgmt	61010	Department of Administration	Health Care and Benefits Division

	Actual FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Administrative Fees	450,946	186,234	195,159	388,298	296,302	297,317
Net Fee Revenue	450,946	186,234	195,159	388,298	296,302	297,317
Premiums	-	-	-	-	-	-
Other Operating Revenues	42	18	48	-	-	-
Total Operating Revenue	450,988	186,252	195,207	388,298	296,302	297,317
Operating Expenses:						
Personal Services	194,314	228,051	262,118	213,899	249,093	249,093
Other Operating Expenses	86,096	42,343	41,680	44,560	47,209	48,224
Total Operating Expenses	280,410	270,394	303,798	258,459	296,302	297,317
Operating Income (Loss)	170,578	(84,142)	(108,591)	129,839	-	-
Nonoperating Revenues (Expenses):						
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	170,578	(84,142)	(108,591)	129,839	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	170,578	(84,142)	(108,591)	129,839	-	-
Total Net Assets- July 1 - As Restated	(4,766)	165,812	81,670	(26,921)	102,918	102,918
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	(4,766)	165,812	81,670	(26,921)	102,918	102,918
Net Assets- June 30	165,812	81,670	(26,921)	102,918	102,918	102,918
60 days of expenses (Total Operating Expenses divided by 6)	35,051	33,799	37,975	32,307	37,038	37,165

**Requested Rates for Enterprise Funds
Fee/Rate Information**

	Actual FYE 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Fee Group A						
Administrative Fee (per payroll warrant per pay period)	\$1.29	\$1.06	\$1.09	\$1.08	\$0.82	\$0.82

Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.

Note: Prior to fiscal year 2010, the program expenditures were included in the General Fund.

Note also: This analysis does not include OPEB expenses.

2015 Biennium Report on Internal Service and Enterprise Funds

Fund 06528	Fund Name Rent & Maintenance	Agency # 6101	Agency Name Department of Administration	Program Name General Services
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	Actuals FY10	Actual FY11	Actual FY12	Budgeted FY13	Budgeted FY14	Budgeted FY15
Operating Revenues:						
Fee revenue						
Revenue from Office Rental Rate	9,528,412	8,083,543	6,757,577	8,127,453	8,070,316	7,862,673
Revenue from Warehouse Rental Rate	406,937	417,062	335,820	403,747	384,777	385,775
Revenue from Recycling Revenue	19,699	24,435	16,793	19,060	21,200	21,200
Revenue from Handyman Charges	96,231	50,867	67,659	15,426	80,000	80,000
Revenue from Project Work	128,090	227,475	114,298	25,041	210,000	210,000
Revenue from Grounds Maintenance	500,422	482,508	397,546	478,573	473,795	475,725
Net Fee Revenue	10,679,791	9,285,889	7,689,694	9,069,300	9,240,088	9,035,373
Other Operating Revenues	49	-	20,159	-	-	-
Total Operating Revenue	10,679,840	9,285,889	7,709,853	9,069,300	9,240,088	9,035,373
Operating Expenses:						
Personal Services	1,652,198	1,780,900	1,894,403	1,878,856	1,963,224	1,965,705
Other Operating Expenses	7,902,801	7,486,549	8,605,686	7,555,010	6,999,608	6,782,825
Total Operating Expenses	9,554,999	9,267,449	10,500,089	9,433,866	8,962,832	8,748,530
Operating Income (Loss)	1,124,841	18,440	(2,790,236)	(364,566)	277,256	286,843
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(24,975)	4,296	269	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(24,975)	4,296	269	-	-	-
Income (Loss) Before Operating Transfers	1,099,866	22,736	(2,789,967)	(364,566)	277,256	286,843
Contributed Capital	-	-	-	-	-	-
LRBP Transfers Out	470,104	(1,555,032)	(787,845)	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	(243,800)	(240,000)
Change in net assets	1,569,970	(1,532,296)	(3,577,813)	(364,566)	33,456	46,843
Total Net Assets- July 1 - As Restated	4,268,061	5,838,031	4,305,735	727,923	363,357	396,813
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,268,061	5,838,031	4,305,735	727,923	363,357	396,813
Net Assets- June 30	5,838,031	4,305,735	727,923	363,357	396,813	443,656
60 days of expenses (Total Operating Expenses divided by 6)	1,592,500	1,544,575	1,750,015	1,572,311	1,493,805	1,458,088

Requested Rates for Internal Service Funds

Fee/Rate Information for Legislative Action

	Actual FYE 10	Actual FY 11	Actual FY 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Agency Number : 61010						
Fund Number: 06528						
Office Rent (per sq. ft.)	8.869	8.793	8.412	8.460	8.434	8.217
Warehouse Rent (per sq. ft.)	4.804	5.010	4.844	4.876	4.625	4.637
Grounds Maintenance (per sq. ft.)	0.541	0.509	0.494	0.494	0.491	0.493
Project Mgmt (In-house)	15%	15%	15%	15%	15%	15%
Project Mgmt (Contracted)	5%	5%	5%	5%	5%	5%

Note: This analysis does not include OPEB expenses.

Authority:

MCA 2-17-101

SITSD Cost
FY 2012 Expenditures in MBARS

	Data Network Serv	Storage Hosting	Server Hosting	Web Hosting	Application Hosting	Email	Imaging	Content Management	Operational Support	Web Services	Installation	Application Development	Web Development	Enterprise Services	Professional Services	PMO Services	Equipment Hosting	GIS Services	Asset Broker	Pass Thru	Telephone Equipment	Data Circuit	Voice Services	Video Services	Network Services	Pass-through NTSB	Long Distance	Sponsored Training	ITSD Fixed Costs	Authority Total
Legislative Branch	\$0	\$5,455	\$55,384	\$0	\$56,059	\$17,989	\$0	\$0	\$0	\$48,320	\$0	\$297	\$0	\$78,764	\$279	\$2,050	\$0	\$0	\$56,737	\$0	\$0	\$0	\$32,138	\$4,473	\$67,565	\$0	\$2,441	\$0	\$0	\$427,951
Consumer Council	0	0	0	0	2	350	0	0	21	0	2,710	0	0	2,764	0	0	0	0	3,035	0	0	0	1,990	0	7,406	0	283	0	0	18,561
Judicial Branch	0	1,158	40,118	0	31,309	37,486	16,803	1,200	0	16,509	0	0	0	351,904	1,031	0	0	0	158,264	0	0	0	31,062	232,618	609,090	0	7,270	0	0	1,535,822
Governor's Office	0	782	8,423	0	8,319	16,404	0	600	0	19,727	0	0	0	34,158	167	60	3,553	0	29,202	0	0	0	27,603	6,127	28,374	0	6,666	0	0	190,165
Secretary of State - HB 2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Secretary of State - Proprietary	0	9,682	39,076	0	78,665	6,107	11,837	0	1,910	23,297	0	0	0	31,782	2,030	0	0	0	31,625	0	0	0	23,587	0	27,421	1,352	3,556	0	0	291,927
Commissioner of Political Practices	0	117	10,093	0	4,535	412	4,572	600	21	9,308	1,885	149	0	2,539	28	0	0	0	6,186	0	0	0	0	0	2,888	337	307	0	0	43,977
State Auditor's Office	0	196	0	0	5,885	5,477	0	0	0	0	0	0	0	38,620	0	0	0	0	26,026	0	0	0	48,031	0	38,666	0	7,855	0	0	170,756
Office of Public Instruction - HB 2	0	3,028	88,336	0	15,872	0	11,543	0	0	24,315	0	0	0	0	3,732	760	0	0	1,927	0	0	0	12,435	1,278	0	0	17,088	635	0	180,949
Office of Public Instruction - Proprietary	0	420	3,079	0	615	12,920	0	600	0	0	0	0	0	85,673	0	0	0	0	1,024	0	0	0	58,188	8,947	54,416	0	953	0	0	226,835
Board of Crime Control	0	2,151	22,251	0	4,226	2,036	0	0	76	16,110	2,141	0	0	9,279	556	0	0	0	11,170	0	0	0	6,423	4,072	10,635	0	1,217	0	0	92,343
Department of Justice - HB 2	25	107,835	28,146	0	268,461	73,856	193,306	0	0	9,308	0	0	99	477,146	17,792	4,510	339	0	260,635	0	0	0	294,072	4,473	1,095,368	0	51,240	0	0	2,886,611
Department of Justice - Proprietary	0	0	0	0	0	831	0	0	0	0	0	0	0	10,802	0	0	0	0	5,001	0	0	0	4,175	0	6,325	0	607	0	0	27,741
Department of Justice - Statutory	0	0	0	0	0	57	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	641	0	0	0	114	0	0	813
Public Service Commission	0	0	0	0	5	3,708	0	0	0	0	0	0	0	18,424	0	0	339	0	8,092	0	0	0	9,927	0	10,343	0	2,096	0	0	52,934
Board of Public Education	0	0	0	0	2	180	0	0	7	0	0	0	0	2,303	0	0	0	0	10,473	0	0	0	919	0	5,712	0	182	0	0	19,778
Commissioner of Higher Education - HB 2	0	370	0	0	2,102	31	0	0	0	0	0	0	0	0	0	0	0	0	2,900	0	0	0	36,488	43	1,546	0	14,511	0	0	57,991
Commissioner of Higher Education - Proprietary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,491	0	0	0	762	0	0	4,253
School for the Deaf and Blind	0	0	0	0	(27)	0	0	0	0	0	0	0	0	5,489	0	0	0	0	42	0	0	0	5,928	0	10,387	0	1,657	0	0	23,476
Montana Arts Council	0	0	0	0	1,844	2,500	0	0	32	0	1,737	0	0	50	3,685	0	0	0	4,112	0	0	0	2,910	0	9,292	0	823	0	0	26,985
Montana State Library - HB 2	0	0	2,841	0	0	3,911	0	0	0	0	0	0	0	31,782	0	0	0	0	62,783	0	0	0	16,596	0	35,165	0	3,734	0	0	156,812
Montana State Library - Proprietary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,000	0	1	0	0	2,001
Montana Historical Society - HB 2	0	0	786	0	1,747	3,911	6,008	0	246	0	0	0	198	30,389	0	0	0	0	21,194	0	0	0	17,071	0	20,427	120	2,201	0	0	104,298
Montana Historical Society - Statutory	0	0	0	0	0	301	0	0	0	0	0	0	0	871	0	0	0	0	693	0	0	0	345	0	410	0	187	0	0	2,807
Department of Fish, Wildlife, & Parks - HB 2	0	7,774	33,269	0	36,454	37,486	20,815	0	21,797	15,584	0	0	0	286,958	7,674	1,250	7,320	0	251,330	0	0	0	95,166	3,735	523,359	409	54,505	0	0	1,404,885
Department of Fish, Wildlife, & Parks - Proprietary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	182	0	0	183
Department of Environmental Quality - HB 2	0	803	0	0	24,994	1,830	0	0	0	0	0	347	0	163,004	0	2,940	0	0	175,627	0	0	0	223	0	162,990	0	0	0	0	532,758
Department of Environmental Quality - Proprietary	0	2,475	34,249	0	43,657	4,703	0	600	0	19,317	0	2,148	0	26,812	2,046	3,790	3,050	11,100	37,910	0	0	0	140,674	9,147	27,185	0	42,541	0	0	411,404
Department of Transportation - HB 2	0	2,785	1,908	0	10,668	110,560	0	0	0	0	0	0	0	1,002,281	0	0	21,691	1,600	563,084	0	0	0	207,694	62,628	1,600,876	4,529	178,334	0	0	3,768,638
Department of Transportation - Proprietary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,927	0	0	0	1,092	0	0	4,019
Department of Livestock	0	1,587	11,362	0	11,593	6,081	0	0	0	23,417	0	0	0	35,597	1,811	0	0	0	26,034	0	0	0	16,465	0	39,383	2,368	7,041	0	0	182,739
Department of Natural Resources - HB 2	0	33,287	67,817	0	58,294	34,559	80,404	600	0	61,196	0	0	3,168	267,816	2,765	2,050	0	4,600	237,281	0	0	0	73,008	49,208	483,722	0	51,584	0	0	1,511,359
Department of Natural Resources - Proprietary	0	0	0	0	0	0	0	0	0	0	0	0	0	9,011	0	0	0	0	0	0	0	0	1,653	0	0	0	357	0	0	11,021
Department of Revenue - HB 2	0	105,087	415,424	0	133,305	46,653	0	600	24,740	177,589	0	0	990	305,116	12,706	2,500	8,540	133	208,839	0	0	0	224,679	54,782	682,969	0	44,537	1,270	0	2,450,459
Department of Revenue - Proprietary	0	0	0	0	0	223	0	0	0	0	0	0	0	1,461	0	0	0	0	694	0	0	0	973	0	3,387	0	195	0	0	6,933
Department of Revenue - Statutory	0	0	0	0	0	30	0	0	0	0	0	0	0	188	0	0	0	0	91	0	0	0	0	0	0	0	0	0	0	309
Department of Administration - HB 2	0	2,701	25,748	0	23,105	13,594	992	244	442	14,694	73,707	0	47,417	69,459	71,218	5,680	0	0	39,581	0	0	0	46,733	1,073	65,191	0	9,944	710	0	512,233
Department of Administration - Proprietary	0	39,182	364,062	0	177,932	14,538	4,852	305	43,352	168,897	64,813	282,151	60,667	67,276	417,591	8,730	0	0	57,642	0	0	7,741	60,454	0	81,985	0	6,650	674	0	1,929,494
Department of Administration - Statutory	0	0	0	0	0	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4
Office of the Public Defender	0	265	22,427	0	7,508	14,932	0	0	705	3,846	0	0	0	100,285	2,343	150	0	0	48,172	0	0	0	26,922	2,984	257,745	27,878	47,076	450	0	563,688
Department of Agriculture - HB 2	0	260	16,400	0	11,436	6,290	0	0	0	17,572	0	0	0	46,033	686	0	0	0	42,239	37	0	0	23,619	0	83,544	0	9,179	0	0	257,295
Department of Agriculture - Statutory	0	0	0	0	0	395	0	0	0	0	0	0	0	2,414	0	0	0	0	3,293	0	0	0	1,908	0	1,452	0	339	0	0	9,800
Department of Corrections - HB 2	0	2	2,497	0	5,545	59,572	0	600	0	0	0	0	0	544,438	0	0	6,100	0	280,307	0	0	0	119,897	59,325	554,125	17,550	58,465	0	0	1,708,423
Department of Corrections - Proprietary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	560	1,680	0	0	1,647	0	0	3,887
Department of Corrections - Statutory	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8,946	0	0	0	0	0	8,946
Department of Commerce - HB 2	0	62	1,857	0	1,601	3,556	19	60	5	3,059	0	0	248	22,986	651	0	800	23,322	0	0	0	19,151	36	16,119	0	3,356	0	0	96,888	
Department of Commerce - Proprietary	0	6,585	10,069	0	22,182	11,830	38,610	550	154	9,586	12,718	0	5,049	40,688	196	1,520	0	0	39,086	0	0	0	32,527	0	37,399	0	8,066	0	0	276,815
Department of Commerce - Statutory	0	45	7,404	0	445	2,770	127	26	0	3,796	0	0	4,653	27,187	2,859	1,970	0	0	35,379	0	0	0	21,408	(36)	35,344	18	4,715	0	0	148,110
Department of Labor and Industry - HB 2	0	73,420	337,609	0	553,530	57,306	226,811	0	31,573	74,172	122	73,383	5,396	364,991	19,496	4,850	0	934	438,108	0	0	0	297,481	1,653	612,574	5,309	121,856	0	0	3,300,574
Department of Labor and Industry - Proprietary	0	486	0	0	5,372	5,531	0	0	2,723	141	0	0	0	31,92																

	Data Network Serv	Storage Hosting	Server Hosting	Web Hosting	Application Hosting	Email	Imaging	Content Management	Operational Support	Web Services	Application Installation	Web Development	Enterprise Services	Professional Services	PMO Services	Equipment Hosting	GIS Services	Asset Broker	Pass Thru	Telephone Equipment	Data Circuit	Voice Services	Video Services	Network Services	Pass-through NTSSB	Long Distance	Sponsored Training	ITSD Fixed Costs	Total	
Legislative Branch	0	5,455	55,384	0	56,059	17,989	0	0	0	0	0	297	0	78,764	279	2,050	0	0	56,737	0	0	31,974	4,473	67,565	0	2,233	0	76,105	455,364	
Consumer Council	0	0	0	0	2	350	0	0	21	0	2,710	0	0	2,764	0	0	0	0	3,035	0	0	1,990	0	7,406	0	283	0	(880)	17,681	
Judicial Branch	0	1,158	40,118	0	31,310	37,486	16,803	1,200	0	16,509	0	0	0	351,904	1,031	0	0	0	158,264	0	0	32,189	232,618	609,090	0	7,505	0	248,505	1,785,690	
Governor's Office	0	1,513	8,423	0	8,318	16,404	0	600	324	19,727	0	0	0	36,287	167	600	3,553	0	29,202	0	0	27,603	6,127	28,374	0	6,666	0	0	193,888	
Secretary of State	0	4,682	39,076	0	78,665	6,109	11,837	0	1,909	23,297	0	0	0	31,782	2,030	0	0	0	31,625	25,297	0	23,587	0	27,422	1,352	3,556	0	(18,750)	293,477	
Commissioner of Political Practices	0	117	10,093	0	4,535	412	4,572	600	21	9,308	1,885	149	0	2,539	28	0	0	0	6,186	0	0	0	0	0	337	307	0	0	28,226	
State Auditor's Office	0	196	0	0	5,885	5,477	0	0	0	0	0	0	0	38,620	0	0	0	0	26,026	0	0	48,431	0	38,666	0	7,955	0	57,283	228,539	
Office of Public Instruction	0	3,447	97,674	0	16,487	12,920	11,543	600	0	24,315	0	0	0	85,673	3,732	760	0	0	2,950	0	0	70,623	10,224	54,416	20,791	0	635	12,637	429,428	
Board of Crime Control	0	2,151	22,251	0	4,226	2,036	0	0	0	16,110	0	0	0	9,279	0	0	0	0	11,170	0	0	6,423	4,072	10,635	0	1,217	0	(14,747)	74,823	
Department of Justice	25	107,914	28,145	0	268,540	74,744	193,306	0	0	9,308	0	0	99	487,948	17,792	4,510	339	0	265,636	0	0	309,969	0	1,101,693	9,380	52,386	0	467,975	3,399,709	
Public Service Commission	0	0	0	0	5	3,708	0	0	0	0	0	0	0	18,424	0	0	339	0	8,092	0	0	9,927	0	10,343	0	2,096	0	8,988	61,923	
Board of Public Education	0	0	0	0	2	180	0	0	7	0	0	0	0	2,303	0	0	0	0	10,474	0	0	919	0	5,712	0	182	0	0	19,779	
Commissioner of Higher Education	0	370	0	0	2,102	31	0	0	0	0	0	0	0	0	0	0	0	0	2,900	0	0	39,979	43	1,546	0	15,273	0	3,177	65,420	
School for the Deaf and Blind	0	0	0	0	(27)	0	0	0	0	0	0	0	0	5,489	0	0	0	0	42	0	0	5,928	0	10,387	0	1,657	0	13,827	37,303	
Montana Arts Council	0	0	0	0	1,843	2,502	0	0	32	0	1,738	0	50	3,685	0	0	0	0	4,112	0	0	2,908	0	9,290	0	823	0	9,627	36,610	
Montana State Library	0	0	2,841	0	0	3,911	0	0	0	0	0	0	0	31,782	0	0	0	0	62,783	0	0	16,596	0	38,465	0	4,235	0	193,420	354,033	
Montana Historical Society	0	0	786	0	1,747	4,212	6,008	0	246	0	0	0	198	31,260	0	0	0	0	21,887	0	0	17,416	0	20,837	120	2,388	0	(3,462)	103,643	
Department of Fish, Wildlife, & Parks	0	7,775	33,269	0	36,454	37,486	20,815	0	21,797	15,584	0	0	0	286,958	7,674	1,250	7,320	0	251,330	0	0	95,167	3,735	523,359	409	54,687	53	(244,728)	1,160,396	
Department of Environmental Quality	0	3,277	34,249	0	30,498	33,526	1,830	600	0	19,317	0	5,495	0	195,324	2,046	6,737	3,050	11,100	216,801	0	0	140,898	9,147	190,175	0	42,541	0	167,557	1,114,168	
Department of Transportation	0	2,785	1,908	0	10,668	110,560	0	0	0	0	0	0	0	1,002,281	0	0	21,691	1,600	563,084	0	0	210,621	62,628	1,600,876	4,529	179,435	1,100	294,788	4,068,553	
Department of Livestock	0	1,587	11,362	0	11,593	6,081	0	0	0	23,417	0	0	0	35,597	1,811	0	0	0	26,034	0	0	16,465	0	39,383	2,368	7,041	0	(2,537)	180,202	
Department of Natural Resources	0	37,351	102,112	0	61,397	34,596	80,404	600	1,485	61,196	3,400	0	3,168	276,827	2,765	2,050	0	4,600	237,281	0	0	75,076	49,208	484,209	0	52,313	0	24,417	1,594,455	
Department of Revenue	0	105,087	415,424	0	133,305	46,905	0	0	24,740	177,589	0	0	990	306,764	12,705	2,500	8,540	133	209,624	0	0	225,653	54,782	686,357	592	44,732	1,270	39,757	2,498,051	
Department of Administration	0	41,877	386,108	0	200,721	27,640	5,844	529	43,760	183,591	136,597	282,151	107,816	132,309	488,809	14,410	0	0	95,279	0	0	7,741	107,142	1,073	139,255	0	16,594	1,385	428,803	2,849,434
Montana State Fund	0	50	0	0	385	21,750	0	0	0	0	0	0	0	149,697	0	760	0	0	108,682	0	0	344	0	161,177	0	15,665	0	0	458,509	
Public Employees' Retirement*	0	17,217	12,280	0	134,344	7,851	0	0	210	8,785	0	0	0	18,885	836	4,050	0	0	16,387	0	0	19,710	0	23,079	0	4,787	0	0	268,421	
Teachers' Retirement*	0	182	846	0	1,367	1,511	0	0	0	837	0	0	0	8,291	306	300	2,826	0	3,642	0	0	7,841	0	8,551	0	2,129	0	0	38,626	
Office of the Public Defender	0	263	22,426	0	7,508	14,932	0	0	705	3,846	0	0	0	100,285	2,343	150	0	0	48,172	0	0	26,922	2,984	257,745	27,878	47,076	450	76,307	639,992	
Department of Agriculture	0	260	16,400	0	11,436	6,685	0	0	0	17,572	0	0	0	48,447	686	0	0	0	45,532	37	0	25,527	0	84,996	0	9,518	0	(21,886)	245,210	
Department of Corrections	0	2	25,065	0	5,546	59,572	0	600	0	0	0	0	0	544,438	0	6,100	0	280,307	0	1,340	560	125,232	68,276	554,125	17,550	61,002	0	(6,337)	1,743,378	
Department of Commerce	0	6,692	19,330	0	24,228	18,156	38,756	636	159	16,441	0	12,718	9,950	90,861	3,706	2,490	0	800	97,787	0	0	73,086	0	88,862	18	16,337	0	35,173	556,186	
Department of Labor and Industry	0	73,880	337,609	0	558,843	62,311	226,811	0	33,987	74,297	122	73,383	5,396	393,278	19,498	5,000	7,320	934	482,173	0	0	315,879	1,653	642,625	5,309	124,308	0	144,874	3,589,490	
Department of Military Affairs	0	209	266	0	179	2,199	0	0	0	0	0	0	0	18,422	0	0	0	0	12,428	0	0	13,644	0	19,095	0	5,062	0	64,012	135,516	
Department of Public Health and Human Services	0	314,129	108,060	2	2,036,903	167,245	27,457	0	5,912	27,611	0	1,312	0	1,261,142	23,524	11,771	23,131	0	796,008	0	0	922,073	9,767	1,751,285	17,610	231,578	0	(268,492)	7,468,028	
Total	\$25	\$739,625	#####	\$2	#####	\$847,477	\$645,986	\$6,565	\$135,316	\$748,658	\$146,452	\$375,505	\$127,667	#####	\$591,769	\$59,388	\$84,209	\$19,167	#####	\$25,334	\$1,340	\$8,301	#####	\$520,809	#####	\$108,243	#####	\$4,893	\$1,813,639	#####

Difference from FY 2012 Expenditures
 * Not budgeted in MBARS used actuals

	Data Network Serv	Storage Hosting	Server Hosting	Web Hosting	Application Hosting	Email	Imaging	Content Management	Operational Support	Web Services	Application Installation	Web Development	Enterprise Services	Professional Services	PMO Services	Equipment Hosting	GIS Services	Asset Broker	Pass Thru	Telephone Equipment	Data Circuit	Voice Services	Video Services	Network Services	Pass-through NTSB	Long Distance	Sponsored Training	ITSD Fixed Costs	Total	
Legislative Branch	0	5,455	55,384	0	56,059	17,989	0	0	0	0	0	297	0	78,764	279	2,050	0	0	56,737	0	0	31,974	4,473	67,565	0	2,233	0	208,755	588,014	
Consumer Council	0	0	0	0	2	350	0	0	21	0	2,710	0	0	2,764	0	0	0	0	3,035	0	0	1,990	0	7,406	0	283	0	(880)	17,681	
Judicial Branch	0	1,158	40,118	0	31,310	37,486	16,803	1,200	0	16,509	0	0	0	351,904	1,031	0	0	0	158,264	0	0	32,189	232,618	609,090	0	7,505	0	248,505	1,785,690	
Governor's Office	0	1,513	8,423	0	8,318	16,404	0	600	324	19,727	0	0	0	36,287	167	600	3,553	0	29,202	0	0	27,603	6,127	28,374	0	6,666	0	0	193,888	
Secretary of State	0	4,682	39,076	0	78,665	6,109	11,837	0	1,909	23,297	0	0	0	31,782	2,030	0	0	0	31,625	25,297	0	0	23,587	0	27,422	1,352	3,556	0	(18,750)	293,477
Commissioner of Political Practices	0	117	10,093	0	4,535	412	4,572	600	21	9,308	1,885	149	0	2,539	28	0	0	0	6,186	0	0	0	0	0	337	307	0	0	28,226	72,203
State Auditor's Office	0	196	0	0	5,885	5,477	0	0	0	0	0	0	0	38,620	0	0	0	0	26,026	0	0	48,431	0	38,666	0	7,955	0	58,013	229,269	
Office of Public Instruction	0	3,447	97,674	0	16,487	12,920	11,543	600	0	24,315	0	0	0	85,673	3,732	760	0	0	2,950	0	0	70,623	10,224	54,416	20,791	0	635	12,637	429,428	
Board of Crime Control	0	2,151	22,251	0	4,226	2,036	0	0	0	16,110	0	0	0	9,279	0	0	0	0	11,170	0	0	0	6,423	4,072	10,635	0	1,217	0	(14,747)	74,823
Department of Justice	25	107,914	28,145	0	268,540	74,744	193,306	0	0	9,308	0	0	99	487,948	17,792	4,510	339	0	265,636	0	0	309,969	0	1,101,693	9,380	52,386	0	505,307	3,437,041	
Public Service Commission	0	0	0	0	5	3,708	0	0	0	0	0	0	0	18,424	0	0	339	0	8,092	0	0	9,927	0	10,343	0	2,096	0	8,988	61,923	
Board of Public Education	0	0	0	0	2	180	0	0	7	0	0	0	0	2,303	0	0	0	0	10,474	0	0	919	0	5,712	0	182	0	0	19,779	
Commissioner of Higher Education	0	370	0	0	2,102	31	0	0	0	0	0	0	0	0	0	0	0	0	2,900	0	0	39,979	43	1,546	0	15,273	0	3,177	65,420	
School for the Deaf and Blind	0	0	0	0	(27)	0	0	0	0	0	0	0	0	5,489	0	0	0	0	42	0	0	5,928	0	10,387	0	1,657	0	13,827	37,303	
Montana Arts Council	0	0	0	0	1,843	2,502	0	0	32	0	1,738	0	0	3,685	0	0	0	0	4,112	0	0	2,908	0	9,290	0	823	0	9,627	36,610	
Montana State Library	0	0	2,841	0	0	3,911	0	0	0	0	0	0	0	31,782	0	0	0	0	62,783	0	0	16,596	0	38,465	0	4,235	0	193,556	354,169	
Montana Historical Society	0	0	786	0	1,747	4,212	6,008	0	246	0	0	0	198	31,260	0	0	0	0	21,887	0	0	17,416	0	20,837	120	2,388	0	(3,462)	103,643	
Department of Fish, Wildlife, & Parks	0	7,775	33,269	0	36,454	37,486	20,815	0	21,797	15,584	0	0	0	286,958	7,674	1,250	7,320	0	251,330	0	0	95,167	3,735	523,359	409	54,687	53	(244,728)	1,160,396	
Department of Environmental Quality	0	3,277	34,249	0	30,498	33,526	1,830	600	0	19,317	0	5,495	0	195,324	2,046	6,737	3,050	11,100	216,801	0	0	140,898	9,147	190,175	0	42,541	0	167,557	1,114,168	
Department of Transportation	0	2,785	1,908	0	10,668	110,560	0	0	0	0	0	0	0	1,002,281	0	0	21,691	1,600	563,084	0	0	210,621	62,628	1,600,876	4,529	179,435	1,100	175,891	3,949,656	
Department of Livestock	0	1,587	11,362	0	11,593	6,081	0	0	0	23,417	0	0	0	35,597	1,811	0	0	0	26,034	0	0	16,465	0	39,383	2,368	7,041	0	(2,538)	180,201	
Department of Natural Resources	0	37,351	102,112	0	61,397	34,596	80,404	600	1,485	61,196	0	0	3,168	276,827	2,765	2,050	0	4,600	237,281	0	0	75,076	49,208	484,209	0	52,313	0	24,407	1,591,045	
Department of Revenue	0	105,087	415,424	0	133,305	46,905	0	600	24,740	177,589	0	0	990	306,764	12,705	2,500	8,540	133	209,624	0	0	225,653	54,782	686,357	592	44,732	1,270	39,757	2,498,051	
Department of Administration	0	41,877	386,108	0	200,721	27,640	5,844	529	43,760	183,591	136,597	282,151	107,816	132,309	488,809	14,410	0	0	95,279	0	0	107,142	1,073	139,255	0	16,594	1,385	428,803	2,849,434	
Montana State Fund	0	50	0	0	385	21,750	0	0	0	0	0	0	0	149,697	0	760	0	0	108,682	0	0	344	0	161,177	0	15,665	0	0	458,509	
Public Employees' Retirement*	0	17,217	12,280	0	134,344	7,851	0	0	210	8,785	0	0	0	18,885	836	4,050	0	0	16,387	0	0	19,710	0	23,079	0	4,787	0	0	268,421	
Teachers' Retirement*	0	182	846	0	1,367	1,511	0	0	0	837	0	0	0	8,291	306	300	2,826	0	3,642	0	0	7,841	0	8,551	0	2,129	0	0	38,626	
Office of the Public Defender	0	263	22,426	0	7,508	14,932	0	0	705	3,846	0	0	0	100,285	2,343	150	0	0	48,172	0	0	26,922	2,984	257,745	27,878	47,076	450	76,307	639,992	
Department of Agriculture	0	260	16,400	0	11,436	6,685	0	0	0	17,572	0	0	0	48,447	686	0	0	0	45,532	37	0	25,527	0	84,996	0	9,518	0	(21,887)	245,209	
Department of Corrections	0	2	2,497	0	5,546	59,572	0	600	0	0	0	0	0	544,438	0	0	6,100	0	280,307	0	1,340	560	125,232	68,276	554,125	17,550	61,002	0	(6,337)	1,720,810
Department of Commerce	0	6,692	19,330	0	24,228	18,156	38,756	636	159	16,441	0	12,718	9,950	90,861	3,706	2,490	0	800	97,787	0	0	73,086	0	88,862	18	16,337	0	35,173	556,186	
Department of Labor and Industry	0	73,880	337,609	0	558,843	62,311	226,811	0	33,987	74,297	122	73,383	5,396	393,278	19,498	5,000	7,320	934	482,173	0	0	315,879	1,653	642,625	5,309	124,308	0	324,276	3,768,892	
Department of Military Affairs	0	209	266	0	179	2,199	0	0	0	0	0	0	0	18,422	0	0	0	0	12,428	0	0	13,644	0	19,095	0	5,062	0	64,012	135,516	
Department of Public Health and Human Services	0	314,129	108,060	2	2,036,903	167,245	27,457	0	5,912	27,611	0	1,312	0	1,261,142	23,524	11,771	23,131	0	796,008	0	0	922,073	9,767	1,751,285	17,610	231,578	0	(294,947)	7,441,573	
Total	\$25	\$739,625	#####	\$2	#####	\$847,477	\$645,986	\$6,565	\$135,316	\$748,658	\$143,052	\$375,505	\$127,667	#####	\$591,769	\$59,388	\$84,209	\$19,167	#####	\$25,334	\$1,340	\$8,301	#####	\$520,809	#####	\$108,243	#####	\$4,893	\$2,018,525	#####

Difference from FY 2012 Expenditures

* Not budgeted in MBARS used actuals



Montana Legislative Services Division
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July 11, 2012

TO: Kris Wilkinson

FROM: Julie Johnson, Legal Services Office

RE: Legal Analysis Regarding Administrative Costs for the State Employee Group Benefit Plan

You have asked me to review § 2-18-812, MCA, and § 17-8-101, MCA, and determine which statute controls with regard to administrative costs of the State Employee Group Benefit Plan (SEGBP). I have framed the question as follows:

Question Presented

- 1. Whether § 2-18-812, MCA, requires that administrative costs related to the State Employee Group Benefit Plan be made from temporary appropriations, as described in 17-7-501, MCA.**

Short Answer

Yes, § 2-18-812, MCA, specifically provides that costs for the administration of SEGBP be made from temporary appropriations. While § 17-8-101(2), MCA, generally allows for funds to be disbursed if a subclass is established on the Statewide Accounting, Budgeting and Human Resource System (SABHRS), § 2-18-812, MCA, controls because it identifies a particular legislative intent with regard to administrative costs related to SEGBP.

Law

Pursuant to § 2-18-814, MCA, the Department of Administration "shall include the costs of administering and negotiating state employee group benefit plans established under this part. . . as part of the cost for state employee group benefits." Costs of administration of SEBPG are further discussed in § 2-18-812(4), MCA, which provides:

The department shall deposit income earned from the investment of a state employee group benefit plan's reserve fund into the account established under subsection (3) in order to offset the costs of administering the plan. Expenditures for actual and necessary expenses required for the efficient administration of the plan must be made from temporary appropriations, as described in 17-7-501(1) or (2), made for that purpose.

Under Montana law, temporary appropriations can be made either by the Legislature as part of designated appropriation bills or sections designated as appropriations in other bills (§ 17-7-

501(1), MCA) or by valid budget amendment (§ 17-7-501(2), MCA).

Section 17-8-101(2), MCA, governs the appropriation and disbursement of money from the treasury. This subsection provides that:

. . . money deposited in the enterprise fund type, debt service fund type, internal service fund type, private purpose trust fund type, agency fund type, and state special revenue fund from nonstate and nonfederal sources restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation, may be paid out of the treasury:

- (a) by appropriation; or
- (b) under general laws, or contracts entered into in pursuance of law, permitting the disbursement if a subclass is established on the state financial system.

Analysis

It has been suggested that § 17-8-101(2)(b), MCA, allows for administrative costs for SEGBP to be paid out of the treasury as long as a subclass for administration costs has been established on SABHRS. The Health Care and Benefits Division (HCBBD) has created such a subclass.

While § 17-8-101(2)(b), MCA, may appear to authorize payment for the administrative costs of SEGBP to the HCBBD, this interpretation ignores the plain language of § 2-18-812(4), MCA, which specifically contemplates the funding of administrative costs for SEGBP.

First, general rules of statutory construction provide that when a general and particular provision are inconsistent, the particular provision is superior to the general, so that a particular legislative intent will control a general intent to the extent that there is any opposition between them. Section 1-2-102, MCA; State v. Placzkiewicz, 2001 MT 254, ¶ 18, 307 Mont. 189, ¶ 18, 36 P.3d 934, ¶ 18; State v. Dept. of Public Service Regulation, 181 Mont. 225, 592 P.2d 34 (1979). While the two statutes at hand, § 2-18-812, MCA, and § 17-8-101(2)(b), MCA, do not appear to be inconsistent, if they were, § 2-18-812, MCA, would control because it identifies a particular legislative intent with regard to the funding of administrative costs specifically for SEGBP. Section 17-8-101(2)(b), MCA, does not.

Furthermore, even when two statutes are consistent, as here, "[p]articulate expressions qualify those which are general." § 1-3-225, MCA; Powder River County v. State, 2002 MT 259, ¶ 63, 312 Mont. 198, ¶ 63, 60 P.3d 357, ¶ 63. Again, § 2-18-812, MCA, is a particular expression relative to the administrative costs of SEGBP, and as such it qualifies the more general terms of § 17-8-101(2)(b), MCA.

Finally, Montana law prefers "[a]n interpretation which gives effect" over "one which makes void." § 1-3-232, MCA. Therefore, the interpretation that § 17-8-101(2)(b), MCA, authorizes

payment for the administrative costs of SEBGP to the HCBD makes § 2-18-812(4), MCA, meaningless and void.

Conclusion

Based on the foregoing analysis of the facts, § 2-18-812(4), MCA, requires that administrative costs related to the SEBGP be made from temporary appropriations, either by the Legislature as part of designated appropriation bills, such as House Bill 2, by sections designated as appropriations in other bills, or by valid budget amendment. Section 17-8-101(2)(b), MCA, does not provide authority for the funding of administrative costs related to SEBPG regardless of whether a specific subclass has been established in SABHRS.

I hope this analysis adequately addresses your question. Please let me know if you have any followup inquiries.

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



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May 18, 2012

Honorable Jim Peterson, Senate President
Honorable Mike Milburn, Speaker of the House
Montana Legislative Branch
P.O. Box 201706
Helena, MT 59620-1706

RE: State of Montana Employee Health Centers

Dear Senator Peterson and Representative Milburn:

I am responding to your letter dated April 23, 2012, to Russ Hill, Administrator of the Department's Health Care and Benefits Division. My response is organized topically, and addresses all your questions related to transparency, scope of services, and financial consideration.

As you know, Governor Schweitzer has asked agencies to focus on finding efficiencies and cost savings. The administration has saved or collected more than \$162 million including:

- **\$4 million** from State Vehicle Reduction
- **\$3 million** negotiating historically low interest rates for outstanding bonds
- **\$79 million** in audit collections by the Department of Revenue
- **\$40 million** in 5% budget reductions
- **\$800,000** biennium savings by extending computer replacement cycle to five years
- **\$3.4 million** renegotiating lease rates for commercial space rented by the state
- **\$11,000** in savings from Governor and Lt. Governor salary decrease
- **\$6 million** in savings from cancelled building projects across the state
- **\$450,000** in estimated savings through efficiency steps taken by the Department of Livestock in the implementation of the Brucellosis Action Plan
- **\$400,000** by rescreening aggregate and using the surplus and obsolete material, rather than crushing new material
- **\$18 million** cancelling the new unemployment insurance (UI) contribution computer system

- **\$4.5 million** cancelling renovations of the unused Receiving Hospital Building on the Montana State Hospital Campus
- **\$2 million** in savings by state government by suspending some wildfire-related equipment purchases and fuels reduction projects in 2010
- **\$600,000** not bailing out Swank Enterprises' clean-up liabilities
- **\$380,000** over the biennium with the elimination of the RDO positions in Commerce
- **\$131,000** in savings from Department of Revenue printing fewer tax booklets
- **\$20,000** in estimated saving by not printing a state phone directory
- **\$155,000** by opening new virtual offices overseas
- **\$150,000** by partnering with Montana University System to reduce IT costs

As a result of these savings, Montana currently has \$497 million in the bank and has been one of only a handful of states to maintain a budget surplus during the recession.

In fact, because of good fiscal leadership by Governor Schweitzer, Montana has maintained record budget surpluses for the last seven years, averaging \$411 million cash balance during that period.

Governor Schweitzer and the State of the Montana continue to challenge every expense. Health Centers are another way to reduce costs for employees and taxpayers, while providing a more efficient, higher quality service. Based on an independent actuarial analysis of the CareHere proposal for the Helena clinic, Montana could save over \$100 million over five years once clinics are up and running statewide. Those savings are why some of the largest Fortune 500 companies like Google, Intel, and Cisco have turned to employee clinics.

Background

The State of Montana is required by statute to establish a program to provide State employees with health benefits. The Department of Administration, through the Health Care and Benefits Division (HCBD), administers the program for State employees, legislators, retirees, and their dependents. The State Employee Health Plan (State Plan) is a self-funded plan with the benefits, rates, and programs designed by the HCBD in conjunction with the State Employee Group Benefits Advisory Council (SEGBAC).

Without any significant increases in revenues, HCBD set about identifying ways to reduce health care costs. HCBD is implementing several programs to reduce health care cost increases. These include implementing new care management programs for chronic health conditions, new wellness programs to help employees stay healthy, new benefit designs, and the development of on-site employee health centers.

Even with the changes being implemented by HCBD, additional funding is needed just to keep up with increasing health care costs. During 2011 the health care trend

for the State Plan had a 12.7% increase; we anticipate increases in future years between 10% and 13% if nothing is done to mitigate cost increases.

HCBD is also responsible for the operational aspects of the State Plan, including interacting with thousands of State employees each year. We hear from State employees about the burden of increasing health care costs, and difficulties in accessing care in a timely manner. Therefore, we evaluated ways to reduce costs and improve access to primary health care and determined that a Health Center is the best method to accomplish both of these goals.

Authority

Title 2, Chapter 18, Parts 7 & 8 of the Montana Code Annotated provides the authority and guidance for the Department of Administration to operate the State Plan for the benefit of State employees, legislators, retirees, and their dependents. Of particular interest are the following components:

- The State Plan is required to operate in an efficient and affordable manner. The Health Centers accomplish both of these requirements.
- The State Plan is required to operate in an actuarially sound manner including maintaining adequate reserves. Attachment A is the latest completed report from our independent actuary that demonstrates that the State Plan is being operated in an actuarially sound manner. The development of on-site employee Health Centers will reduce costs and improve the financial performance of the State Plan in accordance with the requirement to operate in an actuarially sound manner.
- The State Plan has an advisory council (SEGBAC) to provide advice prior to negotiating contracts. HCBD presented information to SEGBAC at its February 28, 2012, meeting. Additionally, all SEGBAC meetings are conducted in accordance with the public meeting laws and the discussion about the Health Centers was transparent.
- The Department of Administration through HCBD is authorized to enter into contracts for the operation of the State Plan.

Procurement laws

The State of Montana procurement laws were followed during the procurement of services for the Health Centers. Several important aspects of the procurement laws are outlined below:

- The underlying purposes of the Montana Procurement Act are to ensure consistent administration of the procurement process, increase public confidence in the procurement process, ensure fair and equitable treatment of all persons seeking to do business with the State of Montana, maximize the value of the public funds, and provide safeguards to ensure quality and integrity in the procurement process. The solicitation of proposals for the Health Center met all the requirements of the procurement laws.

- In order to operate the Health Centers, HCBBD sought competitive proposals from all interested parties. The question has been raised about negotiating directly with local providers to operate the Health Centers. This is not possible because of the procurement laws. Additionally, the procurement laws also prohibit giving preference based on residency.
- The procurement process is very transparent. The scoring of proposals and interviews of candidates are conducted in public meetings, following the public meetings laws. During this solicitation the Department of Administration conducted seven public meetings.
- The Request for Proposal (RFP) for the Health Centers was designed to provide flexibility and efficiency for the development of the Health Centers in multiple locations. As such, the proposals are flexible allowing for each Health Center to be designed with the specific community's needs in mind. The RFP was efficient in that it requested services and pricing that may be required in the future to meet the demands of the patients. In short, the RFP was designed to ensure the State Plan is operating efficiently and effectively.

Services sought

As described in the RFP, HCBBD sought to contract with one company to provide services for all Health Centers throughout Montana. The Health Centers would be an option for employees, legislators, and their dependents; there is no requirement that employees use the Health Centers. The RFP did seek a variety of services that may be offered during the initial operations, or later in the development of the Health Centers. The reason for requesting a wide variety of services was to help HCBBD operate as efficiently as possible. The RFP also stated that each Health Center would be unique, and the specific services offered at each center would vary and would be outlined prior to beginning operations.

According to the RFP, the contractor was requested to describe how they would provide for all the services sought, including primary health care, acute and episodic health care (including hospitalization), wellness services, health screenings, pharmacy services, and other services (including radiology and laboratory services) depending on the State's needs. The RFP also allowed for the contractor to provide alternative means to provide these services, including contracting with other providers. All of the proposers described how they would provide all of the requested services and also alternative approaches for several services, including alternatives for radiology and laboratory services.

Financial considerations

Health Centers are proven to save money for health plans throughout the United States. Health Centers save money by reducing the cost of providing services, and by reducing long-term costs by improving health care outcomes through better care coordination and wellness activities. Historically, medical services have been reimbursed on a fee-for-service basis, meaning the more services that are provided,

the higher the revenues are for providers. The Health Center contractor would be reimbursed based on fixed contracted fees resulting in lower overall costs to the State Plan compared to the current reimbursement methods.

Based on the proposals we received, the Health Centers should result in savings both in terms of lower per-unit costs of operating the Health Centers compared to the current fee for service reimbursement, and lower costs by improving the overall health of State employees and providing assistance in the management of chronic diseases. Attachment B contains the financial projections prepared by HCBD (assumes savings from only the Health Center), and the financial projections from two of the RFP responses. Under both projections, the Health Center is projected to reduce costs for the State Plan, and for State employees who use the Health Center.

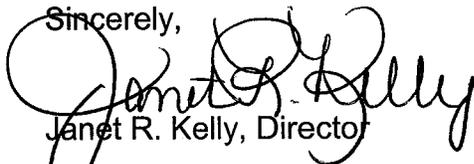
The State Plan's initial investment to achieve these savings is projected to be less than \$500,000, and the first-year savings are projected to repay the investment and generate savings. This type of investment that reduces health care costs now, and in the future, is sustainable and will help the State Plan for many years to come.

To summarize, this information:

- The Department of Administration issued the RFP for the Health Centers in accordance with the applicable procurement laws and the requirements that the State Plan be operated in the most efficient and effective manner possible.
- The HCBD's process has been very transparent in sharing information with the public, including holding eight public meetings related to the Health Centers, beginning in February 2012 and continuing through May 2012.
- The proposed services sought by this proposal are well thought-out, and allow for the efficient operations of Health Centers in the future.
- The savings from Health Centers will provide much-needed relief from ever-increasing health care costs, thereby providing assistance to ensure the long-term success and sustainability of the State Plan.

A frequently-asked-questions document is provided as Attachment C, which should address any other questions you may have.

Sincerely,



Janet R. Kelly, Director

Attachments: 3

cc: Governor Brian Schweitzer
Members of the Montana House of Representatives and State Senate
Susan Byorth Fox

Attachment A

State of Montana Employee Group Benefits Plan

Financial Report for Plan Year Ending
December 31, 2011



Prepared by Actuaries Northwest, LLC

Attachment A

February 17, 2012

Employee Group Benefits Advisory Council
Health Care and Benefits Division
100 North Park, Suite 320
Helena, MT 59620



Re: Financial Report - January 2011 through December 2011

Dear Council Members,

The attached report provides a review of claims experience and financial operation of the Medical, Prescription Drug and Dental programs. Data presented includes data for Plan Year 2011 as well as historical data from Plan Year 2010. The first few pages contain claim and enrollment charts and tables.

Exhibit I outlines plan participation.

Exhibit II and Exhibit III compare income and expense on an aggregate and per capita basis, for the medical plans (combined and separately) and the dental plan.

Exhibit IV illustrates income and claims expense for participants under the combined medical plans, by Actives and Retirees.

Projection A and Projection B illustrate actual PY2009-PY2011 revenue and expenses, followed by annual projected PY2012-PY2014 revenue, expenses, and annual operating surplus/deficit on a per participant basis and in total. Projection A uses 8% medical trend and 10% Rx trend assumptions. Projection B uses 11% medical trend and 13% Rx trend assumptions.

Annualized benefit cost changes for claims paid are as follows:

Comparison of Medical, Rx and Dental Monthly Per-Capita Claims Costs				
Benefit	Jan 11 - Dec 11	Jan 10 - Dec 10	Percentage Change	
Medical	\$ 524.40	\$ 471.35	11.3%	
Rx	\$ 126.41	\$ 106.34	18.9%	
Combined	\$ 650.81	\$ 577.70	12.7%	
Dental	\$ 37.18	\$ 36.83	0.9%	

Please call if you have any questions.

Sincerely,

A handwritten signature in black ink that reads 'Kelly Grebinsky'.

Kelly Grebinsky, FSA, MAAA, FCA
Principal

Enclosure

Attachment A

Financial Status Summary - Fourth Quarter 2011

Update of State of Montana revenues and expenses:

- Revenues exceeded expenses for the medical plans by 10.0% for the calendar year, including Medicare Part D reimbursements. Medical expenses per eligible are up 8.8% from January through December 2010.
- The dental plan claims experience shows revenue exceeding expenses by 11.6%. For 2011, the loss ratio was targeted to be near 100%.
- For the calendar year, the CHO Medical Plans had low claims experience with a loss ratio of 82.7%. The Traditional Plan had a loss ratio of 102.1%. These loss ratios reflect the minor shift in enrollment towards managed care, as well as expected risk selection between plans.
- Actives are running a medical loss ratio of 84.0%, compared to 81.2% a year ago. Retirees are running a loss ratio of 103.3% compared to 127.9% a year ago.
- The loss ratio for Early Retirees is 147.6% compared to 177.5% a year ago, while Medicare Retirees experienced a loss ratio of 72.6% compared to 92.3% a year ago.

Reserves and fund balance status:

- Fund balance continues to exceed estimated incurred but not reported (IBNR) claim reserves, and currently fall roughly \$4.7 million above recommended reserves.

Report Date	Projected Year End IBNR*	Projected Year End General Reserves	Projected Year End Fund Balance	Recommended Reserves**	Difference
12/31/2010	\$ 13,110,000	\$ 37,317,766	\$ 50,427,766	\$ 52,890,000	\$ (2,462,234)
3/31/2011	\$ 14,100,000	\$ 51,358,795	\$ 65,458,795	\$ 54,890,000	\$ 10,568,795
6/30/2011	\$ 14,300,000	\$ 54,758,379	\$ 69,058,379	\$ 55,690,000	\$ 13,368,379
9/30/2011	\$ 14,100,000	\$ 52,219,014	\$ 66,319,014	\$ 56,590,000	\$ 9,729,014
12/31/2011	\$ 13,970,000	\$ 48,821,235	\$ 62,791,235	\$ 58,060,000	\$ 4,731,235

* IBNR is the IBNR reserve plus the grandfathered benefit reserve.

** Based on actuarial recommendation as of December 31, 2011

Attachment A

Exhibit I: Eligible Participants

Month	Medical				Total	Dental
	Active	Cobra	Retired <65	Retired 65+		
January 2011	12,871	43	815	2,476	16,204	15,655
February 2011	12,789	42	853	2,466	16,148	15,615
March 2011	12,821	41	835	2,476	16,173	15,639
April 2011	12,861	40	828	2,474	16,203	15,690
May 2011	12,875	36	810	2,483	16,202	15,677
June 2011	12,793	37	803	2,488	16,120	15,599
July 2011	12,776	39	802	2,494	16,109	15,593
August 2011	12,711	43	809	2,500	16,063	15,552
September 2011	12,681	42	806	2,499	16,028	15,521
October 2011	12,673	46	807	2,493	16,018	15,518
November 2011	12,713	49	802	2,499	16,062	15,564
December 2011	12,736	44	792	2,506	16,077	15,581
Total	153,296	499	9,758	29,851	193,404	187,200
Average	12,775	42	813	2,488	16,117	15,600
January 1, 2010 to December 31, 2010	12,877	43	840	2,493	16,253	15,692
Percent Change	-0.8%	-2.3%	-3.2%	-0.2%	-0.3%	-0.6%
Average by Plan PY2011						
Traditional	4,612	19	499	2,269	7,399	
Indemnity Total	4,612	19	499	2,269	7,399	
BCBSMT HMO	5,759	13	207	123	6,101	
PEAK HMO	-	-	-	-	-	
NWHP HMO	2,404	9	108	95	2,617	
CHO Total	8,163	22	315	219	8,718	
January 1, 2010 to December 31, 2010						
Traditional	4,775	15	499	2,304	7,593	
Indemnity Total	4,775	15	499	2,304	7,593	
BCBSMT HMO	5,730	13	212	97	6,052	
PEAK HMO	91	1	4	1	96	
NWHP HMO	2,281	15	125	91	2,512	
CHO Total	8,102	29	341	189	8,660	
Percent Change						
Traditional	-3.4%	26.7%	-0.1%	-1.5%	-2.6%	
CHO	0.7%	-24.1%	-7.6%	15.9%	0.7%	

Notes:

Percentage change calculated on YTD average enrollment.
Some figures may not add due to rounding.

Attachment A

Exhibit II: Income & Expense by Combined Medical Plans & Dental Plan

Category	January 1, 2011 through September 30, 2011		October 1, 2011 through December 31, 2011		January 1, 2011 through December 31, 2011		January 1, 2010 through December 31, 2010		January 1, 2009 through December 31, 2009	
	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible
Medical Plan										
Average Eligible	16,139		16,052		16,117		16,253		16,257	
Contributions	\$ 106,468,148	\$ 733.01	\$ 34,728,467	\$ 721.17	\$ 141,196,615	\$ 730.06	\$ 128,150,669	\$ 657.06	\$ 115,695,204	\$ 593.06
Interest Income	\$ 986,943	\$ 6.79	\$ 327,896	\$ 6.81	\$ 1,314,839	\$ 6.80	\$ 1,166,843	\$ 5.98	\$ 1,283,649	\$ 6.58
Total Revenue	\$ 107,455,091	\$ 739.81	\$ 35,056,363	\$ 727.97	\$ 142,511,454	\$ 736.86	\$ 129,317,512	\$ 663.04	\$ 116,978,853	\$ 599.64
Expenses:										
Medical Claims	\$ 74,542,797	\$ 513.21	\$ 26,877,924	\$ 558.14	\$ 101,420,721	\$ 524.40	\$ 91,931,427	\$ 471.35	\$ 86,702,502	\$ 444.44
Rx Claims	\$ 17,739,938	\$ 122.14	\$ 6,708,489	\$ 139.31	\$ 24,448,428	\$ 126.41	\$ 20,740,814	\$ 106.34	\$ 25,599,657	\$ 131.23
Medicare Part D	\$ (3,333,671)	\$ (22.95)	\$ -	\$ -	\$ (3,333,671)	\$ (17.24)	\$ -	\$ -	\$ (3,399,592)	\$ (17.43)
Managed Care	\$ 80,331	\$ 0.55	\$ 43,354	\$ 0.90	\$ 123,685	\$ 0.64	\$ 340,631	\$ 1.75	\$ 531,143	\$ 2.72
Wellness / DM	\$ 452,814	\$ 3.12	\$ 294,576	\$ 6.12	\$ 747,390	\$ 3.86	\$ 1,121,462	\$ 5.75	\$ 1,089,656	\$ 5.59
Payroll Services	\$ 255,646	\$ 1.76	\$ 85,771	\$ 1.78	\$ 341,417	\$ 1.77	\$ 159,484	\$ 0.82	\$ 605,980	\$ 3.11
Admin / Operating	\$ 4,295,059	\$ 29.57	\$ 1,504,493	\$ 31.24	\$ 5,799,552	\$ 29.99	\$ 5,828,658	\$ 29.88	\$ 6,627,307	\$ 33.97
Total Expenses	\$ 94,032,914	\$ 647.40	\$ 35,514,607	\$ 737.49	\$ 129,547,522	\$ 669.83	\$ 120,122,475	\$ 615.89	\$ 117,756,652	\$ 603.63
Estimated Operating Addition / (Deficit)	\$ 13,422,177	\$ 92.41	\$ (458,244)	\$ (9.52)	\$ 12,963,933	\$ 67.03	\$ 9,195,037	\$ 47.14	\$ (777,799)	\$ (3.99)
Dental Plan										
Average Eligible	15,615		15,554		15,600		15,692		15,688	
Contributions	\$ 6,440,813	\$ 45.83	\$ 2,135,118	\$ 45.76	\$ 8,575,931	\$ 45.81	\$ 8,428,317	\$ 44.76	\$ 8,435,179	\$ 44.81
Interest Income	\$ 58,341	\$ 0.42	\$ 20,159	\$ 0.43	\$ 78,500	\$ 0.42	\$ 76,742	\$ 0.41	\$ 93,589	\$ 0.50
Total Revenue	\$ 6,499,154	\$ 46.24	\$ 2,155,277	\$ 46.19	\$ 8,654,431	\$ 46.23	\$ 8,505,059	\$ 45.17	\$ 8,528,768	\$ 45.31
Expenses:										
Dental Claims	\$ 5,234,674	\$ 37.25	\$ 1,725,753	\$ 36.98	\$ 6,960,427	\$ 37.18	\$ 6,935,934	\$ 36.83	\$ 7,023,141	\$ 37.31
Payroll Services	\$ 28,406	\$ 0.20	\$ 9,530	\$ 0.20	\$ 37,936	\$ 0.20	\$ 17,721	\$ 0.09	\$ 67,331	\$ 0.36
Admin / Operating	\$ 572,282	\$ 4.07	\$ 186,052	\$ 3.99	\$ 758,334	\$ 4.05	\$ 782,930	\$ 4.16	\$ 728,358	\$ 3.87
Total Expenses	\$ 5,835,362	\$ 41.52	\$ 1,921,335	\$ 41.18	\$ 7,756,697	\$ 41.44	\$ 7,736,586	\$ 41.09	\$ 7,818,830	\$ 41.53
Estimated Operating Addition / (Deficit)	\$ 663,792	\$ 4.72	\$ 233,942	\$ 5.01	\$ 897,734	\$ 4.80	\$ 768,473	\$ 4.08	\$ 709,938	\$ 3.77
Total										
Contributions	\$ 112,908,961	\$ 778.84	\$ 36,863,585	\$ 766.92	\$ 149,772,546	\$ 775.87	\$ 136,578,986	\$ 701.82	\$ 124,130,383	\$ 637.87
Interest Income	\$ 1,045,284	\$ 7.21	\$ 348,055	\$ 7.24	\$ 1,393,339	\$ 7.22	\$ 1,243,585	\$ 6.39	\$ 1,377,238	\$ 7.08
Total Revenue	\$ 113,954,245	\$ 786.05	\$ 37,211,640	\$ 774.16	\$ 151,165,885	\$ 783.09	\$ 137,822,571	\$ 708.21	\$ 125,507,621	\$ 644.94
Expenses:										
Medical Claims	\$ 97,517,409	\$ 672.60	\$ 35,312,166	\$ 734.43	\$ 132,829,576	\$ 687.99	\$ 119,608,175	\$ 614.53	\$ 119,325,299	\$ 612.97
Medicare Part D	\$ (3,333,671)	\$ (22.95)	\$ -	\$ -	\$ (3,333,671)	\$ (17.24)	\$ -	\$ -	\$ (3,399,592)	\$ (17.43)
Payroll Services	\$ 284,052	\$ 1.96	\$ 95,301	\$ 1.99	\$ 379,363	\$ 1.97	\$ 177,205	\$ 0.91	\$ 673,311	\$ 3.46
Other Costs	\$ 5,400,486	\$ 37.31	\$ 2,028,475	\$ 42.25	\$ 7,428,961	\$ 38.54	\$ 8,073,681	\$ 41.54	\$ 8,976,464	\$ 46.15
Total Expenses	\$ 99,868,276	\$ 688.92	\$ 37,435,942	\$ 778.67	\$ 137,504,219	\$ 711.27	\$ 127,659,062	\$ 656.98	\$ 125,575,483	\$ 645.16
Estimated Operating Addition / (Deficit)	\$ 14,085,969	\$ 97.13	\$ (224,302)	\$ (4.50)	\$ 13,861,667	\$ 71.83	\$ 9,963,509	\$ 51.23	\$ (67,861)	\$ (0.22)

Notes:

Some figures may not add due to rounding.

Rx Claims are net of rebates.

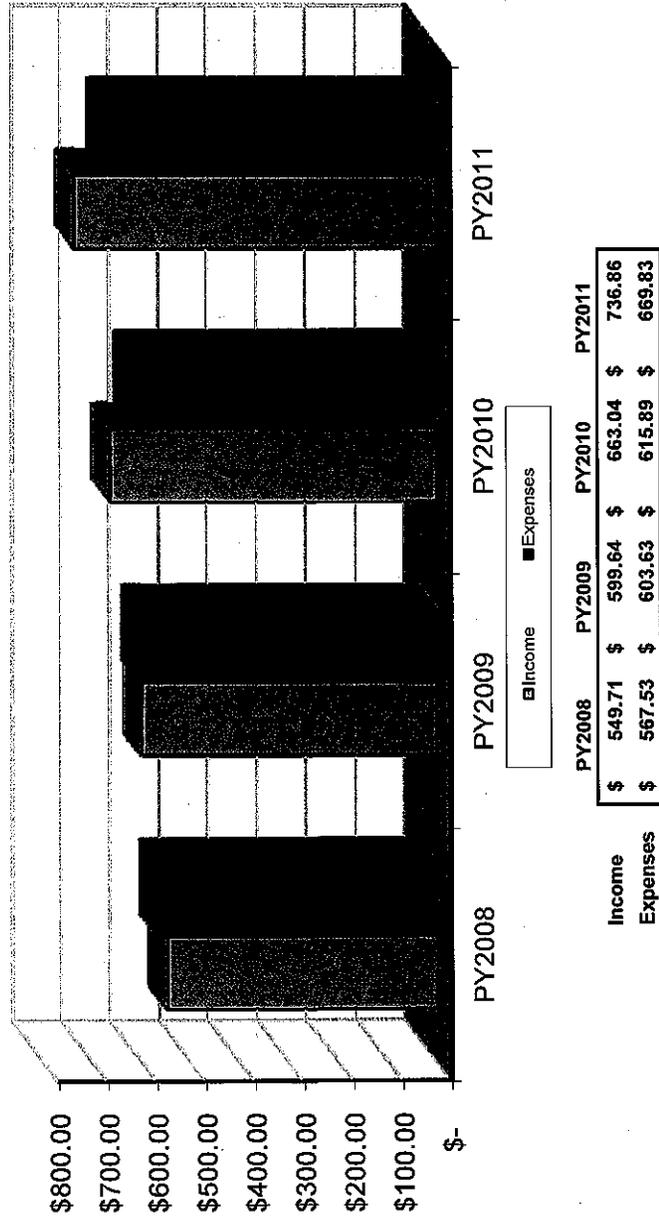
"Managed Care" includes BCBS managed care, certification review and individual managed care.

"Wellness/DM" includes Weight Watchers, smoking cessation, spring fitness, wellness, Well on the Way, EAP and health screenings.

"Admin / Operating" includes claims administration & state operating expenses.

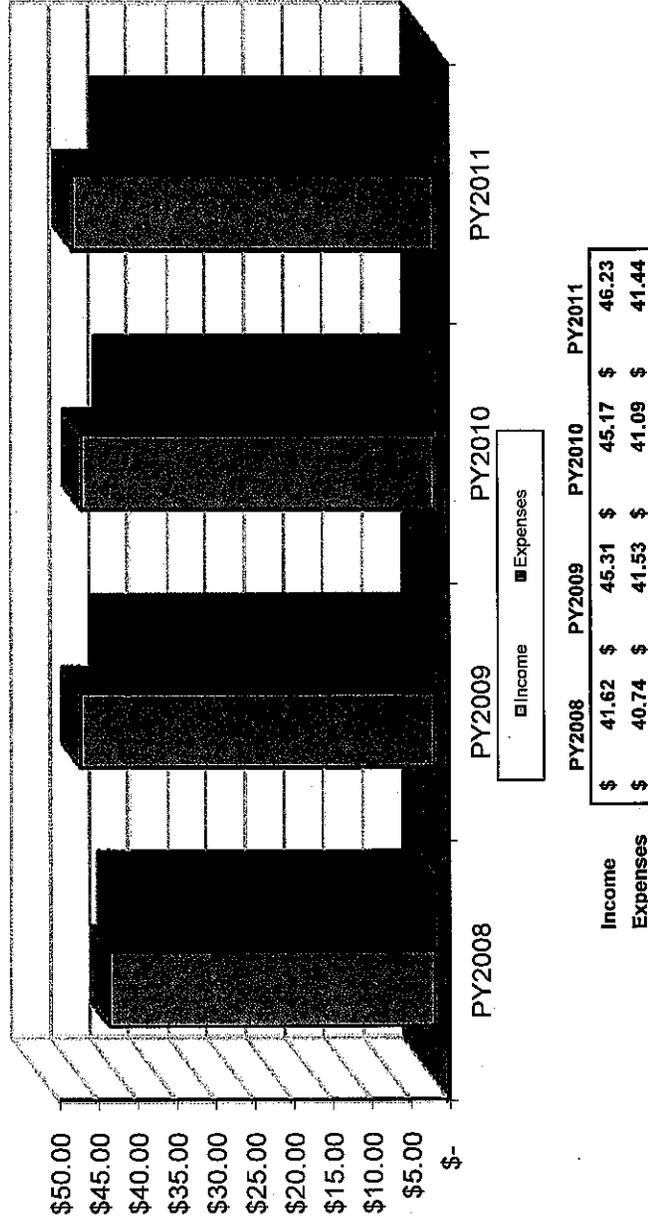
Attachment A

**Per Capita Income vs. Expenses
Medical Plan**



Attachment A

**Per Capita Income vs. Expenses
Dental Plan**



Attachment A

Exhibit III: Income & Expense by Indemnity Medical Plans

Category	January 1, 2011 through September 30, 2011		October 1, 2011 through December 31, 2011		January 1, 2011 through December 31, 2011		January 1, 2010 through December 31, 2010	
	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible
Basic								
Average Eligible		-		-		-		-
Revenues:								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses:								
Medical Claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rx Claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Medicare Part D	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Managed Care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Wellness / DM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Admin / Operating	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Estimated Operating Addition / (Deficit)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss Ratio		0.0%		0.0%		0.0%		0.0%
Traditional								
Average Eligible		7,423		7,326		7,399		7,593
Revenues:								
Contributions	\$ 45,189,832	\$ 676.41	\$ 14,609,051	\$ 664.73	\$ 59,798,883	\$ 673.52	\$ 55,316,285	\$ 607.13
Interest Income	\$ 419,037	\$ 6.27	\$ 137,935	\$ 6.28	\$ 556,972	\$ 6.27	\$ 503,769	\$ 5.53
Total Revenue	\$ 45,608,869	\$ 682.68	\$ 14,746,986	\$ 671.00	\$ 60,355,855	\$ 679.79	\$ 55,820,054	\$ 612.66
Expenses:								
Medical Claims	\$ 35,282,566	\$ 528.11	\$ 12,109,770	\$ 551.01	\$ 47,392,336	\$ 533.78	\$ 43,021,838	\$ 472.19
Rx Claims	\$ 10,225,412	\$ 153.06	\$ 3,741,793	\$ 170.26	\$ 13,967,206	\$ 157.31	\$ 12,279,257	\$ 134.77
Medicare Part D	\$ (3,025,295)	\$ (45.28)	\$ -	\$ -	\$ (3,025,295)	\$ (34.07)	\$ -	\$ -
Managed Care	\$ 107,287	\$ 1.61	\$ 43,354	\$ 1.97	\$ 150,641	\$ 1.70	\$ 220,426	\$ 2.42
Wellness / DM	\$ 208,142	\$ 3.12	\$ 134,510	\$ 6.12	\$ 342,652	\$ 3.86	\$ 523,746	\$ 5.75
Payroll Services	\$ 117,136	\$ 1.75	\$ 39,078	\$ 1.78	\$ 156,214	\$ 1.76	\$ 74,703	\$ 0.82
Admin / Operating	\$ 1,947,161	\$ 29.15	\$ 678,436	\$ 30.87	\$ 2,625,597	\$ 29.57	\$ 2,192,560	\$ 24.06
Total Expenses	\$ 44,862,409	\$ 671.51	\$ 16,746,941	\$ 762.00	\$ 61,609,349	\$ 693.91	\$ 58,312,529	\$ 640.02
Estimated Operating Addition / (Deficit)	\$ 746,461	\$ 11.17	\$ (1,999,954)	\$ (91.00)	\$ (1,253,494)	\$ (14.12)	\$ (2,492,474)	\$ (27.36)
Loss Ratio		98.4%		113.6%		102.1%		104.5%
Total								
Average Eligible		7,423		7,326		7,399		7,593
Total Revenue	\$ 45,608,869	\$ 682.68	\$ 14,746,986	\$ 671.00	\$ 60,355,855	\$ 679.79	\$ 55,820,054	\$ 612.66
Expenses:								
Claims	\$ 45,507,978	\$ 681.17	\$ 15,851,563	\$ 721.26	\$ 61,359,541	\$ 691.09	\$ 55,301,095	\$ 606.97
Medicare Part D	\$ (3,025,295)	\$ (45.28)	\$ -	\$ -	\$ (3,025,295)	\$ (34.07)	\$ -	\$ -
Payroll Services	\$ 117,136	\$ 1.75	\$ 39,078	\$ 1.78	\$ 156,214	\$ 1.76	\$ 74,703	\$ 0.82
Other Costs	\$ 2,262,589	\$ 33.87	\$ 856,300	\$ 38.96	\$ 3,118,889	\$ 35.13	\$ 2,936,731	\$ 32.23
Total Expenses	\$ 44,862,409	\$ 671.51	\$ 16,746,941	\$ 762.00	\$ 61,609,349	\$ 693.91	\$ 58,312,529	\$ 640.02
Estimated Operating Addition / (Deficit)	\$ 746,461	\$ 11.17	\$ (1,999,954)	\$ (91.00)	\$ (1,253,494)	\$ (14.12)	\$ (2,492,474)	\$ (27.36)
Loss Ratio		98.4%		113.6%		102.1%		104.5%

Notes:

Some figures may not add due to rounding.

Basic Plan not offered after 2003. Claims reported are runout from prior periods.

Rx claims are net of rebates.

Medical claims include capitation costs.

"Managed Care" includes BCBS managed care, certification review and individual managed care.

"Wellness/DM" includes Weight Watchers, smoking cessation, spring fitness, wellness, Well on the Way, EAP and health screenings.

"Admin / Operating" includes claims administration & state operating expenses.

Attachment A

Exhibit III: Income & Expense by CHO Medical Plans

Category	January 1, 2011 through September 30, 2011		October 1, 2011 through December 31, 2011		January 1, 2011 through December 31, 2011		January 1, 2010 through December 31, 2010	
	Monthly Amount		Monthly Amount		Monthly Amount		Monthly Amount	
	Total \$	Per Eligible	Total \$	Per Eligible	Total \$	Per Eligible	Total \$	Per Eligible
Blue Choice								
Average Eligible		6,087		6,145		6,101		6,052
Revenues:								
Contributions	\$ 43,044,240	\$ 785.75	\$ 14,238,376	\$ 772.42	\$ 57,282,616	\$ 782.39	\$ 50,802,636	\$ 696.78
Interest Income	\$ 398,854	\$ 7.28	\$ 134,435	\$ 7.29	\$ 533,289	\$ 7.28	\$ 460,459	\$ 6.34
Total Revenue	\$ 43,443,094	\$ 793.03	\$ 14,372,811	\$ 779.71	\$ 57,815,905	\$ 789.68	\$ 51,063,095	\$ 703.12
Expenses:								
Medical Claims	\$ 26,757,104	\$ 488.44	\$ 9,735,885	\$ 528.16	\$ 36,492,990	\$ 498.44	\$ 31,645,021	\$ 435.74
Rx Claims	\$ 5,035,592	\$ 91.92	\$ 2,009,312	\$ 109.00	\$ 7,044,904	\$ 98.22	\$ 5,621,822	\$ 77.41
Medicare Part D	\$ (175,233)	\$ (3.20)	\$ -	\$ -	\$ (175,233)	\$ (2.39)	\$ -	\$ -
Managed Care	\$ (18,822)	\$ (0.34)	\$ -	\$ -	\$ (18,822)	\$ (0.26)	\$ 83,352	\$ 1.15
Wellness / DM	\$ 170,956	\$ 3.12	\$ 112,587	\$ 6.11	\$ 283,543	\$ 3.87	\$ 418,050	\$ 5.78
Payroll Services	\$ 97,010	\$ 1.77	\$ 32,980	\$ 1.79	\$ 129,990	\$ 1.78	\$ 59,216	\$ 0.82
Admin / Operating	\$ 1,473,423	\$ 26.90	\$ 527,536	\$ 28.62	\$ 2,000,959	\$ 27.33	\$ 2,340,429	\$ 32.23
Total Expenses	\$ 33,340,031	\$ 608.61	\$ 12,418,300	\$ 673.68	\$ 45,758,331	\$ 624.99	\$ 40,167,889	\$ 553.10
Estimated Operating Addition / (Deficit)	\$ 10,103,063	\$ 184.43	\$ 1,954,511	\$ 106.03	\$ 12,057,574	\$ 164.69	\$ 10,895,206	\$ 150.02
Loss Ratio		76.7%		86.4%		79.1%		78.7%
Peak								
Average Eligible								96
Revenues:								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 791,468	\$ 688.53
Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,206	\$ 6.27
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 798,674	\$ 694.80
Expenses:								
Medical Claims	\$ 159,377	\$ -	\$ -	\$ -	\$ 159,377	\$ -	\$ 707,872	\$ 615.81
Rx Claims	\$ (66)	\$ -	\$ -	\$ -	\$ (66)	\$ -	\$ 57,561	\$ 50.07
Medicare Part D	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Managed Care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,346	\$ 1.17
Wellness / DM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,594	\$ 5.74
SABHRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 926	\$ 0.81
Admin / Operating	\$ 6,139	\$ -	\$ 60	\$ -	\$ 6,199	\$ -	\$ 45,281	\$ 39.39
Total Expenses	\$ 165,451	\$ -	\$ 60	\$ -	\$ 165,511	\$ -	\$ 819,580	\$ 712.99
Estimated Operating Addition / (Deficit)	\$ (165,451)	\$ -	\$ (60)	\$ -	\$ (165,511)	\$ -	\$ (20,906)	\$ (18.19)
Loss Ratio		0.0%		0.0%		0.0%		102.6%
New West								
Average Eligible		2,629		2,582		2,617		2,513
Revenues:								
Contributions	\$ 18,234,075	\$ 770.74	\$ 5,881,040	\$ 759.33	\$ 24,115,115	\$ 767.92	\$ 21,440,280	\$ 711.03
Interest Income	\$ 189,052	\$ 7.15	\$ 55,527	\$ 7.17	\$ 224,579	\$ 7.15	\$ 195,409	\$ 6.48
Total Revenue	\$ 18,403,127	\$ 777.88	\$ 5,936,567	\$ 766.50	\$ 24,339,694	\$ 775.08	\$ 21,635,689	\$ 717.51
Expenses:								
Medical Claims	\$ 12,343,749	\$ 521.76	\$ 5,032,269	\$ 649.74	\$ 17,376,018	\$ 553.32	\$ 16,556,696	\$ 549.07
Rx Claims	\$ 2,479,000	\$ 104.78	\$ 957,384	\$ 123.61	\$ 3,436,384	\$ 109.43	\$ 2,762,175	\$ 92.27
Medicare Part D	\$ (133,142)	\$ (5.63)	\$ -	\$ -	\$ (133,142)	\$ (4.24)	\$ -	\$ -
Managed Care	\$ (8,134)	\$ (0.34)	\$ -	\$ -	\$ (8,134)	\$ (0.26)	\$ 35,507	\$ 1.18
Wellness / DM	\$ 73,716	\$ 3.12	\$ 47,479	\$ 6.13	\$ 121,195	\$ 3.86	\$ 173,072	\$ 5.74
Payroll Services	\$ 41,499	\$ 1.75	\$ 13,714	\$ 1.77	\$ 55,214	\$ 1.76	\$ 24,639	\$ 0.82
Admin / Operating	\$ 868,335	\$ 36.70	\$ 298,460	\$ 38.54	\$ 1,166,795	\$ 37.16	\$ 1,250,388	\$ 41.47
Total Expenses	\$ 15,665,023	\$ 662.14	\$ 6,349,306	\$ 819.79	\$ 22,014,329	\$ 701.03	\$ 20,822,477	\$ 690.54
Estimated Operating Addition / (Deficit)	\$ 2,738,105	\$ 115.74	\$ (412,739)	\$ (53.29)	\$ 2,325,365	\$ 74.05	\$ 813,212	\$ 26.97
Loss Ratio		85.1%		107.0%		90.4%		96.2%
Total CHO								
Average Eligible		8,715		8,726		8,718		8,661
Total Revenue	\$ 61,846,222	\$ 788.46	\$ 20,309,377	\$ 775.80	\$ 82,155,599	\$ 785.29	\$ 73,497,458	\$ 707.20
Expenses:								
Claims	\$ 46,774,757	\$ 598.32	\$ 17,734,851	\$ 677.46	\$ 64,509,608	\$ 616.62	\$ 57,371,146	\$ 552.03
Medicare Part D	\$ (308,376)	\$ (3.93)	\$ -	\$ -	\$ (308,376)	\$ (2.95)	\$ -	\$ -
Payroll Services	\$ 138,510	\$ 1.77	\$ 46,694	\$ 1.78	\$ 185,204	\$ 1.77	\$ 84,781	\$ 0.82
Other Costs	\$ 2,585,614	\$ 32.71	\$ 986,122	\$ 37.67	\$ 3,551,736	\$ 33.95	\$ 4,354,019	\$ 41.89
Total Expenses	\$ 49,170,505	\$ 628.86	\$ 18,767,667	\$ 716.91	\$ 67,938,172	\$ 649.40	\$ 61,809,946	\$ 594.74
Estimated Operating Addition / (Deficit)	\$ 12,675,717	\$ 161.60	\$ 1,541,711	\$ 58.89	\$ 14,217,427	\$ 135.90	\$ 11,687,511	\$ 112.46
Loss Ratio		79.5%		92.4%		82.7%		84.1%

Notes:

- Some figures may not add due to rounding.
- PEAK Plan not offered after 2010. Claims reported are runout from prior periods.
- Rx claims are net of rebates.
- Medical claims include capitation costs.
- *Managed Care* includes BCBS managed care, certification review and Individual managed care.
- *Wellness/DM* includes Weight Watchers, smoking cessation, spring fitness, wellness, Well on the Way, EAP and health screenings.
- *Admin / Operating* includes claims administration & state operating expenses.

Attachment A

Exhibit IV: Medical Income & Expense by Actives and Retirees								
Category	January 1, 2011 through September 30, 2011		October 1, 2011 through December 31, 2011		January 1, 2011 through December 31, 2011		January 1, 2010 through December 31, 2010	
	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible	Total \$	Monthly Amount Per Eligible
Actives & COBRA								
Average Eligible		12,837		12,753		12,816		12,920
Contributions	\$ 91,231,415	\$ 789.64	\$ 29,751,272	\$ 777.63	\$ 120,982,686	\$ 786.65	\$ 109,703,241	\$ 707.58
Medical Claims	\$ 63,450,971	\$ 549.19	\$ 22,716,214	\$ 593.75	\$ 86,167,185	\$ 560.27	\$ 76,255,506	\$ 491.84
Rx Claims	\$ 11,168,062	\$ 96.66	\$ 4,321,027	\$ 112.94	\$ 15,489,089	\$ 100.71	\$ 12,823,670	\$ 82.71
Total Claims	\$ 74,619,032	\$ 645.85	\$ 27,037,241	\$ 706.69	\$ 101,656,274	\$ 660.99	\$ 89,079,176	\$ 574.55
Loss Ratio		81.8%		90.9%		84.0%		81.2%
Retirees under 65								
Average Eligible		818		800		813		840
Contributions	\$ 6,270,037	\$ 852.08	\$ 2,004,330	\$ 835.31	\$ 8,274,367	\$ 847.96	\$ 7,702,274	\$ 763.93
Medical Claims	\$ 6,270,158	\$ 852.10	\$ 2,611,919	\$ 1,088.53	\$ 8,882,076	\$ 910.24	\$ 10,467,304	\$ 1,038.17
Rx Claims	\$ 2,445,472	\$ 332.33	\$ 883,662	\$ 368.27	\$ 3,329,135	\$ 341.17	\$ 3,206,397	\$ 318.02
Total Claims	\$ 8,715,629	\$ 1,184.43	\$ 3,495,581	\$ 1,456.80	\$ 12,211,211	\$ 1,251.41	\$ 13,673,699	\$ 1,356.18
Loss Ratio		139.0%		174.4%		147.6%		177.5%
Retirees 65+								
Average Eligible		2,484		2,499		2,488		2,493
Contributions	\$ 8,966,696	\$ 401.13	\$ 2,972,865	\$ 396.51	\$ 11,939,561	\$ 399.97	\$ 10,745,153	\$ 359.20
Medical Claims	\$ 4,821,669	\$ 215.70	\$ 1,549,791	\$ 206.71	\$ 6,371,460	\$ 213.44	\$ 5,208,617	\$ 174.12
Rx Claims	\$ 4,126,404	\$ 184.60	\$ 1,503,800	\$ 200.57	\$ 5,630,205	\$ 188.61	\$ 4,710,747	\$ 157.48
Medicare Part D	\$ (3,333,671)	\$ (149.13)	\$ -	\$ -	\$ (3,333,671)	\$ (111.68)	\$ -	\$ -
Total Claims	\$ 5,614,402	\$ 251.16	\$ 3,053,591	\$ 407.28	\$ 8,667,993	\$ 290.38	\$ 9,919,364	\$ 331.60
Loss Ratio		62.6%		102.7%		72.6%		92.3%
Total Retirees								
Average Eligible		3,301		3,299		3,301		3,333
Contributions	\$ 15,236,733	\$ 512.81	\$ 4,977,195	\$ 502.90	\$ 20,213,928	\$ 510.34	\$ 18,447,428	\$ 461.23
Medical Claims	\$ 11,091,826	\$ 373.31	\$ 4,161,710	\$ 420.50	\$ 15,253,536	\$ 385.10	\$ 15,675,921	\$ 391.93
Rx Claims	\$ 6,571,877	\$ 221.19	\$ 2,367,463	\$ 241.23	\$ 8,959,339	\$ 226.19	\$ 7,917,144	\$ 197.95
Medicare Part D	\$ (3,333,671)	\$ (112.20)	\$ -	\$ -	\$ (3,333,671)	\$ (84.18)	\$ -	\$ -
Total Claims	\$ 14,330,032	\$ 482.30	\$ 6,549,172	\$ 661.73	\$ 20,879,204	\$ 527.13	\$ 23,593,065	\$ 589.88
Loss Ratio		94.0%		131.6%		103.3%		127.9%

Notes:

Some figures may not add due to rounding.

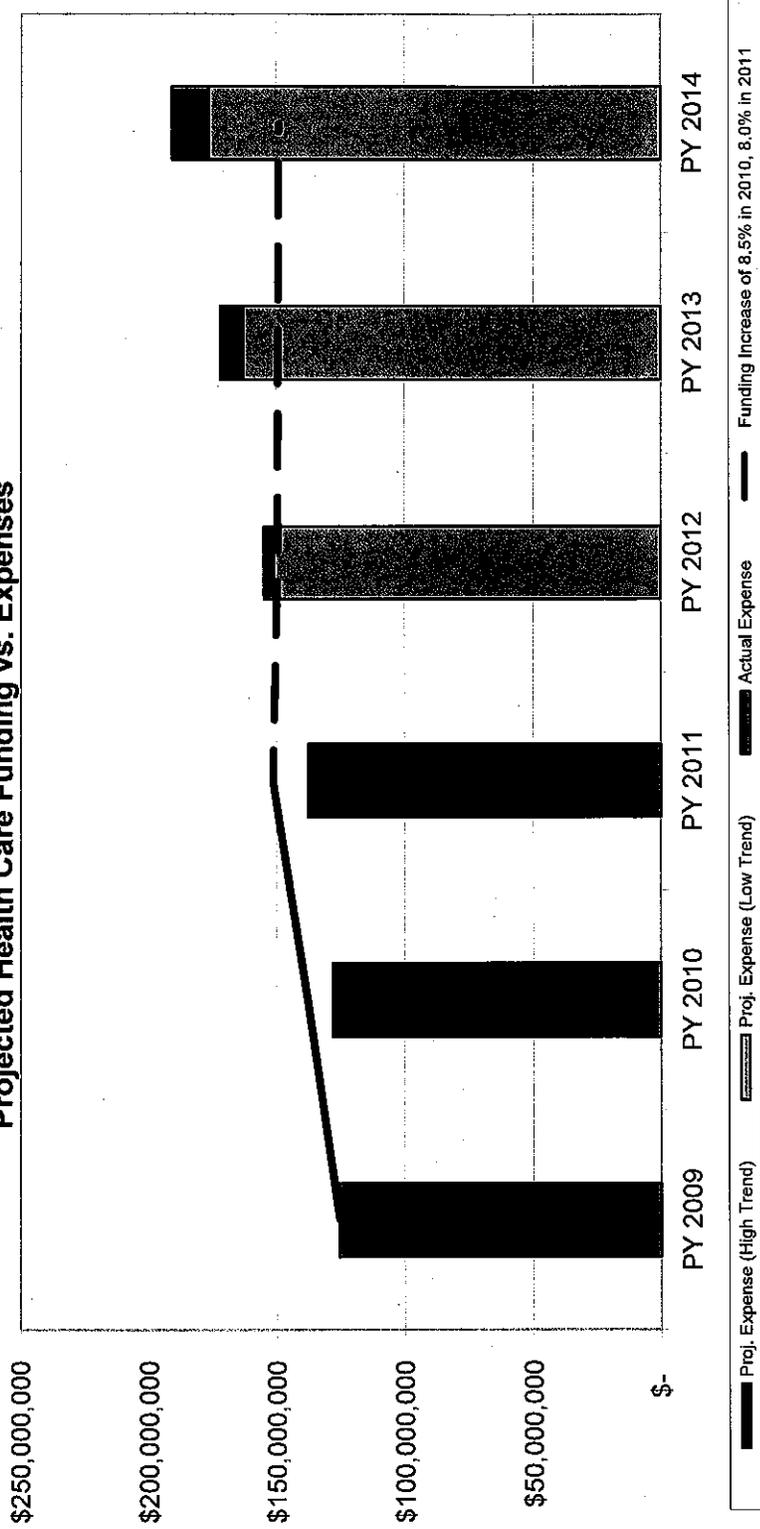
Rx claims are net of rebates.

Medical claims include capitation costs.

Attachment A

State of Montana

Projected Health Care Funding vs. Expenses



Low Trend = 8% Medical and 10% Rx; High Trend = 11% Medical and 13% Rx.

Attachment A

State of Montana Projection Assumptions													
	Plan Year 2009		Plan Year 2010		Plan Year 2011		Plan Year 2012		Plan Year 2013		Plan Year 2014		
	Increase	Contribution											
Contribution Data and Assumptions													
State Contribution	\$ 36.00	\$ 628.00	\$ 53.00	\$ 679.00	\$ 54.00	\$ 733.00	\$ -	\$ 733.00	\$ -	\$ 733.00	\$ -	\$ 733.00	
Stabilization Savings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Actives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Change in Contribution to Core Benefits	\$ -	\$ -	\$ 11.00	\$ -	\$ 14.90	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Change in Dependent Contribution	\$ -	\$ -	\$ 60%	\$ -	\$ 60%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Percentage of EE's with Dependents	60%		60%		60%		60%		60%		60%		
Retirees <65													
Change in Medical Contribution	\$ 36.00	\$ -	\$ 53.00	\$ -	\$ 54.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Change in Dependent Contribution	\$ -	\$ -	\$ 12.00	\$ -	\$ 19.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Percentage of Early Retirees with Dependents	50%		50%		50%		50%		50%		50%		
Change in Dental Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Retirees 65+													
Medicare Part D	\$ -	\$ -	\$ -	\$ -	\$ 26.62	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Change in Medical Contribution	\$ -	\$ -	\$ 54.00	\$ -	\$ 8.38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Change in Dependent Contribution	\$ -	\$ -	\$ 45%	\$ -	\$ 45%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Percentage of Medicare Retirees with Dependents	45%		45%		45%		45%		45%		45%		
Change in Dental Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
COBRA													
Change in Medical Contribution	\$ 36.72	\$ -	\$ 54.08	\$ -	\$ 55.08	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Change in Dependent Contribution	\$ -	\$ -	\$ 11.22	\$ -	\$ 15.20	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Percentage of COBRAs with Dependents	50%		50%		50%		50%		50%		50%		
Change in Dental Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Trend Assumptions Scenario A													
Trend Assumptions													
Medical	8.0%	8.4%	8.0%	4.2%	8.0%	11.3%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
RX	10.0%	-3.0%	10.0%	-20.6%	10.0%	18.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Dental	8.0%	1.8%	8.0%	-3.5%	8.0%	1.2%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
EAP	5.0%	3.3%	5.0%	3.4%	5.0%	-98.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Health Screenings	5.0%	130.7%	5.0%	5.7%	5.0%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Managed Care	5.0%	62.2%	5.0%	-35.9%	5.0%	-63.4%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Claims Administration	5.0%	75.6%	5.0%	-24.5%	5.0%	6.4%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
SABRS Administration	5.0%	-5.4%	5.0%	-73.7%	5.0%	115.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Other Operating Expense	5.0%	-16.6%	5.0%	28.8%	5.0%	-10.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Wellness Claims	0.0%	0.1%	0.0%	0.9%	0.0%	-28.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Core Life	14.0%	14.1%	14.0%	13.3%	14.0%	0.3%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	
Medical IBNR %	0.3%	0.2%	0.3%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	
Rx IBNR %	4.5%	4.2%	4.5%	4.6%	4.5%	7.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	
Dental IBNR %	7.5%	3.0%	7.5%	3.0%	7.5%	1.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	
Grandfathered Benefit Reserve Attrition	3.0%		3.0%		1.0%		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Investment Returns													
Population Change Assumptions													
Active Employees	188	236	138	52	193	-102	0	0	0	0	0	0	
Retirees <65	0	-6	5	-46	0	-27	0	0	0	0	0	0	
Retirees 65+	50	28	24	-7	50	-5	0	0	0	0	0	0	
COBRA	0	-15	18	-4	0	-2	0	0	0	0	0	0	
Plan Change Assumptions													
Plan Change Assumptions	0		(7,184,675)		882,000		0	0	0	0	0	0	
Trend Assumptions Scenario B													
Alternate Medical, Rx & Dental Trend													
Medical	11.0%		11.0%		11.0%		11.0%		11.0%		11.0%		
Rx	13.0%		13.0%		13.0%		14.0%		14.0%		14.0%		
Dental	8.0%		8.0%		8.0%		8.0%		8.0%		8.0%		
Med Claim Lag Issue	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		
Dental Claim Lag Issue	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		
Health Screenings Benefit Increase	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		
Why Weight Benefit Increase	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		
Unallocated Revenue for Exhibit II	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		

	Actual				Projected				Projected			
	Plan Year 2009		Plan Year 2010		Plan Year 2011		Plan Year 2012		Plan Year 2013		Plan Year 2014	
	Participants	Per EE	Participants	Per EE	Participants	Per EE	Participants	Per EE	Participants	Per EE	Participants	Per EE
Revenue												
Active Employees	12,824	\$ 626.00	\$ 96,337,381	\$ 678.00	\$ 104,821,117	\$ 738.00	\$ 112,365,988	\$ 738.00	\$ 112,365,988	\$ 738.00	\$ 112,365,988	\$ 738.00
State Contribution (MD/CL)		\$ 61.98	\$ 9,536,689	\$ 75.13	\$ 11,665,401	\$ 90.79	\$ 13,917,489	\$ 90.79	\$ 13,917,489	\$ 90.79	\$ 13,917,489	\$ 90.79
Special State Contribution (2005)		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Early Retirement		\$ 884	\$ 49.85	\$ 487,473	\$ 43.40	\$ 456,473	\$ 46.23	\$ 453,074	\$ 46.23	\$ 453,074	\$ 46.23	\$ 453,074
Medical/CL		\$ 680.54	\$ 7,294,514	\$ 765.52	\$ 7,718,308	\$ 838.12	\$ 8,178,408	\$ 838.12	\$ 8,178,408	\$ 838.12	\$ 8,178,408	\$ 838.12
Dental		\$ 49.85	\$ 487,473	\$ 43.40	\$ 456,473	\$ 46.23	\$ 453,074	\$ 46.23	\$ 453,074	\$ 46.23	\$ 453,074	\$ 46.23
Medical/CL		\$ 302.07	\$ 9,081,626	\$ 359.96	\$ 10,767,717	\$ 395.49	\$ 11,805,851	\$ 395.49	\$ 11,805,851	\$ 395.49	\$ 11,805,851	\$ 395.49
Dental		\$ 42.81	\$ 898,549	\$ 42.79	\$ 898,442	\$ 44.07	\$ 1,045,808	\$ 44.07	\$ 1,045,808	\$ 44.07	\$ 1,045,808	\$ 44.07
COBRA		\$ 47	\$ 638.53	\$ 359,536	\$ 697.35	\$ 391,227	\$ 786.18	\$ 391,908	\$ 786.18	\$ 391,908	\$ 786.18	\$ 391,908
Medical/CL		\$ 33	\$ 42.97	\$ 17,146	\$ 42.17	\$ 15,012	\$ 46.59	\$ 15,514	\$ 46.59	\$ 15,514	\$ 46.59	\$ 15,514
Dental												
Interest Income		\$ -	\$ 1,377,238	\$ -	\$ 1,246,586	\$ -	\$ 1,393,336	\$ -	\$ 1,227,879	\$ -	\$ 1,072,974	\$ -
Other Income		\$ -	\$ 96,520	\$ -	\$ (268,712)	\$ -	\$ 1,595,518	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue	16,257	\$ 643.36	\$ 125,507,620	\$ 706.65	\$ 137,822,571	\$ 781.61	\$ 151,165,886	\$ 772.49	\$ 149,401,708	\$ 771.69	\$ 149,401,708	\$ 769.55
Expenses												
Medical Claims		\$ 444.44	\$ 86,702,502	\$ 471.35	\$ 91,931,427	\$ 524.40	\$ 101,420,721	\$ 586.85	\$ 109,634,379	\$ 611.66	\$ 118,287,129	\$ 680.59
Rx Claims		\$ 138.59	\$ 27,036,613	\$ 110.03	\$ 21,453,104	\$ 129.85	\$ 25,113,759	\$ 142.84	\$ 27,626,134	\$ 157.12	\$ 30,387,648	\$ 172.83
Rx Rebutals & Part D Subsidies		\$ (24.79)	\$ (4,836,549)	\$ (9.68)	\$ (719,289)	\$ (20.68)	\$ (3,999,002)	\$ (11.87)	\$ (2,189,461)	\$ (12.51)	\$ (2,419,366)	\$ (13.76)
Dental Claims		\$ 36.00	\$ 7,023,141	\$ 35.56	\$ 6,935,935	\$ 35.99	\$ 6,960,427	\$ 39.87	\$ 7,517,261	\$ 41.98	\$ 8,118,842	\$ 45.34
Projected Savings from Benefit Changes		\$ 594.24	\$ 115,925,708	\$ 615.26	\$ 119,608,176	\$ 669.56	\$ 125,495,905	\$ 738.68	\$ 142,477,323	\$ 796.25	\$ 154,384,023	\$ 885.60
Total Claims Expense		\$ 1.50	\$ 370,437	\$ 3.46	\$ 382,804	\$ 0.02	\$ 4,281	\$ 0.02	\$ 4,485	\$ 0.02	\$ 4,720	\$ 0.03
EAP		\$ 0.15	\$ 50,150	\$ 0.15	\$ 50,150	\$ 0.15	\$ 50,150	\$ 0.15	\$ 50,150	\$ 0.15	\$ 50,150	\$ 0.15
Health Screenings		\$ 2.72	\$ 870,643	\$ 2.72	\$ 870,643	\$ 2.72	\$ 870,643	\$ 2.72	\$ 870,643	\$ 2.72	\$ 870,643	\$ 2.72
Managed Care		\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45
Plan Administration		\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45	\$ 1,100,000	\$ 3.45
Other Operating Expense		\$ 10.18	\$ 1,998,008	\$ 10.18	\$ 1,998,008	\$ 10.18	\$ 1,998,008	\$ 10.18	\$ 1,998,008	\$ 10.18	\$ 1,998,008	\$ 10.18
Wellness Claims		\$ 0.42	\$ 82,460	\$ 0.34	\$ 66,026	\$ 0.24	\$ 46,232	\$ 0.25	\$ 48,544	\$ 0.26	\$ 50,971	\$ 0.28
Core Life Insurance Premiums		\$ 1.59	\$ 310,413	\$ 1.60	\$ 313,016	\$ 1.74	\$ 336,859	\$ 1.74	\$ 336,859	\$ 1.74	\$ 336,859	\$ 1.74
Total Expenses		\$ 645.30	\$ 125,885,894	\$ 657.17	\$ 128,172,017	\$ 711.68	\$ 137,641,086	\$ 780.69	\$ 150,988,600	\$ 844.27	\$ 163,285,320	\$ 913.14
Operating Surplus / (Deficit)		\$ (1.94)	\$ (378,274)	\$ (51.03)	\$ (9,349,446)	\$ (29.07)	\$ (12,475,200)	\$ (8.21)	\$ (1,586,892)	\$ (72.58)	\$ (14,038,317)	\$ (143.60)
Fund Balance												
Beginning Balance		\$ -	\$ 39,994,215	\$ -	\$ 39,615,841	\$ -	\$ 48,286,436	\$ -	\$ 62,791,236	\$ -	\$ 61,204,343	\$ -
Operating Surplus / (Deficit)		\$ -	\$ (378,274)	\$ -	\$ (9,349,446)	\$ -	\$ (12,475,200)	\$ -	\$ (1,586,892)	\$ -	\$ (14,038,317)	\$ -
Ending Balance		\$ -	\$ 39,615,941	\$ -	\$ 30,266,395	\$ -	\$ 35,811,236	\$ -	\$ 61,204,343	\$ -	\$ 47,166,026	\$ -
IBNR Reserve*		\$ -	\$ 11,600,000	\$ -	\$ 11,500,000	\$ -	\$ 12,400,000	\$ -	\$ 15,740,367	\$ -	\$ 17,010,842	\$ -
Claims Fluctuation Reserve		\$ -	\$ 26,505,941	\$ -	\$ 36,156,468	\$ -	\$ 48,821,235	\$ -	\$ 43,861,687	\$ -	\$ 29,561,574	\$ -
Grandfathered Benefit Reserve		\$ -	\$ 1,510,000	\$ -	\$ 1,610,000	\$ -	\$ 1,370,000	\$ -	\$ 1,593,060	\$ -	\$ 1,585,610	\$ -

IBNR Reserve calculated by Actuarial Northwest.

	Actual		Projected		Actual		Projected		Actual		Projected		Actual		Projected	
	Plan Year 2009		Plan Year 2010		Plan Year 2011		Plan Year 2012		Plan Year 2013		Plan Year 2014		Plan Year 2015		Plan Year 2016	
	Participants	Total	Participants	Total	Participants	Total	Participants	Total	Participants	Total	Participants	Total	Participants	Total	Participants	Total
Revenue																
Active Employees	12,824	\$ 626.00	\$ 96,337,331	\$ 678.00	\$ 104,921,117	12,775	\$ 733.00	\$ 112,365,968	12,775	\$ 733.00	\$ 112,365,968	12,775	\$ 733.00	\$ 112,365,968	12,775	\$ 733.00
State Contribution (MDF/CL)		\$ 61.98	\$ 9,538,689	\$ 75.13	\$ 11,509,401		\$ 90.79	\$ 13,917,499		\$ 90.79	\$ 13,917,499		\$ 90.79	\$ 13,917,499		\$ 90.79
Special State Contribution (MDF)																
Special State Contribution (2005)																
Equity Rollins	686	\$ 650.64	\$ 7,294,514	\$ 705.52	\$ 7,718,309	813	\$ 838.12	\$ 8,178,408	813	\$ 838.12	\$ 8,178,408	813	\$ 838.12	\$ 8,178,408	813	\$ 838.12
Dental	884	\$ 45.95	\$ 487,473	\$ 45.40	\$ 456,473	817	\$ 46.23	\$ 453,074	817	\$ 46.23	\$ 453,074	817	\$ 46.23	\$ 453,074	817	\$ 46.23
Medical/CL	2,500	\$ 302.07	\$ 9,061,626	\$ 359.98	\$ 10,767,717	2,488	\$ 395.49	\$ 11,805,851	2,488	\$ 395.49	\$ 11,805,851	2,488	\$ 395.49	\$ 11,805,851	2,488	\$ 395.49
Medical/Retirees	1,844	\$ 42.81	\$ 988,549	\$ 42.79	\$ 989,442	1,978	\$ 44.07	\$ 1,046,808	1,978	\$ 44.07	\$ 1,046,808	1,978	\$ 44.07	\$ 1,046,808	1,978	\$ 44.07
Dental	47	\$ 638.53	\$ 388,536	\$ 697.35	\$ 361,227	42	\$ 786.18	\$ 391,908	42	\$ 786.18	\$ 391,908	42	\$ 786.18	\$ 391,908	42	\$ 786.18
Medical/CL	33	\$ 42.97	\$ 17,146	\$ 42.17	\$ 15,012	28	\$ 46.59	\$ 15,514	28	\$ 46.59	\$ 15,514	28	\$ 46.59	\$ 15,514	28	\$ 46.59
Dental																
Interest Income			\$ 1,377,238		\$ 1,243,586			\$ 1,393,338			\$ 1,188,007			\$ 906,493		
Other Income			\$ 96,520		\$ 269,712			\$ 1,599,518			\$ 1,882,036			\$ 1,882,036		
Total Revenue	16,257	\$ 843.36	\$ 125,507,620	\$ 706.65	\$ 137,922,571	16,117	\$ 781.81	\$ 151,165,866	16,117	\$ 772.28	\$ 146,362,036	16,117	\$ 770.82	\$ 149,079,522	16,117	\$ 767.47
Expenses																
Medical Claims		\$ 444.44	\$ 66,702,502	\$ 471.35	\$ 91,931,427	11.3%	\$ 524.40	\$ 101,425,271	11.0%	\$ 582.08	\$ 112,577,000	11.0%	\$ 646.11	\$ 124,959,470	11.0%	\$ 717.19
Rx Claims		\$ 138.59	\$ 27,036,813	\$ 110.03	\$ 21,459,104	18.0%	\$ 129.85	\$ 25,113,759	14.0%	\$ 148.03	\$ 28,629,685	14.0%	\$ 188.76	\$ 32,637,841	14.0%	\$ 182.38
Rx Rebates & Part D Subsidies		\$ (24.79)	\$ (4,836,549)	\$ (3.88)	\$ (718,280)	1.2%	\$ 35.59	\$ 6,950,427	8.0%	\$ 35.67	\$ 7,517,261	8.0%	\$ 41.95	\$ 8,116,942	8.0%	\$ 45.34
Dental Claims		\$ 36.00	\$ 7,023,141	\$ 35.56	\$ 6,335,935	9.2%	\$ 689.56	\$ 129,465,905	13.1%	\$ 757.20	\$ 146,444,515	11.4%	\$ 862.41	\$ 163,119,402	11.4%	\$ 938.59
Projected Savings from Benefit Changes		\$ 594.24	\$ 115,925,708	\$ 613.26	\$ 119,608,176	-98.9%	\$ 0.02	\$ 4,281	5.0%	\$ 0.02	\$ 4,720	5.0%	\$ 0.02	\$ 4,956	5.0%	\$ 0.03
Total Claims Expense		\$ 1.00	\$ 370,437	\$ 1.96	\$ 382,804	4.5%	\$ 3.60	\$ 696,877	5.0%	\$ 3.78	\$ 791,721	5.0%	\$ 3.97	\$ 769,307	5.0%	\$ 4.17
EAP		\$ 2.26	\$ 636,780	\$ 3.45	\$ 672,632	-63.4%	\$ 0.64	\$ 123,685	5.0%	\$ 0.67	\$ 129,870	5.0%	\$ 0.71	\$ 136,393	5.0%	\$ 0.74
Health Screenings		\$ 2.72	\$ 531,143	\$ 1.75	\$ 340,630	6.4%	\$ 22.12	\$ 4,278,273	5.0%	\$ 23.23	\$ 4,492,187	5.0%	\$ 24.39	\$ 4,716,796	5.0%	\$ 25.61
Chiropractic		\$ 27.53	\$ 6,370,855	\$ 20.80	\$ 4,056,286	115.5%	\$ 1.96	\$ 379,353	-1.4%	\$ 1.93	\$ 374,000	0.0%	\$ 1.93	\$ 374,000	0.0%	\$ 1.93
Chiropractic Distribution		\$ 3.45	\$ 673,311	\$ 0.91	\$ 177,205	-10.0%	\$ 11.79	\$ 2,279,612	5.0%	\$ 12.36	\$ 2,393,592	5.0%	\$ 12.99	\$ 2,519,272	5.0%	\$ 13.64
Other Services Fee Fixed Cost		\$ 10.18	\$ 1,985,008	\$ 13.10	\$ 2,555,303	-23.4%	\$ 0.24	\$ 48,544	0.0%	\$ 0.25	\$ 48,544	0.0%	\$ 0.26	\$ 50,971	0.0%	\$ 0.28
Wellness Expense		\$ 0.42	\$ 82,460	\$ 0.34	\$ 66,026	8.5%	\$ 1.74	\$ 336,959	0.0%	\$ 1.74	\$ 336,959	0.0%	\$ 1.74	\$ 336,959	0.0%	\$ 1.74
Wellness Claims		\$ 1.59	\$ 310,413	\$ 1.60	\$ 313,015		\$ 711.68	\$ 137,641,066		\$ 801.20	\$ 154,955,792		\$ 889.43	\$ 172,019,939		\$ 987.73
Core Life Insurance Premiums		\$ 645.30	\$ 125,885,894	\$ 657.17	\$ 129,172,077		\$ 69.83	\$ 13,524,800		\$ (26.92)	\$ (6,589,756)		\$ (118.61)	\$ (22,940,177)		\$ (226.26)
Total Expenses		\$ (1,944)	\$ (376,274)	\$ 49.48	\$ 9,650,495											
Operating Surplus / (Deficit)																
Fund Balance			\$ 38,984,215		\$ 38,615,941			\$ 49,266,436			\$ 62,791,235			\$ 57,197,479		
Beginning Balance			\$ (378,274)		\$ 9,650,495			\$ 62,791,235			\$ 62,791,235			\$ 57,197,479		
Operating Surplus / (Deficit)			\$ 38,615,941		\$ 49,266,436			\$ 12,400,000			\$ 16,178,108			\$ 17,849,933		
Ending Balance			\$ 11,600,000		\$ 11,600,000			\$ 48,821,235			\$ 35,984,435			\$ 14,628,583		
IBNR Reserve			\$ 36,186,436		\$ 1,610,000			\$ 1,570,000			\$ 1,570,000			\$ 1,570,000		
Claims Fluctuation Reserve																
Grandfathered Benefit Reserve																

IBNR Reserves calculated by Actuaries Northwest.

Attachment B

State of Montana
 On-site employee clinic
 Cost benefit
 Prepared by HCBD

	Year 1	Year 2	Year 3	Year 4	Year 5
Health Center Expenses					
Salaries and benefits	\$ 764,488	\$ 795,785	\$ 829,233	\$ 864,042	\$ 897,643
Wellness screenings	\$ 151,951	\$ 158,029	\$ 164,351	\$ 170,925	\$ 177,762
Supplies	\$ 83,155	\$ 98,768	\$ 115,460	\$ 133,318	\$ 152,353
Professional fees	\$ 100,998	\$ 119,726	\$ 139,790	\$ 161,251	\$ 184,190
Other operating expenses	\$ 62,290	\$ 60,817	\$ 62,777	\$ 64,819	\$ 66,944
Administrative fees	\$ 229,346	\$ 238,736	\$ 248,770	\$ 259,213	\$ 269,293
Total expenses	\$ 1,392,228	\$ 1,471,861	\$ 1,560,381	\$ 1,653,568	\$ 1,748,185
Costs Avoided					
Direct costs avoided	\$ 2,162,267	\$ 2,594,720	\$ 3,065,013	\$ 3,575,849	\$ 4,130,106
Other direct costs	\$ 115,870	\$ 139,044	\$ 164,246	\$ 191,620	\$ 221,321
Indirect costs	\$ 71,064	\$ 81,216	\$ 91,368	\$ 101,520	\$ 111,672
Total costs avoided	\$ 2,349,201	\$ 2,814,980	\$ 3,320,627	\$ 3,868,989	\$ 4,463,098
Total Savings	\$ 956,973	\$ 1,343,119	\$ 1,760,246	\$ 2,215,421	\$ 2,714,913

Cost Drivers

Number of provider visits	7,142	7,499	7,874	8,268	8,681
% population served	35%	40%	45%	50%	55%

Direct costs based on actual historical costs (5% trend)

Other direct costs, ER, urgent care, hospital, specialist - 1% reduction

Indirect costs - reduced time off work due to availability of center and improved health

Doesn't include costs savings from pharmacy, occupational health, or other potential services



5.1.3 Financial Projections. Proposals must include a comprehensive financial projection for all aspects of the services outlined in this RFP, from start-up through the initial term, ending December 2015. The projections should separate initial start-up costs, and include annual estimated costs by calendar year. The projections should also include a cost benefit analysis of operating an On-Site Employee Health Center to the traditional costs of paying for these services. All assumptions for the projections must be included. This information should be labeled Appendix H in your response.

State of Montana

CareHere! On-Site Clinic Projections

Executive Summary

CareHere, LLC is a leader in providing exceptional on-site clinics and provider driven wellness programs. The patient-centered medical home approach practiced by CareHere integrates a vast scope of resources such as on-site primary care, case/disease management, wellness and behavior modification programs, occupational healthcare, wellness improvement tracking applications, and much more. CareHere's on-site services provide companies with the means to significantly decrease claims cost, while improving the overall health and morale of the employees. CareHere clients are experiencing savings in industries consisting of municipalities, manufacturers, service companies, hospitals, educational institutions, and transportation entities. CareHere, LLC operates 120 clinics in 20 states across the country.

The cost savings comes in two waves with the initial wave consisting of increased efficiency of on-site clinics as opposed to the "Retail" system used by organizations today. The second wave of savings comes as the populations health improves and catastrophic claims are reduced in large part due to the wellness, disease management, and chronic care programs offered as a part of the model. In the following projections for The State of Montana, you will see the considerable cost savings each year that the program is in place with an overall savings during the first five years totaling \$28,869,731.

State of Montana

Estimated Clinic Expenses

Medical and Wellness Cost Analysis	
MD/NP/LPN (Pass-Through)	\$ 890,278
Pharmacy Cost (Including Medication Estimate)	\$ 2,874,210
Laboratory/Pathology (Pass-Through)	\$ 137,968
Program Savings Engine	\$ 1,080,000
Management Fee	\$ 13,680
Clinic Set-Up Estimate: Equipment and Supplies (Pass-Through)	\$ 240,977
Corporate Travel Expenses	\$ 20,000
Health Risk Assessment	Included
Wellness Coaches	Included
Electronic Medical Records (EMR)	Included
185 Wellness Programs	Included
Total Medical Cost Year One:	\$ 5,057,113

Clinic Projected Savings

Year One Savings Detail	
Medical Savings	\$ 2,637,775
Pharmaceutical Savings	\$ 274,710
Program Savings Engine/Management Fee	\$ (1,093,680)
Other Expenses	\$ (260,977)
Total Savings	\$ 1,557,828

Accumulative Savings

Accumulative Savings Year 1	\$ 1,557,828
Accumulative Savings Year 3	\$ 10,742,313
Accumulative Savings Year 5	\$ 28,869,731



Medical Data Collection

State of Montana

The data you are providing below includes costs for the health plan year ending on (mm/dd/yy):

6/30/2011

Enter the total number of months included in the current year data below:

12

Add Notes for exceptions, comments, etc.

Total Medical costs should include All Medical, Drug, Work Comp (if applicable)

Total Medical (as given):
Annualized Total Medical Costs:

Year Ending June-11	Year Ending June-10	Year Ending June-09	Notes
---------------------	---------------------	---------------------	-------

\$ 39,809,677		
---------------	--	--

Prescription Costs (as given):
Breakout of Prescription Costs:
Prescription Costs PEPY:
% of Total Medical Claims:

\$ 6,702,092		
\$ 1,320	#DIV/0!	#DIV/0!
16.8%	0.0%	0.0%

Primary Care costs should include Dr/Office visit, Diagnostic & Lab (DXL), ER visits, Prevention

Primary Care Costs (as given):
Annualized Primary Care Costs:
% of Total Medical Claims:

\$ -		
\$ 7,050,040		
17.7%	0.0%	0.0%

Primary Care Office Visits (as given):
Annualized Primary Care Office Visits:
Average Primary Care Office Visit Cost:

34,492		
\$ 204.40	\$ -	\$ -

Total Number of Employees with Medical Benefits:
Total Medical Costs PEPY:
% Increase YoY

Year Ending June-11	Year Ending June-10	Year Ending June-09
5,076		
\$ 7,843	\$ -	\$ -
0.0%	0.0%	

Planned number of Employees for next year:
or expected % increase/decrease:
Average hourly wage per employee:

Year Ending June-12
5,076
0%

Should census vary more than 10% in a 12-month period, this Projection is subject to revision

Analysis Based on Data Given				Analysis Based on National Averages			
Total Office visits	34,492			% of Total Claims is Primary Care?			18%
office visits/employee	6.80			Total Claims	\$	39,809,677	
Cost/Office visit	204.40			Primary Care	\$	7,050,040	
Primary Care as % of Total Costs	17.7%			Office Visits		34,492	
PEPY \$	7,843	\$	7,050,040	Cost/Office Visit	\$	204.40	
Office Visits Used						34,492	
On-site Visits Used						17,246	adj to plan census change, if any



CareHere!

Updated: March 30, 2012
 Proposal effective until: June 28, 2012
 Projected Impact Analysis for:

				State of Montana Medical		
Assumptions	Total Health Plan % Annual Increase:		8%	Estimated Avg Office Visit	\$ 204.40	
	Primary Care % Annual Increase:		4%	at a	60%	Impact
	% of Prescriptions CareHere will dispense:		15%	Physician Extender (NP/PA)		30%
	Medical Provider Mix:	Doctors	50%			
Medical Savings Vehicle	Number	Units	Unit Cost	Costs In The Marketplace	Costs Through CareHere	Savings With CareHere
Total Employees	5,076 Ees					
Pharmacy - Onsite Dispensing						
Current Year Pharmacy Costs	\$ 1,320	PEPY				
Next Year Estimated	\$ 1,452	PEPY				
Next Year Estimated Pharmacy Impact	\$ 7,372,301	Annual		\$ 2,948,920		
CareHere Cost (Includes Mail Order Option)					\$ 2,211,690	
(Assumption: CareHere can prescribe the same medication at a 30% reduction)					\$ 59,000	
Pharmacy Set Up Cost					\$ 403,520	
Pharmacy Staffing						
				\$ 2,948,920	\$ 2,674,210	\$ 274,710
Clinic Operations						
Average Visits Per Day		24 visits				
Average Time With Doctor (minutes)		20 minutes				
Number of Visits		17,246 visits				
Current Year Cost/Visit	\$ 204.40					
Cost/Visit Next Year	\$ 212.57			\$ 3,666,021		
CareHere Day Units (Assumes 90% Fill Rate)		798 days				
Clinic Hours Per Week:		128 hours				
Doctor Days (50%)		399 days	\$ 1,000		\$ 399,000	
Extender (Nurse Practitioner) Days (50%)		399 days	\$ 600		\$ 239,656	
Registered Nurse / Licensed Practical Nurse (100%)		798 days	\$ 240		\$ 191,622	
Case Manager for Infusion Medication		250 days	\$ 240		\$ 60,000	
Malpractice insurance		annual			Included	
Lab and Supplies Estimates		per visit	\$ 8		\$ 137,968	
				\$ 3,666,021	\$ 1,028,246	\$ 2,637,775
Program Savings Engine (PEPM):	5,000 Employees	\$ 18			\$ 1,080,000	
Program Savings Engine (PEPM):						
All employees exceeding the first 5,000 will be at \$15 PEPM rather than \$18)	76 Employees	\$ 15			\$ 13,680	
Non-Recurring Expenses						
Initial Clinic Set-Up (estimated) - Includes X-Ray and Physical Therapy Equipment					\$ 240,977	
CareHere Corporate Travel					\$ 20,000	
Total Medical Savings (Cost) for Year One:				\$ 6,814,941	\$ 5,057,113	\$ 1,557,828
				Costs In The Marketplace	Costs Through CareHere	Savings With CareHere

*The all in cost for the Program Savings Engine, Staffing, Labs, and Supplies breaks down to \$34.85 per employee per month based on 5,076 employees.

Care Here!





CareHere!

Proposed By:

CareHere!

State of Montana

Health and Wellness Center - Cost Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5
Estimated Medical Provider Staffing:	\$ 890,278	\$ 925,989	\$ 962,524	\$ 1,004,461	\$ 1,041,899
Labs and Supplies:	\$ 137,968	\$ 143,487	\$ 149,226	\$ 156,195	\$ 161,403
Clinic Set-Up Estimate: Equipment and Supplies	\$ 240,977				
Clinic Set-Up Estimate: Equipment and Supplies	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Program Savings Engine:					
Staffing: Wellness Coaches CareHere Staffing Director of Clinical Operations Care Coordinator/Case Manager Accounting Support Services: 24/7 Call-Center 1,800 Customer Support Education Tools Marketing Information Technology Support HRA Employee Events Medical Health Services: Immunizations Sports Physicals Plan of Care Compliance Patient Medication Adherence	\$ 1,096,416	\$ 1,096,416	\$ 1,096,416	\$ 1,096,416	\$ 1,096,416
Program Savings Engine Total:	\$ 1,096,416	\$ 1,096,416	\$ 1,096,416	\$ 1,096,416	\$ 1,096,416
Management Services:					
Technology: EMR CareHere Connect Information Technology Online Appointment Scheduler Smartphone Application Data Analytics EMR Access and Integration with Outside Spectral/PCP/ER Wellness: Case Management Weight Management Hypertension Management Addiction Intervention Pre-Diabetes Management Lipid Management Stress Management Health Risk Assessments/Biometric Screenings* Clinical/On-site Services: Self-Care Education Tools Reporting Purchasing Coordination Clinic Inventory Management Patient Survey Feedback Clinic Best Practices Sharing Integration of Services ROI Analysis Budget Adherence	\$ 913,690	\$ 913,690	\$ 913,690	\$ 913,690	\$ 913,690
Management Services Total:	\$ 913,690	\$ 913,690	\$ 913,690	\$ 913,690	\$ 913,690
Projected Total:	\$ 5,973,529	\$ 6,041,403	\$ 6,379,941	\$ 6,746,107	\$ 7,130,310

1. Staffing assumes a 4% annual increase to account for market trends. The staffing cost is 100% pass-through, so if the trend remains flat, then there will be no requirement to pay for staffing at an increasing rate.
 2. Labs and Supplies are a 100% pass-through cost. Assumes a 4% annual increase to account for market trends.
 * CareHere provides a health risk assessment (28 panel biometric screening) to all employees and dependents. Tests are provided at no additional charge.

Care Here!



State of Montana ESTIMATED RETURN ON INVESTMENT

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Employee Total	5,076	5,076	5,076	5,076	5,076	
Visits	17,246	17,246	17,246	17,246	17,246	
Medical Claims Savings	\$ 1,544,095	\$ 1,649,606	\$ 1,759,337	\$ 1,873,459	\$ 1,992,144	\$ 8,818,640
Wellness/Case Management/Health Risk Assessments Savings		\$ 1,659,548	\$ 3,521,412	\$ 5,604,527	\$ 7,929,447	\$ 18,714,935
Clinic Set-Up Estimate: Equipment and Supplies	\$ (240,977)					\$ (240,977)
CareHere Corporate Travel	\$ (20,000)	\$ (20,000)	\$ (20,000)	\$ (20,000)	\$ (20,000)	\$ (100,000)
Pharmaceutical Savings	\$ 274,710	\$ 302,181	\$ 332,399	\$ 365,639	\$ 402,203	\$ 1,677,133
Annual Savings Through CareHere	\$ 1,557,828	\$ 3,591,335	\$ 5,396,149	\$ 7,823,624	\$ 10,303,794	\$ 28,869,731
Market Place Annual Cost	\$ 6,614,941	\$ 8,716,022	\$ 11,054,774	\$ 13,653,315	\$ 16,535,688	\$ 56,574,740
Annual Total Cost	\$ 5,973,529	\$ 6,041,103	\$ 6,378,041	\$ 6,746,107	\$ 7,148,310	\$ 32,287,089
Estimated Return on Investment Ratio:	\$ 1 to \$ 1.11	\$ 1 to \$ 1.44	\$ 1 to \$ 1.73	\$ 1 to \$ 2.02	\$ 1 to \$ 2.31	\$ 1 to \$ 1.75
Accumulative Savings Year 1:	\$ 1,557,828					
Accumulative Savings Year 3:		\$ 10,742,313				
Accumulative Savings Year 5:					\$ 28,869,731	

APPENDIX H: PRO FORMA

Please refer to Section 5.1.3 for description of requirements.



Projected Impact Analysis for:

Updated: March 09, 2012

State of Montana

Assumptions	Total Health Plan % Annual Increase:	2%	Estimated Avg Office Visit:	\$ 113.20
	Primary Care % Annual Increase:	2%	at a	97% Impact.
	Prescriptions % Annual Increase:	2%		
	% of Prescriptions miCARE will dispense:	4%		
	Workers Comp % Annual Increase:	0%		
	% of Office Visits Converted to miCare:	20%		

	Number	Unit Cost	Cost in The Marketplace		
Medical Savings					
Total Employees	5,076				
Pharmacy - Onsite Dispensing					
Current Year Pharmacy Costs		\$ 6,702,092			
Next Year Estimated		\$6,903,155			
Infusion Therapy Savings					\$ 682,312
					\$ 682,312
Clinic Operations					
Average Visits Per Day	24				
Average Time With Doctor (minutes)	20				
Number of Visits	18,442				
Current Year Cost/Visit		\$ 114.38			
Cost/Visit Next Year		\$ 128.10	\$ 2,214,747		
miCare Day Units	768				
Clinic milestone hours per week	118				
On-Site Clinic Staff (3 year average)			\$ 1,258,947		
Lab Services			\$ 138,324		
Misc Monthly Fees (Supplies, etc.)			\$ 116,380		
Malpractice Insurance (3 year average)			\$ 19,200		
Health Screenings within Helena			\$ 740,000	\$ 184,952	
Health Screenings outside of Helena			\$ 349,000	\$ 349,000	
			\$ 2,964,747	\$ 1,898,803	\$ 955,944
miCare of Montana, LLC Admin Fee	Employees: 5,076	\$ 17.00		\$ 1,035,504	
				\$ 1,035,504	\$ (1,035,504)
Total Medical Savings (Costs)			\$ 2,964,747	\$ 3,034,307	\$ 682,312
Time Away From Work Savings					
Average Hourly Employee	\$ 18.00	per hour			
Average Time Away To See Doctor	180	minutes			
miCARE Time To See Doctor	30	minutes			
Net Time Savings	150	minutes			
Net Time Savings Cost	\$ 45.00	per visit			
Lost Productivity (Salary + 50% output)	\$ 67.50				
Total "Time Away" and "Lost Productivity"	\$ 112.50				
Adjustment for "off the clock"	90%				
Adjusted Time & Productivity Savings	\$ 56.25				
Employee Visits (65% of total visits)	11,987				
Total Time Away From Work Savings	\$ 874,287.34			\$ (874,287)	
Other Savings					
Total State of Montana Savings (Cost) for Year One*			\$ 2,964,747	\$ 2,884,840	\$ 682,312

*Does NOT include HRSA Start Up Costs of Rent



Updated: March 16, 2012

Projected Impact Analysis for:

State of Montana

	Year Ending Jan-11	Year 1 Projected	Year 2 Projected	Year 3 Projected
Medical Healthplan				
Projections without mCARE				
Employees	5,076	5,076	5,076	5,076
Average Cost PEPPY growing at 0%	\$ 7,843	\$ 8,470	\$ 9,148	\$ 9,830
Total Claim Costs without mCARE	\$39,809,677	\$ 42,994,451	\$ 46,434,007	\$ 50,148,728
Projections with mCARE				
Total Claim Cost with mCARE		\$ 42,399,744	\$ 43,571,737	\$ 46,292,041
mCARE Savings		\$ 594,707	\$ 2,762,271	\$ 3,856,687
Inflation Savings		\$ 682,212	\$ 682,212	\$ 682,212
Medical Savings		\$ 659,895	\$ 723,487	\$ 781,366
Time Away from Work Savings		\$ 674,267		
Other Savings		\$ -	\$ -	\$ -
Disease Management, Prevention, & Employee Behavior		\$ (396,184)	\$ 2,392,075	\$ 3,428,513
State of Montana Savings Engine		\$ (1,036,904)	\$ (1,036,904)	\$ (1,036,904)
Employee Cost Per Year		\$ 8,353	\$ 8,604	\$ 9,120
Workers Compensation				
Projections without mCARE				
Average Cost PEPPY growing at 0%	\$ 45	\$ 45	\$ 45	\$ 45
Total Claim Costs without mCARE	\$ 226,231	\$ 226,231	\$ 226,231	\$ 226,231
Projections with mCARE				
Total Claim Cost with mCARE		\$ 203,608	\$ 180,965	\$ 180,965
mCARE Savings		\$ 22,623	\$ 45,266	\$ 45,266
Employee Cost Per Year		\$ 40	\$ 36	\$ 36
Total Medical Healthplan & Workers Compensation				
Projections without mCARE	\$40,035,908	\$ 43,220,682	\$ 46,660,238	\$ 50,374,959
Projections with mCARE				
Total Claim Cost with mCARE		\$ 42,603,352	\$ 43,852,721	\$ 46,473,026
Total mCARE Savings		\$ 617,339	\$ 2,807,517	\$ 3,981,333
Savings Percentage of Total Claims without mCARE		1.4%	6.0%	7.7%
Total Employee Cost Per Year without mCARE		\$ 8,615	\$ 9,192	\$ 9,824
Total Employee Cost Per Year with mCARE		\$ 8,393	\$ 8,639	\$ 9,165

Total 3 Year Projected Savings: \$ 7,388,730

*Does NOT include Initial Start Up Costs or Fees

Note:

The projected savings above do not include the added employee benefit from no co-pays or deductibles.

Data Collection Form

For:

State of Missouri



The data you are providing below includes costs for the health plan year ending on (month/year):

2011

Enter the total number of months included in the current year data below:

12

Add Notes for exceptions, comments, etc.

Total Medical Costs should include:

All Medical, Drug, Work Comp (if applicable)

Total Medical (as given):

\$ 30,600,877

\$ -

\$ -

Annualized Total Medical Costs:

\$ 30,600,877

\$ -

\$ -

Prescription Costs (as given):

\$ 6,702,002

\$ -

\$ -

Breakout of Prescription Costs:

\$ 6,702,002

\$ -

\$ -

% of Total Medical Claims:

18.8%

0.0%

0.0%

Primary Care costs should include:

Office Visit, Diagnostic & Lab (DCL), EP Visit, Prevention

Primary Care Costs (as given):

\$ 4,218,585

\$ -

\$ -

Annualized Primary Care Costs:

\$ 4,218,585

\$ -

\$ -

% of Total Medical Claims:

10.8%

0.0%

0.0%

Primary Care Office Visits (as given):

38,883

-

-

Annualized Primary Care Office Visits:

38,883

-

-

Average Primary Care Office Visit Cost:

\$ 114.38

\$ -

\$ -

Total Workers Compensation Costs:

\$ 226,251

\$ -

\$ -

Total Workers Compensation Costs:

\$ 226,251

\$ -

\$ -

WC as % of Total Medical Claims:

0.8%

0.0%

0.0%

Total Number of Employees with Medical Benefits:

5,076

-

-

Total Medical Costs PEPY:

\$ 7,643

\$ -

\$ -

% Increase Yr/Y

0.0%

0.0%

Planned number of Employees for next year:

5,076

DR expected % increase/decrease:

0%

Average hourly wage per employee:

\$ 18.00

Analysis Based on Data Given		Analysis Based on National Averages	
Total Office Visits	38,883	% of Total Claims in Primary Care?	11%
Office Visits/Employee	7.27	Total Claims	\$ 30,600,877
Cost/Office Visit	114.38	Primary Care	\$ 4,218,585
Primary Care as % of Total Costs	10.8%	Office Visits	38,883
PEPY \$	7,643	Cost/Office Visit	114.38



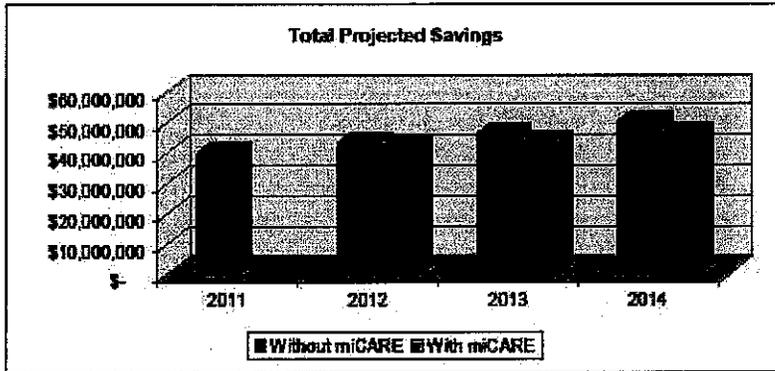
Updated: March 30, 2012

Projected Impact Analysis for:

State of Montana

Total Projected Savings (Costs)

	2011	2012	2013	2014
Without miCARE	\$ 40,035,008	\$ 43,220,882	\$ 46,660,238	\$ 50,374,659
With miCARE		\$ 42,603,352	\$ 43,862,721	\$ 46,473,028



Initial (One-Time) Set Up Fees:

Design/Build Out	\$	576,200
Equipment	\$	66,490
Information Technology	\$	95,650
Set Up for On-site clinic health screenings	\$	45,190
TOTAL START UP FEES	\$	783,530

Total 3 Year Projected Savings (Including Set Up Fees)*:

\$ 6,543,021

*Does NOT include the cost of building rent

**Does include cost of State-Wide Screenings

Attachment C

Employee Health Clinics Frequently Asked Questions

Why is the state of Montana setting up employee health centers?

- Based on an independent actuarial analysis of the CareHere proposal for the Helena clinic, Montana could save over \$100 million over five years once clinics are up and running statewide. The cost savings come in two ways. First, savings will come from the increased efficiency of paying for care at cost instead of fee-for-service. The second level of savings comes as employees' health improves and catastrophic claims are reduced through wellness, disease management, and chronic care programs offered at the clinics.
- The decision to provide clinics for employees reflects a growing trend in America. Employers are turning to workplace health clinics as a way to increase productivity and manage spiraling health-care costs.
- The National Business Group on Health, a nonprofit membership organization that represents large companies on health-care issues conducted a health-care survey among its respective members and clients in 2011. It found that 23 percent of the companies surveyed provided workplace health services, and another 12 percent were planning to offer them in 2012.

What is an employee health center?

- It's a doctor's office that would operate much like other family practice clinics. The following kinds of care will be available at the employee health clinics: primary health care, acute and episodic health care, wellness services, health screenings, pharmacy services, and other services depending on the needs of the local employees. Employees and dependents can also access wellness exams, annual check-ups, or physicals. Appointments and walk-in treatment will both be available.

Will I still be able to see my doctor?

- Yes. Visiting the new clinic is your choice. You can choose to use the new clinic as your primary care provider, keep your current doctors, or do a little of both. Employees who use the optional clinics will see lower or no copayments, less paperwork, better health care, and less time away from work and family.

How will the clinic generate savings for taxpayers and employees?

- The cost savings come in two ways. First, increased efficiency results from paying for care at cost instead of by fee-for-service. The second level of savings comes as employees' health improves and catastrophic claims are reduced through wellness, disease management, and chronic care programs offered at the clinics.
- The health care industry's current "fee-for-service" model allows doctors and other providers to receive a fee for each service—every office visit, test, and

procedure. In regular clinics, health care providers must raise all the revenue to pay for the building, staff paychecks, utilities, and overhead. This can lead to pressure to “make budget” by generating a certain number of visits, tests, etc.—whether they are needed or not. The fee-for-service model is like asking a butcher how much pot roast you should eat.

- The contractor will be paid based on what the care actually costs—at cost—with no markup.
- Physicians and nurse practitioners won’t perform medical tasks that registered nurses or nonmedical staff could do instead (for example, recording weight and taking blood pressure).
- Employees who use the optional clinics see lower copayments, less paperwork, better health care, and less time away from work. The clinics maximize efficiency by consolidating services into one appointment rather than deferring other needed care; the patient who comes in because of a virus may also get a tetanus shot and refill a prescription—resulting in fewer bills.
- Additionally, the health clinic may offer free or reduced-cost services that are valuable to employees, such as health coaches, laboratory analysis, health screening, and dieticians.
- Savings can be realized even if only a small number of employees use the clinics. Right now, about 20 percent of state employees don’t visit a doctor each year. Many more employees are screened for health conditions and never see a doctor for follow up. By keeping more of these employees healthy, we can save money by preventing more costly medical problems down the road.
- The employee health clinic model has been tested in the private sector for many years. Employers have found that employees like the clinics and the savings they provide for employees.

How much taxpayer money will be saved?

- Based on an independent actuarial analysis of the CareHere proposal for the Helena clinic, Montana could save over \$100 million over five years once clinics are up and running statewide.

Is this related to the Affordable Care Act?

- No. This is a cost-saving and health management tactic that has been used by America’s largest employers for decades. Frustrated by runaway health costs, companies are opening employee health clinics to save millions for their bottom line and keep employees on the job. Now, Governor Schweitzer is putting these private sector ideas to work to generate millions in savings for Montana taxpayers. More than one third of the nation’s largest employers offer workplace health services for their employees according to a recent survey.

Is this just for state employees in Helena?

- No. The request for proposal calls for clinics across the state, not just in Helena. Clinics in every community will be tailored to meet community needs. For example, some areas have a lot of people working on swing and night shifts. Other communities have dentist shortages. Other communities may benefit from regularly scheduled travelling clinics.

Who will run the clinics?

- A contractor will supply all staffing and expertise to run the clinics. Six organizations responded to the request for proposal to run the clinics. State procurement laws do not allow request for proposals to give preferential scores for in-state companies. Proposals are scored on affordability, projected cost savings, experience, and ability to provide the necessary services.

How are state employees involved in the process?

- The state employee health plan has an advisory council (SEGBAC) to provide advice prior to negotiating contracts. The Health Care and Benefits Division presented information to SEGBAC at its February 28, 2012, meeting. Additionally, all SEGBAC meetings are public meetings and are conducted in accordance with the public meeting laws.
- A needs assessment will be conducted in each community to determine how to best meet the local health care needs.
- Employees will have the opportunity to participate in the HCBD Spring Benefits Tour to learn more about the employee clinics. A schedule of these meetings can be found at <http://benefits.mt.gov>.

Does this mean my health insurance is changing?

- No, the employee clinic does not change your health coverage. The State of Montana is a self-funded benefits group. That means that insurance is not purchased, but rather the state contributions and employee out-of-pocket contributions are pooled and used to pay claims. The state does not purchase private health insurance for its employees. Private health insurance companies are contracted to process the paperwork and claims for the health plan. The Montana State Employee Health Plan covers 33,500 employees, retirees, and dependents. There are other changes in the health plan that will be discussed at the HCBD Spring Benefits Tour described above.

Where is the money to pay for the clinic coming from?

- The State of Montana is a self-funded benefits group. That means that insurance is not purchased, but rather the state contributions and employee contributions are pooled and used to pay claims. As such, the benefits plan has reserves that will be used to fund the initial start-up. The clinics will be built with reserve funds, not by a rate increase for employees. Those funds will be replenished as the clinic begins saving money. This will mean cost savings for taxpayers and state employees.

Does Montana have the authority to establish a clinic without the legislature?

- Yes. Title 2, Chapter 18, Parts 7 & 8 of the Montana Code Annotated provides the authority and guidance for the Department of Administration to operate the State Plan for the benefit of State employees, legislators, retirees, and their dependents. Statutes require the state to establish a program to provide state employees with adequate group hospitalization, health, medical, disability, life, and other related group benefits in an efficient manner and at an affordable cost. The clinic was one of the many ways we ensure we are operating in an efficient and cost-effective manner. The plan has a statutory appropriation of funds.

Won't this compete with private doctors and hospitals?

- The United States healthcare system has been facing a decline in its primary care workforce, infrastructure, and access to primary care services for several years. A number of factors, including poor reimbursements to primary care physicians, low comparative income, and poor quality of work life due to high patient loads, have contributed to more doctors choosing to train and practice in specialty medicine. This trend has led to a shortage of primary care providers across the country—likely contributing to fragmented care, inappropriate use of specialists, and less emphasis on prevention.

Impacts of the Affordable Care Act (ACA) on the State Employee Group Benefit Plan (SEGBP)

Already in place

1. Children up to 26 years of age can stay on their parent's insurance
2. No lifetime limits on essential benefits and no annual dollar limits
3. No pre-existing conditions for children under the age of 19
4. Health subsidies for early retiree health costs – funding expired
5. Insurers must provide a summary of benefits and coverage to plan participants (See appendix for Department of Administration, State Employee Group Benefit Plan 2013)

Plan Year 2013 – (SEGBP Loses Grandfathered Status)

1. Insurer must provide preventative care for such care as colonoscopies or mammograms without charging deductibles, copayments, or coinsurance
2. Contraceptive care must be offered without charge
3. Comparative effectiveness research fee of \$1.00 per employee

Beginning in Plan Year 2014 - Upcoming areas to be aware of

1. Annual dollar limit restrictions are banned
2. If the state's cost of coverage for individuals is considered unaffordable (9.8% of employees income) and the employee applies for a subsidy on the health exchange the state may be charged a penalty of up to \$3,000 for each full-time employee receiving a subsidy
3. Comparative effectiveness research fee of \$1.00 per employee
4. Insurer subject to reinsurance costs from 2014 through 2016. Costs are \$63 per member per year – estimated costs to SEGBP \$2.1 million
5. Comparative effectiveness research fee of \$2.00 per employee
6. 2017 large groups can participate on health insurance exchange
7. Assessments for insurance that provides expensive or "Cadillac" health plans, more than \$10,200 a year for individual or \$27,500 for a family starting in 2018

Other Impacts that may indirectly impact SEGBP

1. 2014 Health insurance exchanges operational – retirees may use this rather than SEGBP
2. Health status including preexisting conditions may not ban plan participation – retiree find other plans

HEALTH CARE AND BENEFITS BUREAU

As part of its budget submission, the Health Care and Benefits Bureau provided the following additional information on the State Employee Group Health Benefit Plan.

Actuarial Reserves

The State Employee Benefit Plan maintains an actuarially recommended reserve to allow it to cover health claims against the self-insured plan. By statute (2-18-812, MCA), the plan must maintain reserves sufficient to 'liquidate the unrevealed claim liability and other liabilities' of the state employee group benefits plans. This is called the reserve for incurred but not reported claims or IBNR, and permits the program to cover its pending liability for claims that have been incurred but not paid or submitted for payment. Other portions of the reserves are to cover items such as the risk of large claims (the state does not reinsure its claim liability), overall underwriting risk (based on a national formula), risk for certain types of coverage categories, and unique aspects of the state plan.

The division, based on actuarial determination, uses a risk-based capital approach to set reserve levels. The risk-based capital (RBC) model is a methodology promulgated by the National Association of Insurance Commissioners (NAIC) and is used by virtually all of the states. The RBC formula establishes a minimum capital level for the state plan based on its specific features and compares it to the plan's actual capital level. This ratio provides a measure to compare to recommended levels of capitalization for insurance risk. In Montana, the Legislature adopted this model for determining the level of assets that are needed in domestic health insurance corporations in 1995. It is codified in Title 33, MCA as the regulatory standard applied to health care insurers in Montana.

Under the RBC approach, a target ratio of a measure known as the "authorized control level" of reserves indicates the financial stability of the insurance plan. Under the NAIC guidelines adopted by Montana, the minimum recommended level of reserves required for an insurer is 200% of the authorized control level. Levels below that amount are subject to varying degrees of regulatory oversight and control.

The State Employee Benefit Plan actuary recommended the plan set a reserve level target equivalent to 300% of the authorized control level with the 200% target as a minimum. This level is reasonable given that other insurance companies in the same marketplace have much higher reserves levels, anywhere from 700% to 1,000% of the authorized control level. These insurers may also generate more capital through debt, while the State Employee Benefit Plan cannot. As of December 31, 2011, the State Employee Benefit Plan had reserves equivalent to 391% of the authorized control level.

Reserve levels are monitored closely by the state plan's actuary and managers of the program to ensure the plan is maintaining actuarially recommended reserve levels. The State Employee Group Benefits Advisory Council (SEGBAC), which is authorized under 2-15-1016, MCA, adopted the recommended target reserve level range as described above.

Fund Equity and Reserved Fund Balance

A portion of the actuarially recommended reserves includes a component titled the "Grandfathered benefit" reserve. This component is a portion of the reserve identified for certain types of coverage and is set aside to pay the claim liability incurred when the state changed the timing on collecting premiums in August 1998. The switch was from collecting premiums prior to commencement of the month of coverage, to collecting premiums during the month of coverage. Employees in service on or before August 1998 are credited for the month of employer contribution collected prior to the change at the time they separate from service.

Cash Flow

It is projected that about \$12.3 million per month in claims expenses will be paid in FY 2013 and \$13.4 million per month in FY 2014. Contributions are collected either bimonthly with paycheck processing or at the beginning of the month depending on whether the premium is for active employees, retirees, legislators, or COBRA employees.

Retirees are required to pay the full amount of the premium but the premium is subsidized indirectly by the state share and other revenues. Employees who cover their dependents pay a portion of the cost to insure their family members while a portion is subsidized indirectly by state share and other revenue sources such as investment earnings.

The cost of providing medical care continues to rise at a rate significantly higher than general inflation. Based on FY 2012 expenditures of approximately \$135.9 million for medical, dental, and prescription drug claims, these expenditures are projected to be \$148.1 million in FY 2013 and \$161.4 million in FY 2014. This does not take into account future benefit plan changes which may impact expenditure projections.

Claims costs make up approximately 93 % of program expenditures. Administrative costs comprise about 7 % of total program expenditures including contracting with vendors to process claims and administrative costs directly within the department. In comparison, insurance companies generally have administrative costs that range from 14 % to as high as 28 % and pay 72 to 86 % of their premiums out in claims.

The program records contribution revenues received from the state contribution and out-of-pocket contributions for dependents, retirees, legislators, and COBRA participants in revenue accounts 525039, 525040, 525041, 525042, 525077, and 525079 in fund 06559. Contracted claims administrator fees are recorded in accounts 62102, 62194, and 62170. Medical and dental claims are paid out of account 67205 and 67207. Prescription drug claims are paid from account 67206. Managed care services for the managed care plans are still done via contracted services with third party administrators and are paid from accounts 62116. Vision services are paid from 67209. Long-term care premiums are paid from account 67210, long-term disability premiums are paid from account 67211, and Life Insurance premiums are paid from account 67215.

Rate Explanation

The rate provided in HB 2 is the state contribution, i.e. the employer share of contribution toward health care and benefits coverage. As a component of employee compensation, the state contribution amount is a subject of collective bargaining and is negotiated as a part of the overall pay package for state employees.

The objective for the state contribution is to provide sufficient dollars to underwrite affordable coverage for all participants in the plan, including sufficient dollars to cover the “employee only” cost of providing a core medical, dental, and life insurance benefit. In the past, there have been a few dollars of the state contribution left over that employees can apply toward dependent coverage, additional life insurance, purchase of optional benefits, or to place into a medical or dependent care flexible spending account (FSA). Currently, there is no state contribution left over for employees to apply to dependent coverage.

Income for the program in FY 2010 was approximately \$136.9 million. The state share portion of this income was approximately \$100.9 million or 74 %. The remaining income was from participant paid contributions and investment earnings. Total expenses during FY 2010 were \$135.0 million.

Projected income for the next biennium needs to match projected expenditures and other actuarially required liabilities as described below.

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

The following schedule shows historical rates for the state contribution, for employee benefit coverage, as well as historical medical and pharmacy cost trends. Rates for FY 2014 and FY 2015 have not been determined at this time.

Plan Year	Mo. Employer Contribution	% Incr. Over Prev. Yr	Medical Trend	Cost Trend	Pharmacy Cost
1996	\$220	-4.3%	N/A	N/A	
1997	\$225	2.3%	N/A	N/A	
1998	\$245	8.9%	9.0%	20.8%	
1999	\$270	10.2%	8.9%	33.2%	
2000	\$285	5.5%	8.7%	9.2%	
2001	\$295	3.5%	2.1%	17.9%	
2002	\$325	10.2%	13.4%	15.9%	
2003	\$366	12.6%	4.4%	11.6%	
2004	\$410	12.0%	-3.3%	-2.8%	
2005	\$460	12.2%	9.9%	13.3%	
2006	\$506	6.3%	6.1%	9.5%	
2007	\$557	10.1%	4.1%	15.0%	
2008	\$590	10.1%	17.4%	3.6***	
2009	\$626	10.0%	8.5%	4.3***	
2010	\$679	8.5%	7.9%	-20.0%	
2011	\$733	8.0%	9.5%	15.7%	
2012	\$733	0.0%	5.0%**	14.0%**	
2013	\$733	0.0%	8%**	10%**	

*The FY 2013 rate becomes effective January 1, 2013.

** Projected trend rates.

*** The Pharmacy trend shown includes adjustments for prior year contractual recovery of performance guarantees and rebates as well as Retiree Drug Subsidy reimbursements from the federal government. After removing the financial adjustments, actual cost and utilization trend is anticipated to be approximately 12% and 8.1%, respectively.

**** The Pharmacy trend shown is for the year of implementation of the URx pharmacy program. The pharmacy trend is expected to return to a level of 10% per year from this base amount over the next biennium.

Alternate Sources: As an alternative to providing a self-insured health plan, the state could purchase an insured plan from the private sector. Historical studies of comparable insurance plans have shown that this alternative would be more expensive. The state has operated a statewide plan since 1979 and a self-insured plan since 1984.

Customers Served: In excess of 32,000 lives are covered by the benefit plans provided by the division in the following categories; 12,700 regular full-time and part-time executive, legislative, and judicial branch employees; 3,300 retirees; 40 COBRA participants; and 16,500 dependents.

**DEPARTMENT OF ADMINISTRATION
Risk Management & Tort Defense Division
Property/Casualty Insurance Premiums
2015 Biennium**

SERVICE DESCRIPTION

The mission of the Risk Management & Tort Defense Division is to provide comprehensive and cost-effective risk management programs, insurance coverage, claims adjudication services, and legal defense to state agencies and universities that serve the citizens of Montana.

To accomplish this mission, the division investigates, evaluates, and resolves property/casualty claims that have merit consistent with ethical and legal obligations and the need to establish acceptable precedents.

The division also administers a comprehensive plan of property/casualty insurance protection and provides a broad array of risk management services to state agencies, universities, boards, councils, and commissions.

INTERNAL SERVICE FUND

In accordance with §17-7-501, MCA, the Risk Management & Tort Defense Division operates an internal service fund known as the state property/casualty insurance fund.

Funding for insurance is authorized in agency budgets by the Office of Budget and Program Planning and approved by the Legislature each biennium in accordance with §17-7-123, MCA. Proceeds from the property/casualty insurance fund are used to pay claims, purchase insurance, and to fund operations.

PREMIUM DEVELOPMENT

For purposes of premium development, all insurance premiums are combined into the following decision packages for HB 2; Auto, Aviation, General Liability, and Property. The development of property/casualty insurance premium for each decision package involves a five-step process:

Step 1 - Evaluate historical exposure, losses, and premiums.

Step 2 - Project unallocated expenses through FY 2015.

Step 3 - Project allocated expenses through FY 2015.

Step 4 - Determine an appropriate level of premium to achieve funding objectives.

Step 5 - Apportion premiums to state agencies and universities based upon historical loss experience and exposure.

STEP 1 – EVALUATE HISTORICAL EXPOSURE, LOSSES, AND PREMIUMS

Historical exposure, losses, and premiums are discussed separately by line of insurance below. Statistical indicators are found in Table 1, page 3.

AUTO

State agencies own or lease approximately 9,800 vehicles. Vehicles are used for diverse and high risk activities such as highway maintenance, law enforcement, construction, and off-road travel. These activities present significant liability risk for the state.

The number of claims, total incurred losses, and average cost per claim have been volatile since FY 2007. Since auto liability losses typically require 1 to 3 years to mature, it is unknown at this point how future loss development for losses that occurred after FY 2010 will adversely impact the state self-insurance fund.

AVIATION

State agencies own and operate 26 aircraft (including helicopters) that are used for various functions such as law enforcement, game management, firefighting, transportation of state employees, and aerial topography.

The state also owns and operates 15 state airports that connect Montana citizens and visitors. The number of flights into West Yellowstone, for example, totals over 3,000 per year.

Historically, the state has had very few aviation losses. The number of claims, total incurred losses, and average cost per claim have been stable since FY 2004.

GENERAL LIABILITY

State agencies operate prisons, hospitals, and institutions. In addition, state agencies are responsible for highway maintenance and design, law enforcement, wildlife resource management, supervision of foster children, and many other vital, high-risk functions.

The number and variety of potential risks have increased. Inmates incarcerated in prisons operated or supervised by the Department of Corrections and the number of offenders on probation or parole have also increased.

On July 1, 2000 the Department of Transportation assumed responsibility for an additional 7,500 miles of secondary highways formerly maintained by cities and counties. Despite an increase in risk, total incurred losses and average cost per claim (excluding the Libby Asbestos settlement) have declined since FY 2004.

Since general liability losses typically take 3 to 4 years to mature, it is unknown at this point how future loss development for losses that occurred after FY 2010 will impact that state self-insurance fund.

PROPERTY

State agencies and universities own or lease 4,512 properties with an estimated current replacement cost value of over \$4 billion. In addition, the state maintains and operates over 600 boilers and is responsible for fine art that has an estimated market value in excess of \$389,000,000.

The Risk Management & Tort Defense Division self-funds losses that fall below commercial catastrophic insurance deductibles of \$1,000,000 per occurrence. State agencies have experienced numerous, catastrophic losses stemming from earthquake, fire, flood, hail, boiler/machinery, and wind. State property risk is significant.

Total incurred losses have been volatile since FY 2004.

Historical Exposure, Losses & Premiums

**Table 1
as of 04/30/2012**

FY	# of Claims (1)	# of Exposures (2)	Total Incurred Losses (3)	Estimated Claims Payable (4)	Avg. Cost Per Claim (5)	Earned Premium (6)	Loss Ratio (7)
Auto							
2004	358	8,958	635,472	1,755,273	1,775	1,072,901	0.59
2005	337	9,332	752,889	985,363	2,234	1,084,369	0.69
2006	356	9,232	1,776,991	985,363	4,992	1,604,213	1.11
2007	392	9,336	571,488	985,363	1,458	1,613,363	0.35
2008	373	9,846	811,686	1,226,779	2,176	1,097,184	0.74
2009	400	9,569	728,705	1,104,281	1,822	1,104,048	0.66
2010	349	9,890	938,427	1,130,239	2,689	1,043,151	0.90
2011	387	9,667	850,111	1,024,881	2,197	1,044,540	0.81
2012	308	9,773	613,492	1,114,881	1,992	1,031,347	0.59
Aviation							
2004	0	38	0	0	0	165,728	-
2005	0	39	0	0	0	165,822	-
2006	1	42	0	0	0	174,014	-
2007	1	42	4,750	0	4,750	174,003	0.03
2008	1	41	0	0	0	167,807	-
2009	1	41	0	0	0	178,625	-
2010	0	41	0	0	0	212,451	-
2011	2	41	11,500	0	5,750	212,451	0.05
2012	0	41	0	0	0	212,451	-
General Liability							
2004	376	20,006	2,782,373	22,572,589	7,400	10,566,132	0.26
2005	291	20,113	1,975,893	18,158,781	6,790	11,205,486	0.18
2006	275	20,685	1,976,045	14,200,927	7,186	7,203,992	0.27
2007	336	20,981	2,430,230	13,263,342	7,233	7,242,383	0.34
2008	278	21,444	3,262,371	12,858,673	11,735	7,124,501	0.46
2009	220	21,736	1,852,161	11,252,814	8,419	7,123,899	0.26
2010	282	21,977	363,831	12,909,028	1,290	6,750,000	0.05
2011	434	22,467	385,777	14,285,871	889	6,750,000	0.06
2012	219	22,469	42,087	15,088,253	192	6,750,000	0.01
Property							
2004	65	2,824,599,055	728,308	1,229,961	11,205	2,965,254	0.25
2005	62	2,955,674,918	366,872	1,183,330	5,917	2,997,090	0.12
2006	69	3,494,018,047	844,140	885,961	12,234	4,949,846	0.17
2007	62	3,830,578,570	1,197,741	922,475	19,318	4,943,944	0.24
2008	54	4,498,955,722	1,594,518	2,412,671	29,528	3,959,239	0.40
2009	67	5,076,205,753	1,541,556	2,599,056	23,008	3,929,251	0.39
2010	54	5,161,117,966	1,573,095	2,634,710	29,131	3,747,417	0.42
2011	68	5,447,125,516	1,525,762	2,651,471	22,438	3,731,312	0.41
2012	43	5,450,744,899	476,452	3,093,409	11,080	3,733,020	0.13

- (1) # of claims filed
- (2) # of exposures
- (3) Amounts paid plus reserves on open claims
- (4) Actuarial estimates of claims payable on June 30th (Does not apply to aviation-due to small number of claims the state does not conduct an actuarial evaluation.)
- (5) Column (3)/(1)
- (6) Premium collected from state agencies
- (7) Column (3)/(6)

STEP 2 – PROJECT UNALLOCATED EXPENSES

Unallocated expenses are shared or common expenses that cannot be associated with a specific claim or lawsuit and fall into three categories:

- Personal Services
- Commercial Insurance Premiums
- Other Expenses

Unallocated expenses in Table 2-1 below at 2nd level include personal services such as salaries and benefits, lines 1 and 2, as well as other expenses including supplies, equipment, and rent, lines 4 through 11. Commercial insurance premiums in Table 2-1, line 3 below, are expenses incurred in the purchase of commercial excess insurance above high deductibles.

DEPARTMENT OF ADMINISTRATION Risk Management & Tort Defense Division 2 nd Level Unallocated Expenses Table 2-1							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Expense Account Description		FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Personal Services							
(1)	61100 Salaries	765,029	844,284	797,707	814,056	814,056	814,056
(2)	61400 Employee Benefits	229,269	258,735	252,171	279,876	279,876	279,876
Commercial Insurance Premiums							
(3)	62104 Insurance & Bonds	2,768,869	2,924,087	2,841,676	3,266,451	3,416,451	3,416,451
Operating Expenses							
(4)	62100 Other Services	440,512	154,670	172,200	172,200	172,200	172,200
(5)	62200 Supplies & Materials	39,401	31,708	97,609	97,609	97,609	97,609
(6)	62300 Communications	21,667	22,740	17,783	17,783	17,783	17,783
(7)	62400 Travel	14,598	19,668	14,680	14,680	14,680	14,680
(8)	62500 Rent	61,954	55,575	56,257	56,257	56,257	56,257
(9)	62600 Utilities	6,236	6,861	5,084	5,084	5,084	5,084
(10)	62700 Repair & Maintenance	13,691	2,542	5,784	5,784	5,784	5,784
(11)	62800 Other Expenses	274,511	429,250	235,083	235,083	235,083	235,083
(12)	Total 2 nd Level Expenses	4,635,737	4,750,121	4,496,035	4,964,864	5,114,864	5,114,864
Assumptions:							
Actual FY2010 expenses (SABHRS org summary).							
Actual FY2011 expenses (SABHRS org summary).							
FY2012 expenses = FY2012 actuals as of 04/30/2012 annualized.							
FY2013 expenses = October 2011 pay plan (budgeted) + FY2012 annualized + 20% increase in commercial property premium - 15% decrease in aviation premium.							
FY2014 expenses = October 2011 pay plan (budgeted) + FY2012 annualized + 20% increase in commercial property premium - 15% decrease in aviation premium + 2% increase in misc general liability premium.							
FY2015 expenses = October 2011 pay plan (budgeted) + FY2012 annualized + 20% increase in commercial property premium - 15% decrease in aviation premium + 2% increase in misc general liability premium.							

Since unallocated expenses cannot be attributed to a specific claim or lawsuit, they are apportioned on Table 2-2, page 5, by line of insurance based upon a historical three-year average of indemnity (loss) payments.

DEPARTMENT OF ADMINISTRATION Risk Management & Tort Defense Division Unallocated Expenses Table 2-2								
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
	% Indemnity ¹	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	
AUTO								
(1) Personal Services	0.187	186,300	206,671	196,714	204,968	204,968	204,968	204,968
(2) Commercial Insurance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(3) Other Expenses	0.187	163,492	135,470	113,260	113,260	113,260	113,260	113,260
(4) Sub-Total		349,791	342,140	309,974	318,228	318,228	318,228	318,228
AVIATION								
(5) Personal Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(6) Commercial Insurance	n/a	206,454	304,828	176,389	149,949	149,949	149,949	149,949
(7) Other Expenses	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(8) Sub-Total		206,454	304,828	176,389	149,949	149,949	149,949	149,949
GENERAL LIABILITY								
(9) Personal Services	0.616	612,131	679,065	646,349	673,470	673,470	673,470	673,470
(10) Commercial Insurance	n/a	250,033	210,647	215,438	215,438	365,438	365,438	365,438
(11) Other Expenses	0.616	537,190	445,118	372,144	372,144	372,144	372,144	372,144
(12) Sub-Total		1,399,355	1,334,830	1,233,930	1,261,052	1,411,052	1,411,052	1,411,052
PROPERTY								
(13) Personal Services	0.197	195,867	217,284	206,816	215,494	215,494	215,494	215,494
(14) Commercial Insurance	n/a	2,312,381	2,408,612	2,449,849	2,901,064	2,901,064	2,901,064	2,901,064
(15) Other Expenses	0.197	171,888	142,427	119,077	119,077	119,077	119,077	119,077
(16) Sub-Total		2,680,136	2,768,323	2,775,742	3,235,635	3,235,635	3,235,635	3,235,635
(17) Grand Total Personal Services		994,298	1,103,019	1,049,878	1,093,932	1,093,932	1,093,932	1,093,932
(18) Grand Total Commercial Insurance		2,768,869	2,924,087	2,841,676	3,266,451	3,416,451	3,416,451	3,416,451
(19) Grand Total Other Expenses		872,570	723,015	604,481	604,481	604,481	604,481	604,481
(20) Grand Total Operating Expenses		4,635,737	4,750,121	4,496,035	4,964,864	5,114,864	5,114,864	5,114,864

Assumptions:
Actual FY2010 expenses (SABHRS org summary).
Actual FY2011 expenses (SABHRS org summary).
FY2012 expenses = FY2012 actuals as of 04/30/2012 annualized.
FY2013 expenses = October 2011 pay plan (budgeted) + FY2012 annualized + 20% increase in property premium - 15% decrease in aviation premium.
FY2014 expenses = October 2011 pay plan (budgeted) + FY2012 annualized + 20% increase in commercial property premium - 15% decrease in aviation premium + 2% increase in misc general liability premium.
FY2015 expenses = October 2011 pay plan (budgeted) + FY2012 annualized + 20% increase in commercial property premium - 15% decrease in aviation premium + 2% increase in misc general liability premium.
¹Average 3 year indemnity and LAE payments as a % of total indemnity and LAE payments (2009-2011).

STEP 3 – PROJECT ALLOCATED EXPENSES

Allocated expenses are expenses specific to individual claims and are determined by line of insurance without being apportioned. Allocated expenses include:

- Loss Adjustment Expenses
- Indemnity Expenses

Loss adjustment expenses (LAE) are expenses associated with the investigation, evaluation, and resolution of a claim/lawsuit including adjuster fees, attorney fees, and court costs. Indemnity expenses are payments to claimants in satisfaction of settlements or court verdicts for each claim/lawsuit.

Allocated expenses are provided in Table 3, page 6. Projected indemnity expenses for FY 2013 through FY 2015 are based on estimated prospective liabilities & payouts set by the division's actuarial consultant, Towers Watson.

DEPARTMENT OF ADMINISTRATION						
Risk Management & Tort Defense Division						
Allocated Expenses						
Table 3						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
AUTO						
(1) Loss Adjustment Expenses	34,671	62,907	52,578	66,450	66,450	66,450
(2) Indemnity	732,102	995,437	1,072,094	933,870	966,326	951,727
(3) Sub-Total	766,773	1,058,343	1,124,672	1,000,320	1,032,776	1,018,177
AVIATION						
(4) Loss Adjustment Expenses	-	-	-	-	-	-
(5) Indemnity	12,048	190,001	-	-	-	-
(6) Sub-Total	12,048	190,001	-	-	-	-
GENERAL LIABILITY						
(7) Loss Adjustment Expenses	2,102,839	1,580,029	1,654,319	2,086,471	2,086,471	2,086,471
(8) Indemnity	1,410,041	672,159	29,228,129	1,719,465	1,675,561	1,665,531
(9) Sub-Total	3,512,881	2,252,188	30,882,449	3,805,936	3,762,032	3,752,002
PROPERTY						
(10) Loss Adjustment Expenses	26,146	61,956	27,582	67,118	67,118	67,118
(11) Indemnity	1,759,655	2,214,889	4,031,341	3,542,601	3,473,840	2,098,296
(12) Sub-Total	1,785,801	2,276,845	4,058,923	3,609,719	3,540,958	2,165,414
(13) Grand Total Loss Adjustment Expenses	2,163,656	1,704,892	1,734,479	2,220,039	2,220,039	2,220,039
(14) Grand Total Indemnity	3,913,847	4,072,486	34,331,564	6,195,936	6,115,727	4,715,554
(15) Grand Total Allocated Expenses	6,077,503	5,777,378	36,066,043	8,415,975	8,335,766	6,935,593
Assumptions:						
Actual FY2010 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report).						
Actual FY2011 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report).						
Annualized FY2012 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report).						
FY2013 LAE = 3 yr average (09-11 Loss Trends report) & Indemnity expenses = Estimated Prospective Liabilities & Payouts (2/17/12 actuarial report pages 8 & 9) & \$3M insurance recoveries spent.						
FY2014 LAE = 3 yr average (09-11 Loss Trends report) & Indemnity expenses = Estimated Prospective Liabilities & Payouts (2/17/12 actuarial report pages 8 & 9) & \$3M insurance recoveries spent.						
FY2015 LAE = 3 yr average (09-11 Loss Trends report) & Indemnity expenses = Estimated Prospective Liabilities & Payouts (2/17/12 actuarial report pages 8 & 9).						

STEP 4 - DETERMINE AN APPROPRIATE LEVEL OF PREMIUM

Now that exposure and expenses have been established, data from Table 2-2 (page 5) and Table 3 (page 6) can be brought forward into a funding model and an appropriate level of premium established as discussed through the remainder of this section.

The high-risk nature of services provided by state agencies, unpredictable litigation outcomes, catastrophic losses, and increases in the cost of commercial insurance mean the division's funding estimates are highly variable. Therefore, the Risk Management & Tort Defense Division utilizes a risk margin (i.e. reserve) to 'cushion' the property/casualty insurance fund from large and unexpected deviations in loss experience. A reserve is a fund balance that exceeds actuarial estimates of claims liabilities.

Many other public entities nationally, and in Montana (including the Montana Municipal Insurance Authority), maintain reserves and the state's consulting actuary, Towers Watson, recommends that the state continue this practice.

AUTO

Prior to the 2015 biennium budget process, the Risk Management & Tort Defense Division reduced state and university auto insurance premium charges three of the last four biennia. However, recent historic auto losses and declining investment income have had an adverse effect on the division's auto insurance reserve position.

Consistent with actuarial recommendations, the division's funding objectives for the 2015 biennium are to maintain reserves sufficient to achieve target funding ratios that trend towards < .9 (premiums to reserve ratio) or < 2 (unpaid liabilities to reserve ratio). In order to move towards target funding ratios, the division proposes to increase state agency and university insurance premiums 10% each year of the 2015 biennium above the FY 2012 base premium.

The funding model for auto insurance is found in Table 4-1, page 7 (next page). Proposed premium levels are provided on line (1), Table 4-1, page 7 at \$1,248,500 for each year of the 2015 biennium.

Projected Changes in Revenue, Expenses, and Reserves						
For the Period Ending June 30th						
Table 4-1						
Auto Insurance Program						
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Gross Premiums Written	1,135,000	1,135,000	1,135,000	1,135,000	1,248,500	1,248,500
(1) Net Premiums Earned	1,043,153	1,044,541	1,031,344	1,031,344	1,123,019	1,123,019
(2) Losses Paid	732,102	995,437	1,072,094	933,870	966,326	951,727
(3) Loss Expenses Paid	34,671	62,907	52,578	66,450	66,450	66,450
Operations	349,791	342,140	309,974	318,228	318,228	318,228
Commercial Insurance Premiums	0	0	0	0	0	0
Total Losses and Expenses	1,116,565	1,400,484	1,434,646	1,318,548	1,351,004	1,336,405
(4) Net Income (Loss) Before Investments	(73,412)	(355,943)	(403,302)	(287,204)	(227,986)	(213,387)
(5) Net Investment Income Earned	7,425	8,753	2,716	631	312	312
(6) Insurance Recoveries	66,152	63,475	43,981	94,972	94,972	94,972
(7) Net Income (Loss)	164	(283,715)	(356,605)	(191,602)	(132,702)	(118,103)
Prior Years Assets	990,551	1,490,716	1,707,000	1,600,396	1,658,794	2,426,091
Total Assets Before Transfers	990,716	1,207,000	1,350,396	1,408,794	1,526,091	2,307,988
Transfers In (Out)	500,000	500,000	250,000	250,000	900,000	0
(8) Total Assets Before Loans or Appropriations	1,490,716	1,707,000	1,600,396	1,658,794	2,426,091	2,307,988
Aggregate Write-Ins	0	0	0	0	0	0
Total Assets	1,490,716	1,707,000	1,600,396	1,658,794	2,426,091	2,307,988
Non-Claim Liabilities	271,309	201,233	201,233	201,233	201,233	201,233
Claims Liabilities	1,130,239	1,024,881	1,114,881	1,170,659	1,179,363	1,191,996
Total Liabilities	1,401,548	1,226,114	1,316,114	1,371,893	1,380,596	1,393,229
(9) Reserves	89,168	480,886	284,281	286,901	1,045,495	914,759
Towers Watson Funding Objectives:						
Premiums to Reserves of .9	0.12	0.64	3.63	3.59	1.07	1.23
Unpaid Claims Liabilities to Reserves of 2	12.68	2.13	3.92	4.08	1.13	1.30

AVIATION

Favorable commercial aviation insurance market conditions and a recent competitive aviation bid mean that state agency and university aviation insurance premium charges will decline an estimated 20% each year of the 2015 biennium from the 2012 base premium. An actuarial study is not conducted for aviation insurance due to the small number of claims and variability in costs.

The funding model for aviation insurance is found in Table 4-2, page 7 (below). The funding objective for aviation insurance during the 2015 biennium is to charge a level of premium sufficient to cover projected commercial insurance premiums and projected loss expenses. Proposed premiums are provided on line (1), Table 4-2, page 7 and are \$169,961 each year of the biennium.

Projected Changes in Revenue, Expenses, and Reserves						
For the Period Ending June 30th						
Table 4-2						
Aviation Insurance Program						
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Gross Premiums Written	212,451	212,451	212,451	212,451	169,961	169,961
(1) Net Premiums Earned	212,451	212,451	212,451	212,451	169,961	169,961
(2) Losses Paid	12,048	190,001	0	0	0	0
(3) Loss Expenses Paid	0	0	0	0	0	0
Operations	0	0	0	0	0	0
Commercial Insurance Premiums	206,454	304,828	176,389	149,949	149,949	149,949
Total Losses and Expenses	218,502	494,829	176,389	149,949	149,949	149,949
(4) Net Income (Loss) Before Investments	(6,051)	(282,378)	36,062	62,502	20,012	20,012
(5) Net Investment Income Earned	1,390	1,638	508	118	42	42
(6) Insurance Recoveries	12,048	180,500	0	1,866	1,866	1,866
(7) Net Income (Loss)	7,387	(100,239)	36,570	64,486	21,920	21,920
Prior Years Assets	(37,791)	(30,404)	(130,643)	(94,073)	(29,587)	(7,666)
Total Assets Before Transfers	(30,404)	(130,643)	(94,073)	(29,587)	(7,666)	14,254
Transfers In (Out)	0	0	0	0	0	0
(8) Total Assets Before Loans or Appropriations	(30,404)	(130,643)	(94,073)	(29,587)	(7,666)	14,254
Aggregate Write-Ins	0	0	0	0	0	0
Total Assets	(30,404)	(130,643)	(94,073)	(29,587)	(7,666)	14,254
Non-Claim Liabilities	0	0	0	0	0	0
Claims Liabilities	0	0	0	0	0	0
Total Liabilities	0	0	0	0	0	0
(9) Reserves	(30,404)	(130,643)	(94,073)	(29,587)	(7,666)	14,254
Funding Objective 2015 Biennium:						
Premium sufficient to cover actual costs						

GENERAL LIABILITY

Declining investment income due to the economy and the \$26.8 million Libby asbestos settlement had a significant impact on the state property/casualty insurance fund's asset and reserve position during FY 2012. The Libby settlement represents the largest loss in the history of the state property/casualty insurance fund. As a result of this settlement, reserves declined from \$12,456,153 at the end of FY 2011 to a projected unfunded liability of \$16,579,361 at the end of FY 2013.

Absent a general fund transfer, the state self-insurance fund will not recover lost financial assets and reserves and the division may be unable to pay future claims. Therefore, the division's proposal for the 2015 biennium assumes a transfer of \$26.8 million from the general fund to restore vital assets and reserves that were lost in the Libby settlement. The transfer is necessary to assure that adequate assets and reserves are available to pay future claims and to provide adequate insurance protection for state agencies' and universities' vital assets and resources.

Consistent with actuarial recommendations, the division's funding objectives for the 2015 biennium are to maintain reserves sufficient to move towards target funding ratios of < .9 (premiums to reserve ratio) or < 2 (unpaid liabilities to reserve ratio).

In order to progress towards target funding ratios, the division proposes to increase state agency and university general liability insurance premiums 12% each year of the 2015 biennium above the FY 2012 base premium. The funding model for general liability insurance is found in Table 4-3, page 8 (below). Proposed premiums are provided on line (1), Table 4-3, page 8.

Projected Changes in Revenue, Expenses, and Reserves						
For the Period Ending June 30th						
Table 4-3						
General Liability Insurance Program						
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Gross Premiums Written	6,750,000	6,750,000	6,750,000	6,750,000	7,575,000	7,575,000
(1) Net Premiums Earned	6,750,000	6,750,000	6,750,000	6,750,000	7,575,000	7,575,000
(2) Losses Paid	1,410,041	672,159	29,228,129	1,719,465	1,675,561	1,665,531
(3) Loss Expenses Paid	2,102,839	1,580,029	1,654,319	2,086,471	2,086,471	2,086,471
Operations	1,149,322	1,124,183	1,018,493	1,045,614	1,045,614	1,045,614
Commercial Insurance Premiums	250,033	210,647	215,438	215,438	365,438	365,438
Total Losses and Expenses	4,912,236	3,587,018	32,116,379	5,066,988	5,173,084	5,163,054
(4) Net Income (Loss) Before Investments	1,837,764	3,162,982	(25,366,379)	1,683,012	2,401,916	2,411,946
(5) Net Investment Income Earned	44,155	52,054	16,151	3,751	3,689	3,689
(6) Insurance Recoveries	0	0	0	1,037	1,037	1,037
(7) Net Income (Loss)	1,881,919	3,215,036	(25,350,228)	1,687,799	2,406,641	2,416,671
Prior Years Assets	22,306,269	24,188,188	27,403,223	302,995	240,795	21,697,436
Total Assets Before Transfers	24,188,188	27,403,223	2,052,995	1,990,795	2,647,436	24,114,107
Transfers In (Out)	0	0	(1,750,000)	(1,750,000)	(7,750,000)	0
Transfers In (Out) Libby Asbestos Settlement	0	0	0	0	0	0
(8) Total Assets Before Loans or Appropriations	24,188,188	27,403,223	302,995	240,795	(5,102,564)	24,114,107
General Fund Transfer	0	0	0	0	26,800,000	0
Aggregate Write-Ins	0	0	0	0	0	0
Total Assets	24,188,188	27,403,223	302,995	240,795	21,697,436	24,114,107
Non-Claim Liabilities	891,449	661,199	661,199	661,199	661,199	661,199
Claims Liabilities	12,909,028	14,285,871	15,088,253	16,158,957	17,234,888	18,238,636
Total Liabilities	13,800,477	14,947,070	15,749,452	16,820,156	17,896,088	18,899,835
(9) Reserves	10,387,710	12,456,153	(15,446,457)	(16,579,361)	3,801,349	5,214,272
Towers Watson Funding Objectives:						
Premiums to Reserves of .90	0.65	0.54	(0.44)	(0.41)	1.99	1.45
Unpaid Claims Liability to Reserves of 2			(0.98)	(0.97)	4.53	3.50

PROPERTY

The number of property losses, total cost, and average cost per claim have been very volatile since FY 2004. Catastrophic hail, wind, and flood losses in Montana and catastrophic events worldwide have had a significant effect on the availability and affordability of commercial excess property insurance.

In addition, the state's deductible for property insurance has increased from \$250,000 per occurrence in FY 2009 to \$1,000,000 per occurrence in FY 2012. A further 'hardening' of commercial insurance markets and future losses may result in an even higher deductible of \$2,000,000 per occurrence during the 2015 biennium. The increase in the magnitude of the state's deductible now means that the state has to pay a higher share of each property loss and will require additional funding, especially for catastrophic losses. Consistent with actuarial recommendations, the division's funding objectives for the 2015 biennium are to maintain reserves sufficient to achieve target funding ratios that trend towards 10 (reserves to deductible ratio).

In order to move towards target funding ratios, the division proposes to increase state agency and university general liability insurance premiums 20% each year of the 2015 biennium above the FY 2012 base premium. The funding model for property insurance is found in Table 4-4, page 9 (below). Proposed premiums for the 2015 biennium are provided on line (1), Table 4-4, page 9.

Projected Changes in Revenue, Expenses, and Reserves For the Period Ending June 30th Table 4-4						
Property Insurance Program						
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Gross Premiums Written	4,200,000	4,200,000	4,200,000	4,200,000	5,040,000	5,040,000
(1) Net Premiums Earned	3,747,416	3,731,312	3,733,023	3,733,023	4,502,000	4,502,000
(2) Losses Paid	1,759,655	2,214,889	4,031,341	3,542,601	3,473,840	2,098,296
(3) Loss Expenses Paid	26,146	61,956	27,582	67,118	67,118	67,118
Operations	367,755	359,711	325,893	334,571	334,571	334,571
Commercial Insurance Premiums	2,312,381	2,408,612	2,449,849	2,901,064	2,901,064	2,901,064
Total Losses and Expenses	4,465,937	5,045,168	6,834,664	6,845,353	6,776,592	5,401,048
(4) Net Income (Loss) Before Investments	(718,521)	(1,313,856)	(3,101,641)	(3,112,330)	(2,274,593)	(899,049)
(5) Net Investment Income Earned	27,474	32,389	10,050	2,334	1,258	1,258
(6) Insurance Recoveries	774,962	4,225,938	3,550,916	70,609	70,609	70,609
(7) Net Income (Loss)	83,915	2,944,471	459,324	(3,039,387)	(2,202,726)	(827,182)
Prior Years Assets	2,343,160	1,022,477	3,051,643	5,010,966	3,471,579	8,118,853
Total Assets Before Transfers	2,427,075	3,966,949	3,510,966	1,971,579	1,268,853	7,291,671
Transfers In (Out)	(500,000)	(500,000)	1,500,000	1,500,000	6,850,000	0
(8) Total Assets Before Loans or Appropriations	1,927,075	3,466,949	5,010,966	3,471,579	8,118,853	7,291,671
Aggregate Write-Ins	(904,598)	(415,306)	0	0	0	0
Total Assets	1,022,477	3,051,643	5,010,966	3,471,579	8,118,853	7,291,671
Non-Claim Liabilities	285,242	211,567	211,567	211,567	211,567	211,567
Claims Liabilities	2,634,710	2,651,471	3,093,409	3,184,781	3,479,007	3,786,076
Total Liabilities	2,919,952	2,863,038	3,304,976	3,396,348	3,690,574	3,997,643
(9) Reserves	(1,897,475)	188,604	1,705,990	75,231	4,428,279	3,294,028
Towers Watson Funding Objectives: Reserves to Deductible of 10	(3.79)	0.19	1.71	0.08	4.43	3.29

**2015 BIENNIUM
DECISION PACKAGE SUMMARY**

PROPERTY/CASUALTY INSURANCE FUND FEE/RATE INFORMATION								
	FY 2012	FY 2013	FY 2014	FY 2014 \$ Change from FY 2012	FY 2014 \$ Change from FY 2013	FY 2015	FY 2015 \$ Change from FY 2012	FY 2015 \$ Change from FY 2013
Auto	1,135,000	1,135,000	1,248,500	113,500	113,500	1,248,500	113,500	113,500
Aviation	212,451	212,451	169,961	(42,490)	(42,490)	169,961	(42,490)	(42,490)
General Liability	6,750,000	6,750,000	7,575,000	825,000	825,000	7,575,000	825,000	825,000
Property	4,200,000	4,200,000	5,040,000	840,000	840,000	5,040,000	840,000	840,000
Total	12,297,451	12,297,451	14,033,461	1,736,010	1,736,010	14,033,461	1,736,010	1,736,010
	FY 2012	FY 2013	FY 2014	FY 2014 % Change from FY 2012	FY 2014 % Change from FY 2013	FY 2015	FY 2015 % Change from FY 2012	FY 2015 % Change from FY 2013
Auto	1,135,000	1,135,000	1,248,500	10%	10%	1,248,500	10%	10%
Aviation	212,451	212,451	169,961	-20%	-20%	169,961	-20%	-20%
General Liability	6,750,000	6,750,000	7,575,000	12%	12%	7,575,000	12%	12%
Property	4,200,000	4,200,000	5,040,000	20%	20%	5,040,000	20%	20%
Total	12,297,451	12,297,451	14,033,461	14%	14%	14,033,461	14%	14%

STEP 5 - APPORTION PREMIUMS BASED UPON LOSS EXPERIENCE AND EXPOSURE

In accordance with §2-9-202, MCA, the Risk Management & Tort Defense Division is responsible for the allocation of insurance premiums to state agencies subject to appropriations by the Legislature.

The philosophy of the Risk Management & Tort Defense Division is that each state agency should bear a proportionate share of premium commensurate with state loss experience and exposure.

The division incurs significant expense in the investigation, defense, and settlement of claims and lawsuits. Agencies with higher losses will pay higher insurance premiums. No one agency is expected to bear the burden of paying for total costs of unexpected losses from its authorized budget.

The Risk Management & Tort Defense Division allocates insurance premium as provided in the 2015 Biennium Decision Package Summary as follows:

Auto

Total auto premium collections of \$1,248,500 each year of the biennium is comprised of two separate insurance coverages:

	FY 2014	FY 2015
Auto comp/collision	\$540,117	\$586,405
Auto liability	\$708,383	\$662,095

Auto comp/collision premiums for FY 2014 and FY 2015 are based upon total values of reported vehicles.

Auto liability premiums for the 2015 biennium will be based upon agency losses over the past 4 years as well as the number of vehicles reported and will vary by agency.

Aviation

Aviation premium of \$169,961 in FY 2014 and FY 2015 is allocated to those agencies that have aircraft based upon charges from commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft. Airport premium is determined by commercial insurance carriers and apportioned to those agencies that have airports based upon the number of airports.

General Liability

Total general liability premium of \$7,575,000 each year of the biennium is comprised of commercial coverage and self-insured coverage as follows:

	FY 2014	FY 2015
Commercial coverage	\$ 293,675	\$ 303,299
Self-insured coverage	\$7,281,325	\$7,271,701

Commercial coverage charges are negotiated with commercial insurance carriers.

General liability rates for each agency will increase for the 2015 biennium; however premiums by agency may vary slightly to changes in exposure (i.e. # of FTEs).

Property

Property insurance premium of \$5,040,000 is allocated to each agency based on its percentage of reported exposures (i.e. building replacement cost values, boilers & machinery, etc.).

Attachment #1 provides a detailed breakdown of insurance premiums by agency, by line of insurance, for FY 2014. Attachment #2 provides a detailed breakdown of insurance premiums by agency, by line of insurance, for FY 2015.

FY 2014 Premium Allocation by Agency

Attachment #1

BU	Agency	Entity	Auto		Aviation		General		Property					Total	
			Liability	C/C	Aircraft	Airport	Liability	Misc.	Property	B&M	Crime	Fine Arts	Misc.		
61010	Administration	Administration	4,330	5,974	-	-	96,236	-	390,748	4,035	2,640	-	-	-	503,963
61050	Administration	Teachers Retirement	-	-	-	-	3,099	-	-	-	85	-	-	-	3,184
61040	Administration	PERD	-	-	-	-	6,887	-	707	-	189	-	-	-	7,783
61080	Administration	Public Defenders Office	859	3,649	-	-	35,554	-	3,554	-	976	-	-	-	44,592
62010	Agriculture	Agriculture	5,253	9,875	-	-	30,830	-	4,091	70	648	-	-	-	50,767
34010	Auditor's Office	Auditor's Office	-	459	-	-	11,290	-	673	-	411	-	-	-	12,833
51150	Board of Education	State Library	133	340	-	-	5,978	-	1,984	-	191	-	-	-	8,626
51140	Board of Education	MT Arts Council	-	-	-	-	1,376	-	109	-	44	-	-	-	1,529
51010	Board of Education	Board of Education	-	-	-	-	591	-	26	-	19	-	-	-	636
51130	Board of Education	School for Deaf & Blind	1,394	2,929	-	-	13,098	-	22,066	209	419	-	-	-	40,115
65010	Commerce	Commerce	66	265	-	-	52,140	-	28,509	-	1,001	2	-	-	81,983
65010	Commerce	Heritage Commission	248	647	-	-	6,646	-	31,932	-	128	3,257	-	-	42,858
32020	Comm. of Political Practices	Comm. Of Political Practices	-	-	-	-	835	-	-	-	28	-	-	-	863
64010	Corrections	Board of Pardons	-	-	-	-	4,789	-	86	-	45	-	-	-	4,920
64010	Corrections	Corrections	2,758	5,488	-	-	187,772	-	17,020	209	1,773	-	-	-	215,020
64010	Corrections	State Prison	18,731	8,828	-	-	303,103	-	98,825	5,218	2,861	-	-	-	437,566
64010	Corrections	Prison Industries	14,768	1,924	-	-	70,294	-	37,649	1,044	664	-	-	-	126,343
64010	Corrections	Women's Corr. Ctr.	484	44	-	-	33,183	-	28,121	348	313	21	-	-	62,514
64010	Corrections	Treasure State CC	321	19	-	-	13,411	-	4,343	139	127	-	-	-	18,360
64010	Corrections	Riverside	484	74	-	-	16,048	-	6,771	835	152	-	-	-	24,364
64010	Corrections	Pine Hills	1,503	110	-	-	62,677	-	22,423	348	592	-	-	-	87,653
53010	Environmental Quality	Environmental Quality	9,086	12,268	-	-	150,263	-	5,307	626	2,388	-	-	-	179,938
52010	Fish, Wildlife, & Parks	Fish, Wildlife, & Parks	21,523	19,021	47,561	-	130,881	-	81,170	904	3,739	3,244	2,519	-	310,562
11040	Elected Officials	Legislative Branch	-	-	-	-	22,624	-	3,608	-	889	-	-	-	27,121
31010	Elected Officials	Governor's Office	-	490	11,800	-	7,375	-	-	-	290	41	-	-	19,996
11120	Elected Officials	Consumer Counsel	-	-	-	-	666	-	124	-	26	-	-	-	816
32010	Elected Officials	Secretary of State	-	227	-	-	7,205	-	701	-	283	34	-	-	8,450
51170	Historical Society	Historical Society	-	15	-	-	11,546	-	7,602	-	325	94,328	-	-	113,816
41100	Justice	Justice	44,203	105,460	6,245	-	245,542	-	38,373	626	3,840	-	-	-	444,289
41070	Justice	Crime Control	-	423	-	-	6,041	-	294	-	94	-	-	-	6,852
66020	Labor & Industry	Labor & Industry	12,547	30,042	-	-	117,541	-	18,294	974	4,338	-	-	-	183,736
56030	Livestock	Livestock	7,043	2,481	28,671	-	25,702	-	666	-	685	-	-	-	65,248
67010	Military Affairs	Military Affairs	712	17,169	-	-	59,806	-	163,848	2,087	976	-	-	-	244,598
57060	Natural Resources	Swan River	-	-	-	-	-	-	3,942	209	-	-	-	-	4,151
57060	Natural Resources	Natural Resources	33,078	65,586	47,601	-	91,803	-	53,130	278	2,851	-	3,135	-	297,462
69010	DPHHS	State Hospital	4,177	1,389	-	-	229,543	-	54,259	487	2,475	-	450	-	292,780
69010	DPHHS	CF Vet's Home	1,429	1,389	-	-	72,846	-	18,385	904	785	5	1,500	-	97,243
69010	DPHHS	Mental Health Nursing Care Ctr	1,136	1,606	-	-	72,846	-	10,057	209	785	-	700	-	87,339
69010	DPHHS	Glendive Vet's Home	1,361	971	-	-	438	-	8,419	209	5	-	-	-	11,403
69010	DPHHS	DPHHS	10,663	44,971	-	-	783,907	-	63,771	557	8,452	-	-	-	912,321
69010	DPHHS	MT Dev. Ctr.	5,849	1,996	-	-	144,841	-	35,247	1,670	1,562	-	225	-	191,390
69010	DPHHS	MT Chem. Dep. Ctr.	429	-	-	-	31,340	-	497	-	338	-	100	-	32,704
35010	Office of Pubic Instr.	Office of Public Instr.	662	565	-	-	21,940	-	946	-	1,033	-	-	-	25,146
42010	Public Service Comm.	Public Service Comm.	473	600	-	-	7,743	-	525	-	202	-	-	-	9,543
58010	Revenue	Revenue	8,031	37,900	-	-	87,385	-	17,668	-	3,223	-	-	-	154,207
21100	Supreme Court	Supreme Court	3,226	5,219	-	-	70,053	-	9,133	-	1,984	-	-	-	89,615
61030	State Fund	State Fund	3,244	5,336	-	-	242,304	-	36,776	209	1,344	-	-	-	289,213
54010	Transportation	Transportation	373	3,254	19,338	8,750	2,378,515	-	199,551	1,878	10,625	28	3,500	-	2,625,812
54010	Transportation	Motor Pool	101,042	-	-	-	-	-	-	-	-	-	-	-	101,042
54010	Transportation	Equipment	220,717	-	-	-	-	-	-	-	-	-	-	-	220,717
51030	University System	UM	55,305	54,694	-	-	470,943	157,392	1,063,392	7,027	14,182	8,512	-	-	1,831,447
51080	University System	Western	3,610	2,683	-	-	34,663	-	114,335	1,531	1,044	212	-	-	158,078
51020	University System	Comm. Of Higher Ed	-	-	-	-	17,522	136,283	522	-	528	-	7,243	-	162,098
51100	University System	MSU Extension Service	2,875	3,830	-	-	18,349	-	740	-	553	-	-	-	26,347
51190	University System	MSU FSTS	4,143	6,363	-	-	1,337	-	290	-	40	-	-	-	12,173
51090	University System	MSU AES	31,058	23,428	-	-	30,743	-	43,501	70	926	-	-	-	129,726
51060	University System	MSU Billings	7,910	12,207	-	-	92,750	-	229,980	2,574	2,793	515	-	-	348,729
35130	University System	GF COT	1,481	772	-	-	28,817	-	60,459	487	868	11	-	-	92,895
35140	University System	Helena COT	3,736	2,367	-	-	16,068	-	47,548	1,183	484	17	-	-	71,403
51040	University System	MSU Bozeman	29,757	19,004	-	-	475,100	-	1,322,272	3,479	14,307	21,066	-	-	1,884,985
51050	University System	MT Tech	10,371	11,929	-	-	79,863	-	203,454	1,252	2,405	188	-	-	309,462
51070	University System	MSU Northern	15,800	3,837	-	-	38,640	-	106,500	3,687	1,164	18	12,500	-	182,146
		FY 2014 Premium	1,248,500		169,961		7,575,000				5,040,000				14,033,461
		FY 2012 Premium	1,135,000		212,451		6,750,000				4,200,000				12,297,451
		% Change	10.00%		-20.00%		12.22%				20.00%				14.12%

FY 2015 Premium Allocation by Agency

Attachment #2

BU	Agency	Entity	Auto		Aviation		General		Property					Total	
			Liability	C/C	Aircraft	Airport	Liability	Misc.	Property	B&M	Crime	Fine Arts	Misc.		
61010	Administration	Administration	4,088	4,182	-	-	95,046	-	412,128	4,236	1,736	-	-	-	521,416
61050	Administration	Teachers Retirement	-	-	-	-	3,097	-	-	-	57	-	-	-	3,154
61040	Administration	PERD	-	-	-	-	6,882	-	719	-	126	-	-	-	7,727
61080	Administration	Public Defenders Office	760	4,053	-	-	36,562	-	3,985	-	668	-	-	-	46,028
62010	Agriculture	Agriculture	4,910	11,074	-	-	30,789	-	4,220	68	420	-	-	-	51,481
34010	Auditor's Office	Auditor's Office	-	752	-	-	11,275	-	686	-	282	-	-	-	12,995
51150	Board of Education	State Library	124	301	-	-	6,588	-	1,832	-	145	-	-	-	8,990
51140	Board of Education	MT Arts Council	-	-	-	-	1,192	-	111	-	26	-	-	-	1,329
51010	Board of Education	Board of Education	-	-	-	-	569	-	26	-	13	-	-	-	608
51130	Board of Education	School for Deaf & Blind	1,303	2,186	-	-	12,667	-	22,424	205	280	-	-	-	39,065
65010	Commerce	Commerce	63	293	-	-	51,491	-	28,824	-	606	-	4	-	81,281
65010	Commerce	Heritage Commission	229	460	-	-	7,217	-	32,449	-	85	2,702	-	-	43,142
32020	Comm. of Political Practices	Comm. Of Political Practices	-	-	-	-	834	-	-	-	19	-	-	-	853
64010	Corrections	Board of Pardons	-	-	-	-	5,320	-	87	-	33	-	-	-	5,440
64010	Corrections	Corrections	3,676	21,369	-	-	170,289	-	17,023	205	1,047	-	-	-	213,609
64010	Corrections	State Prison	17,265	8,399	-	-	342,693	-	100,425	5,397	2,108	-	-	-	476,287
64010	Corrections	Prison Industries	13,581	1,580	-	-	35,119	-	37,035	1,025	216	-	-	-	88,556
64010	Corrections	Women's Corr. Ctr.	441	167	-	-	37,781	-	28,576	342	232	17	-	-	67,556
64010	Corrections	Treasure State CC	148	71	-	-	14,365	-	4,444	205	88	-	-	-	19,321
64010	Corrections	Riverside	326	322	-	-	17,294	-	6,880	547	106	-	-	-	25,475
64010	Corrections	Pine Hills	1,062	422	-	-	67,503	-	22,786	342	415	-	-	-	92,530
53010	Environmental Quality	Environmental Quality	8,493	8,147	-	-	150,065	-	5,928	615	1,513	-	-	-	174,761
52010	Fish, Wildlife, & Parks	Fish, Wildlife, & Parks	20,117	22,795	51,697	-	130,708	-	83,304	1,093	2,527	2,691	2,519	-	317,451
11040	Elected Officials	Legislative Branch	-	-	-	-	22,571	-	3,666	-	578	-	-	-	26,815
31010	Elected Officials	Governor's Office	-	490	11,464	-	7,249	-	-	-	186	34	-	-	19,423
11120	Elected Officials	Consumer Counsel	-	-	-	-	680	-	126	-	17	-	-	-	823
32010	Elected Officials	Secretary of State	-	227	-	-	7,320	-	732	-	187	28	-	-	8,494
51170	Historical Society	Historical Society	-	15	-	-	11,531	-	7,759	-	214	78,703	-	-	98,222
41100	Justice	Justice	41,314	114,279	8,339	-	245,966	-	40,217	752	2,560	-	-	-	453,427
41070	Justice	Crime Control	-	286	-	-	5,284	-	58	-	55	-	-	-	5,683
66020	Labor & Industry	Labor & Industry	11,727	27,374	-	-	117,385	-	18,463	956	2,874	-	-	-	178,779
56030	Livestock	Livestock	6,583	2,566	27,385	-	25,668	-	769	-	458	-	-	-	63,429
67010	Military Affairs	Military Affairs	666	18,950	-	-	59,727	-	166,365	2,118	646	-	-	-	248,472
57060	Natural Resources	Swan River	-	-	-	-	-	-	4,006	205	-	-	-	-	4,211
57060	Natural Resources	Natural Resources	30,917	66,811	41,543	-	91,681	-	55,019	273	1,835	-	3,135	-	291,214
69010	DPHHS	State Hospital	4,173	1,758	-	-	224,654	-	48,977	478	1,578	-	450	-	282,068
69010	DPHHS	CF Vet's Home	1,428	1,289	-	-	79,658	-	18,682	615	559	4	1,500	-	103,735
69010	DPHHS	Mental Health Nursing Care Ctr	1,135	1,384	-	-	79,211	-	10,219	205	556	-	700	-	93,410
69010	DPHHS	Glendive Vet's Home	572	981	-	-	448	-	8,556	273	3	-	-	-	10,833
69010	DPHHS	DPHHS	9,824	43,396	-	-	787,129	-	50,144	956	5,528	-	-	-	896,977
69010	DPHHS	MT Dev. Ctr.	5,843	1,917	-	-	135,598	-	35,689	1,640	952	-	225	-	181,864
69010	DPHHS	MT Chem. Dep. Ctr.	428	92	-	-	27,299	-	505	-	192	-	100	-	28,616
35010	Office of Pubic Instr.	Office of Public Instr.	619	573	-	-	21,911	-	961	-	691	-	-	-	24,755
42010	Public Service Comm.	Public Service Comm.	442	495	-	-	7,732	-	534	-	137	-	-	-	9,340
58010	Revenue	Revenue	7,506	37,462	-	-	87,270	-	28,851	-	2,118	-	-	-	163,207
21100	Supreme Court	Supreme Court	3,015	6,211	-	-	69,960	-	9,649	-	1,322	-	-	-	90,157
61030	State Fund	State Fund	3,032	5,775	-	-	241,983	-	36,968	205	901	-	-	-	288,864
54010	Transportation	Transportation	358	3,008	20,783	8,750	2,375,371	-	200,146	1,571	7,048	23	490	-	2,617,548
54010	Transportation	Motor Pool	93,490	-	-	-	-	-	-	-	-	-	-	-	93,490
54010	Transportation	Equipment	207,236	-	-	-	-	-	-	-	-	-	-	-	207,236
51030	University System	UM	50,029	62,187	-	-	456,753	157,357	1,083,505	7,105	9,351	8,903	-	-	1,835,190
51080	University System	Western	3,354	5,155	-	-	34,739	-	116,651	1,435	711	176	-	-	162,221
51020	University System	Comm. Of Higher Ed	-	-	-	-	15,588	145,942	530	-	319	-	8,857	-	171,236
51100	University System	MSU Extension Service	2,935	4,647	-	-	17,975	-	752	-	368	-	-	-	26,677
51190	University System	MSU FSTS	3,492	6,517	-	-	1,285	-	292	-	26	-	-	-	11,612
51090	University System	MSU AES	26,684	18,150	-	-	39,855	-	46,223	68	816	-	-	-	131,796
51060	University System	MSU Billings	6,985	13,292	-	-	94,456	-	235,013	2,665	1,934	436	-	-	354,781
35130	University System	GF COT	1,248	1,671	-	-	25,974	-	61,743	478	532	11	-	-	91,657
35140	University System	Helena COT	3,148	2,554	-	-	17,903	-	48,318	888	367	14	-	-	73,192
51040	University System	MSU Bozeman	34,730	26,156	-	-	474,862	-	1,309,025	3,621	9,721	18,022	-	-	1,876,137
51050	University System	MT Tech	8,739	19,974	-	-	86,273	-	209,605	1,230	1,766	715	-	-	328,302
51070	University System	MSU Northern	13,855	4,190	-	-	37,408	-	108,225	3,553	766	15	12,500	-	180,512
		FY 2015 Premium	1,248,500		169,961		7,575,000			5,040,000					14,033,461
		FY 2012 Premium	1,135,000		212,451		6,750,000			4,200,000					12,297,451
		% Change	10.00%		-20.00%		12.22%			20.00%					14.12%

The Legislative Fiscal Division Presents an Agency Profile of: The Department of Commerce

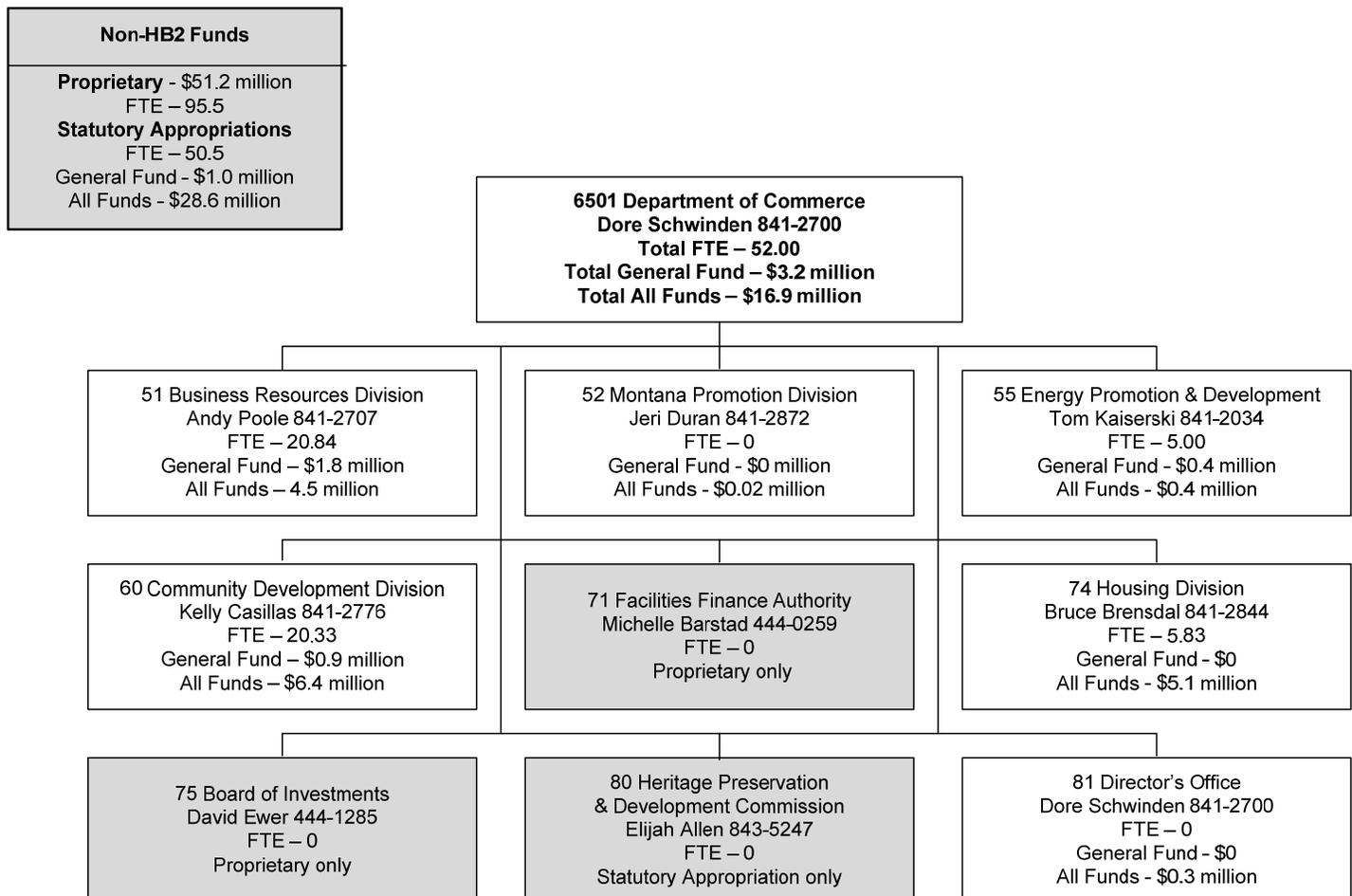
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Updated December 2012

Agency Description

Definition of Terms

The Department of Commerce (DOC) works with economic and community development organizations, businesses, communities, governmental entities, tribal governments, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing, and facilities.



How Services are Provided

The Department of Commerce provides these services through a structure consisting of nine divisions and a total of 198.00 FTE performing the following functions:

- 1) Business Resources Division - works closely with the private sector, local communities, economic development organizations, and state and federal government agencies to improve the economy of Montana through business creation, expansion, and retention efforts by providing:
 - Business technical assistance through the Small Business Development Center and trade and international relations
 - Information provided by the Census and Economic Information Center
 - Economic development assistance to Montana's 11 Indian tribes through the State Tribal Economic Development Commission
 - Research for commercialization of businesses in Montana using the Board of Research and Commercialization Technology
 - Economic development financing
- 2) Montana Promotion Division - marketing and promotion of Montana tourism and film industry
- 3) Energy Promotion and Development Division – facilitates and promotes energy development in Montana
- 4) Community Development Division – supports community infrastructure development and provides technical assistance through seven programs:
 - ◇ Community Development Block Grants (CDBG) - federal funded grants to local governments for community development, housing, and public facility projects
 - ◇ Treasure State Endowment Program (TSEP) - state funded grants to local governments, water and sewer districts, and tribes infrastructure projects, planning and emergency grants; grants are awarded by the Legislature
 - ◇ Quality Schools Grant Program – state funded grants to K-12 public school districts for school facility projects, planning, and emergency grants; grants are awarded by the Legislature
 - ◇ Coal Board - state funded grants to local governments, tribes, school districts, and special districts to remediate effects of coal mining on communities in designated coal development areas
 - ◇ Hard Rock Mining Impact Board - technical assistance, analysis, mitigation and mediation services to local governments and hard rock mining developers where potentially adverse public fiscal impacts from large-scale development are identified
 - ◇ Montana Main Street – state funded grants and technical assistance to non-profit organizations and local governments for downtown revitalization and historic preservation
 - ◇ Community Technical Assistance Program (CTAP) - technical assistance in land use and planning to local governments and the public and private sector for the purposes of aiding and encouraging orderly, productive, and coordinated development of the communities of the state

How Services are Provided

- 5) Facilities Finance Authority – assists non-profit healthcare and human service facilities, and pre-release centers acquire low-interest and low-cost capital financing
- 6) Housing Division – supports safe and affordable housing in communities throughout Montana through rental assistance, construction financing, rehabilitation financing, and low interest mortgages. The division is funded almost exclusively with federal and proprietary enterprise funds as follows:
 - ◇ Board of Housing (BOH) – The Homeownership Programs assists low and moderate income Montanans in purchasing a home (\$50 million in mortgage financing annually) and then services those loans in Montana.
 - ◇ Low Income Housing Tax Credits is a federal income tax credit for owners of qualifying rental housing (\$20 million in equity financing annually). The Reverse Annuity Mortgage (RAM) Program provides low income senior households affordable rates on a reverse mortgage (\$1 million of mortgage financing annually)
 - ◇ Section 8 Housing - Section 8 is financed by HUD and administered by the Housing Division. Section 8 pays a portion of the tenant’s rent that they cannot afford (\$35 million of rent subsidy annually)
 - ◇ HOME - The HOME program is a federally funded block grant program administered by the Housing Division to create affordable housing for low-income households (\$3 million of grants annually)
- 7) Board of Investments – prudently invests essentially all of State of Montana funds including daily cash amounts, trust funds, and pension monies; also provides short term investment alternative to local governments, and administers loan programs that support Montana businesses and municipalities
- 8) Montana Heritage Commission – manages and preserves historic cultural properties and artifacts for the State of Montana, notably the Virginia City and Nevada City holdings, and Reeder’s Alley in Helena
- 9) Directors Office – The Director’s Office provides overall leadership, communication, and management support to agency staff, programs, bureaus, divisions, and administratively attached boards. The office provides executive, administrative, legal, and policy direction along with offering problem-solving guidance. The office also maintains a federally funded contract with the Montana Council on Developmental Disabilities (MCDD)

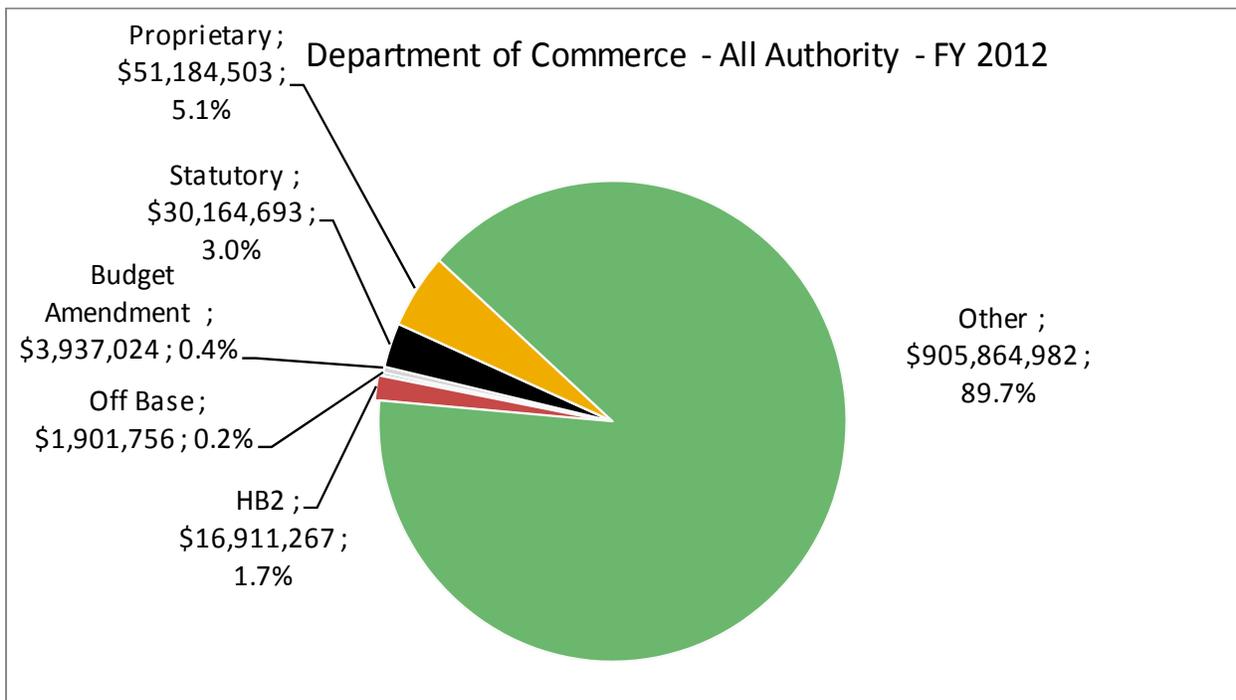
Sources of Spending Authority

The above chart shows the sources of appropriation authority for the Department of Commerce. For a more detailed description of accounting terminology, please refer to the definition of terms. The operations of DOC are funded through a combination of proprietary, statutory, and HB 2 appropriations.

The Montana Board of Investments is charged with managing the state's short-term investment pool (STIP). Statute provides that STIP shareholders are qualifying state agencies and Montana local government units, including cities, counties, and school districts. In FY 2012, \$857.9 million of non-budgeted activity for financial transactions related to STIP was recorded as benefits and claims on the state's accounting records, and for purposes of this table is included as "Other".

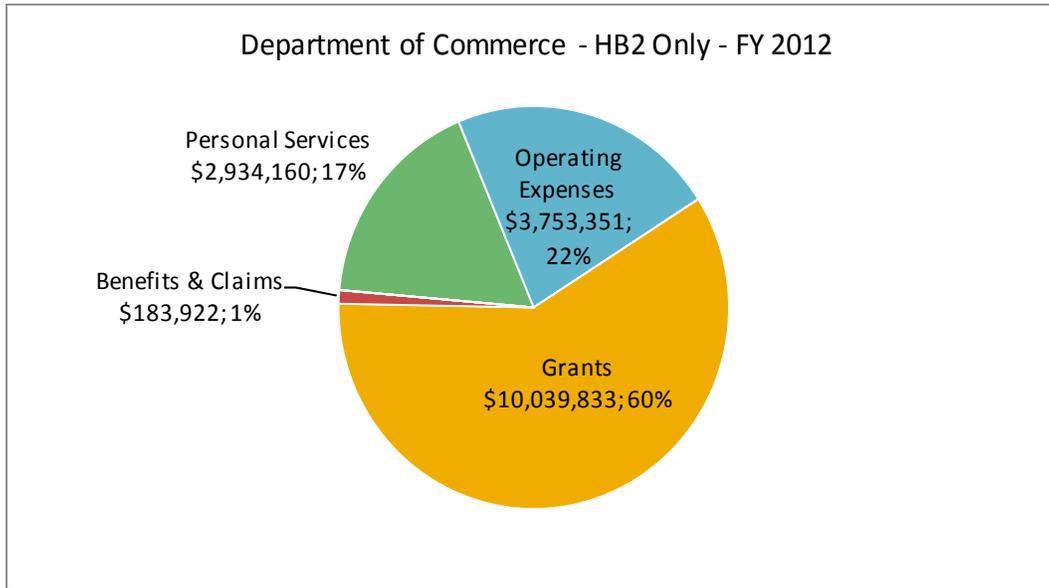
"Other" also includes:

- Authority granted through appropriations included in other bills in addition to those included in HB 2
- \$30.2 million in administrative appropriations used by the Board of Housing for debt service activity
- \$8.3 million in administrative appropriations for Montana's state small business credit initiative



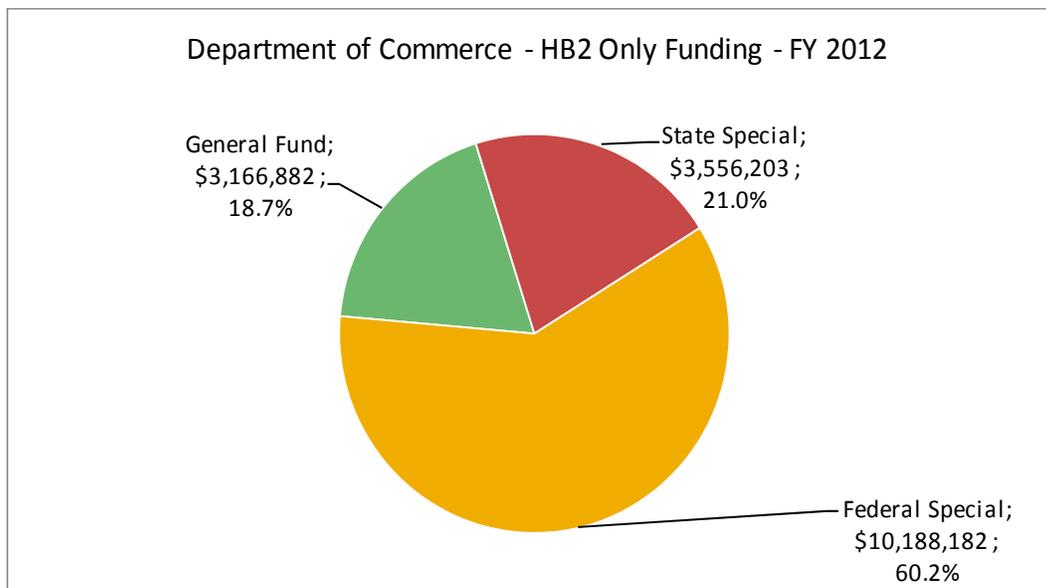
Expenditures

The next chart explains how House Bill (HB) 2 authority is spent. Of the total authority, 17% was spent on personal services costs for 52.00 FTE and 22% on operating expenses. 60% of the funding supports grants for the Montana Council on Development Disabilities, HOME grants, Community Development Block Grant, and the Montana Coal Board. This chart matches the agency base expenditures found in the 2015 Budget Analysis.

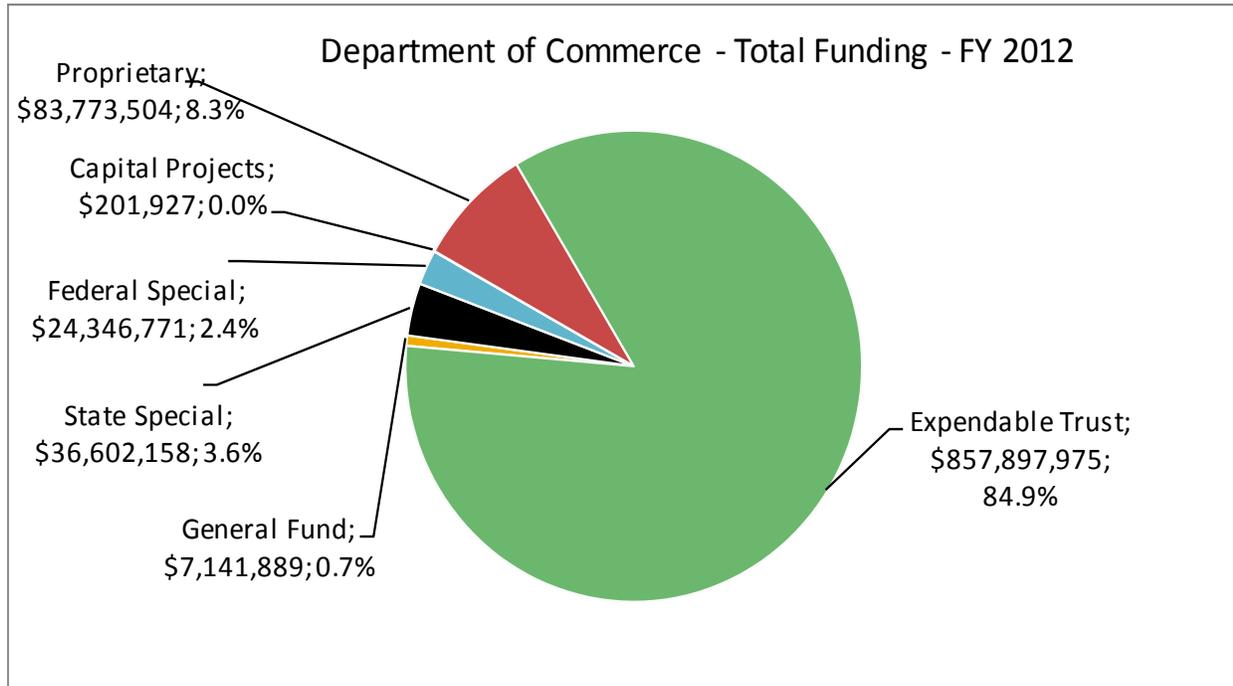


Funding

The following charts show the agency's HB 2 funding authority by fund type and all sources of its total funding authority.



Funding, cont.



The Department of Commerce is funded primarily with federal special revenue funds from sources such as the Community Development Block Grant (CDBG), Small Business Administration (SBA), and HUD Section 8 program funds.

- State special revenue funds are 21.0% of the total. State special revenues include:
 - Authority for loans made through the Small Business Development Center to micro-business development centers
 - Grant funding for Coal Board programs that fund governmental services that are a direct consequence of an increase or decrease of coal development or as the result of an increase or decrease in the consumption of coal by a coal-using energy complex
 - The Treasure State Endowment Program (TSEP) is funded with interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust. 50% of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund until June 30, 2016
 - The Hard-Rock Mining Impact Board is funded by a 2.5% allocation of the Metalliferous Mines License Tax.
 - Private contributions to joint private/state targeted advertising campaigns support activities within the Montana Promotion Division

General fund represents 18.7% of department funding, and is used for the required match in the federal CDBG and SBA programs, to support the Trade and International Relations Bureau as well as the Census and Economic Information Center, the Community Technical Assistance program, and the Energy Promotion and Development Division.

How the 2013 Legislature Can Effect Change

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

- Grant and Loan/Financing program priorities – changes to the funding priorities have a major impact on overall expenditures. Such changes may include defining eligibility criteria, ranking criteria, identifying specific types of projects that are preferred and setting minimum or maximum amounts for grants and loans
- Economic development objectives – defining specific economic development goals that provide the agency with overall policy direction and guidance for measureable achievements
- Diversification and expansion of economic base - examining existing legislation or creating new legislation to achieve the greatest return for the public investment
- Infrastructure development priorities – changes to the funding priorities have a major impact on overall expenditures. Such changes may include defining eligibility criteria, ranking criteria, identifying specific types of projects that are preferred, and setting minimum or maximum amounts for grants and loans

Major Cost Drivers

Activity for this agency varies depending upon:

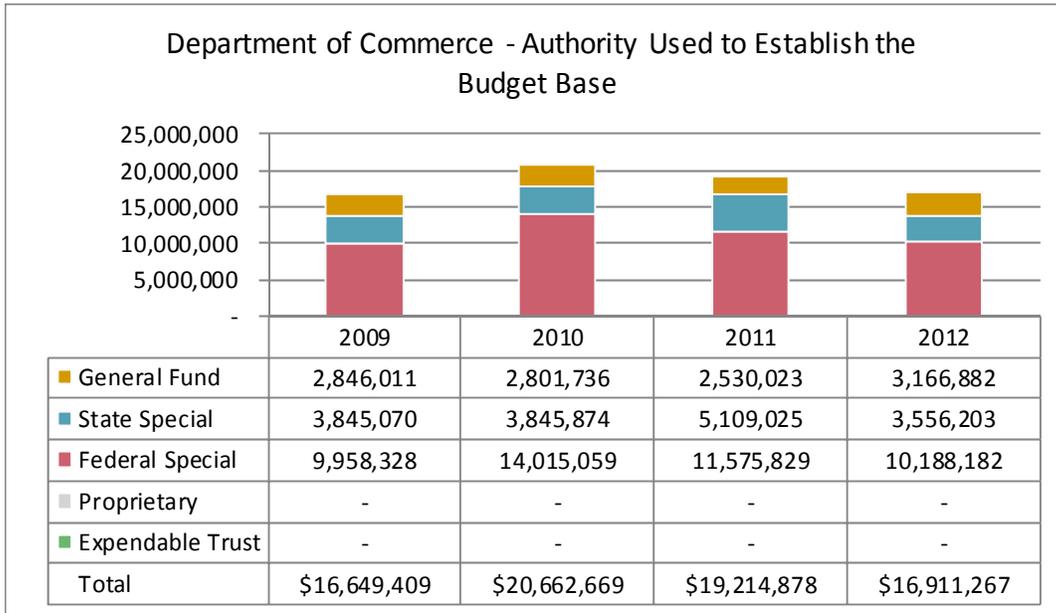
- Financing costs for investments for the Montana
- Housing market
- Level of coal mined that generates funding for projects
- Recreational and tourism activities
- Development of alternative energy technologies such as wind turbines

Element	2008	2012	Significance of Data
Research and Commercialization funding	\$287 million	\$301 million	Cumulative level of funding provided for projects
Primary Sector Workforce Training	\$5.224 million	\$0.9 million	Awards provided to Montana businesses
Indian Country Economic Development (ICED)	152	253	Jobs created/retained/trained
Number of Nonresident Visitors	10.7 million - CY 2007	10.5 million CY 2011	Impacts of tourism promotion
Amount of Out-of State Tourism Dollars	\$3.1 billion CY - 2007	\$2.7 billion CY 2011	Impacts of tourism promotion
Number of CDBG Public Facilities and Housing Grants Awarded	10	7	Fluctuations in federal funding
Amount of Single Family Mortgages (HD)	\$206.83 million	\$50 million	Impacts of recession on housing market
Amount of Section 8 Rental Assistance	\$35 million	\$35 million	Low-income assistance provided
Amount of Section 8 Housing Customers	8,401	4,000	Impacts of recession on allocations
Total Assets Invested by BOI	\$12.4 billion	\$12.9 billion	Level of the fiduciary responsibility of the board

Funding/Expenditure History

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

- Fluctuations between odd and even years due to the biennial appropriation of several funds
- Increased federal authority for Community Development Block Grants



Major Legislative Changes in the Last Ten Years

Changes to Department of Commerce Organization

The 2003 Legislature established the Office of Economic Development within the Office of the Governor, and reorganized the Department of Commerce by transferring several programs and divisions to other agencies .

Montana Heritage Commission

The 2003 Legislature continued the statutory transfer of \$400,000 of accommodations tax revenue into the Montana Heritage preservation and development account.

The 2007 Legislature indefinitely extended the allocation of lodging facility use tax (bed tax) to the Montana heritage preservation and development account for the benefit of supporting facilities and programs at Virginia City and Nevada City. Each year, \$400,000 of this tax is allocated to the Montana heritage preservation and development account.

The 2007 Legislature included funding for two projects within the Department of Commerce:

- \$2.0 million from the long-range building fund for preservation and improvements at Virginia and Nevada Cities, Montana
- \$0.5 million from the general fund for the Cowboy Hall of Fame

Major Legislative Changes in the Last Ten Years, cont.

Workforce Training

The 2005 Legislature established the Primary Sector Business Workforce Training Act. HB 564 provides for a seven member loan review committee to make grants to qualifying primary sector businesses to pay for employee education and training by eligible service providers, and provides temporary funding for workforce training grants through Board of Investment loans.

The 2005 Legislature transferred the New Worker Training Program from the Governor's Office of Economic Opportunity to the Department of Commerce and revised the programs funding mechanism. The legislature approved the transfer of 2.00 FTE and appropriated \$2.8 million of one-time-only (OTO) state general fund over the 2007 biennium in HB 2 for the New Worker Training Program.

The 2007 Legislature revised the amount of workforce training funding from the Big Sky Trust Economic Development program for each expected job from \$5,000 to \$7,500 for high poverty counties. The bill also allows more advantageous match requirements for loans and grants under the program for high poverty areas.

Infrastructure

The legislature appropriates state special revenue to the Treasure State Endowment program (TSEP) to finance infrastructure grants during most sessions.

The 2009 Legislature created the Quality Schools Facility Grant Program, provided an account for future funding, required the deposit of specific revenues in to the account, created an initial appropriation of \$12.0 million over the 2011 biennium, and created a statutory appropriation of \$1.0 million annually for school technology specific purposes.

Job Creation

The 2005 Legislature established the big sky economic development fund, a sub fund within the permanent coal severance tax trust with an initial infusion of \$20 million.

The 2007 Legislature increased the allocation of coal severance tax trust funds available for value-added and infrastructure loans made pursuant to 17-6-309(2), to enhance economic development and create jobs in the basic sector of the economy. The total allocation for infrastructure loans increased from \$50 million to \$80 million and the total allocation for value-added loans increased from \$50 million to \$70 million.

The 2009 Legislature reallocated 2.9 percent of coal severance tax revenue from the general fund to the oil, gas, and coal natural resources account. This change doubles the current allocation for a period of four years beginning in FY 2010 and continuing through FY 2013.

Tourism and promotion

The 2005 Legislature established the Big Sky on the Big Screen Act. HB 584 requires production companies to apply to the Department of Commerce for state certification of a production in order to qualify for the tax credits enumerated in the bill. The application fees established in the bill are deposited in a state special revenue account and statutorily appropriated in an equal amount to the Department of Commerce and the Department of Revenue.

Major Legislative Changes in the Last Ten Years, cont.

Lumber industry

The 2009 Legislature created the Distressed Wood Products Industry Revolving Loan Program and a statutory appropriation to the department for the purposes described in the bill.

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

Department of Commerce

301 S. Park

P.O. Box 200501

Helena, MT 59620-0501

Phone: (406) 841-2700

Webpage: <http://commerce.mt.gov/>

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	52.00	52.00	56.50	56.50	52.00	56.50	4.50	8.65%
Personal Services	2,934,154	3,330,923	3,906,085	3,906,222	6,265,077	7,812,307	1,547,230	24.70%
Operating Expenses	3,753,374	6,998,401	7,059,324	7,227,876	10,751,775	14,287,200	3,535,425	32.88%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Grants	10,039,832	17,837,755	19,304,505	17,926,870	27,877,587	37,231,375	9,353,788	33.55%
Benefits & Claims	183,921	0	358,921	358,921	183,921	717,842	533,921	290.30%
Total Costs	\$16,911,281	\$28,167,079	\$30,628,835	\$29,419,889	\$45,078,360	\$60,048,724	\$14,970,364	33.21%
General Fund	3,166,889	3,204,433	6,859,281	5,859,717	6,371,322	12,718,998	6,347,676	99.63%
State Special	3,556,214	8,193,567	6,162,775	5,735,329	11,749,781	11,898,104	148,323	1.26%
Federal Special	10,188,178	16,769,079	17,606,779	17,824,843	26,957,257	35,431,622	8,474,365	31.44%
Total Funds	\$16,911,281	\$28,167,079	\$30,628,835	\$29,419,889	\$45,078,360	\$60,048,724	\$14,970,364	33.21%

Agency Description

Agency Mission: The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana’s positive national and international image. The Department of Commerce will enhance and sustain a healthy economy so Montana businesses, communities, and people can prosper.

For additional information please refer to the agency profile.

Agency Highlights

Department of Commerce Major Budget Highlights
<ul style="list-style-type: none"> ◆ The overall budget increases 29.3%, or \$13.2 million including \$4.6 million in general fund. Increased general fund is primarily due to continued funding of programs that had been funded as one-time-only in previous biennia: <ul style="list-style-type: none"> ● Indian county economic development ● Main Street Program ● Primary business sector training ◆ Federal grant funding requests increase \$8.5 million including: <ul style="list-style-type: none"> ● Community Development Block Grants ● Emergency Home Loan Program ● Home grants ● Board of Housing Foreclosure Mitigation
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Ongoing programs continue to be designated as one-time-only ◆ Statutory appropriations for research and development are appropriated twice

Agency Discussion

In FY 2012 the agency expended \$150.4 million, of which \$16.9 million or 11.2% was included as part of HB 2 appropriations as shown in the agency budget comparison. Figure 1 shows the expenditures and funding sources, including statutory appropriations and non-budgeted proprietary funds, in FY 2012 for the agency.

Figure 2

Approximately \$70 million or 50% of the funding was spent in FY 2012 on benefits and claims, grants, and local assistance. Benefits and claims includes:

- o \$16.5 million in Section 8 housing vouchers
- o \$18.9 million in Section 8 project claims

Grants include support for:

- o \$1.6 million in Coal Board project grants
- o \$3.0 million in community development block grant projects
- o \$0.8 million in Treasure State Endowment projects
- o \$3.1 million in neighborhood stabilization projects
- o \$5.8 million in housing project grants
- o \$4.4 million for quality school projects
- o \$0.3 million in hard rock mining grants
- o \$0.7 million for tribal economic development
- o \$0.2 million for new worker training

\$5.0 million in local assistance was provided to support regional and local tourism and marketing efforts.

Agency Personal Services

The personal services budget for the 2015 biennium increases due to :

- o An overall vacancy savings rate of 5.7% compared to a budgeted 4% vacancy rate
- o Annualization of broadband pay increases that were granted throughout FY 2012. The total annual cost of salaries from all funding sources, both HB 2 and non-budgeted proprietary funds, is about \$1.2 million. The agency moved employees to the minimum of their salary range after review and amendment of the position salary ranges for individuals in pay bands 2, 3, 4, 5, and 6. Employees in pay bands 7, 8, and 9 were granted a 7.5% adjustment as the agency was unable to afford to pay the minimum of the newly adopted salary ranges for the positions in these pay bands
- o As of November 30, 2012 there were 8 positions that have been vacant for longer than six months, the majority of them student interns hired during the summer months

Department of Commerce indicates that about 9.8% of the employees are currently eligible for either early or full retirement. In FY 2012 the agency paid \$0.2 million in retirement and sick leave payouts that are not included as part of the 2015 biennium personal services funding.

5% Reduction Plan

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

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining

Department of Commerce FY 2012		
Budget Item	FY 2012	% of Total
Expenditures		
Personal Services	\$12,711,185	8.45%
Operating Expenses	38,009,802	25.28%
Equipment	74,008	0.05%
Local Assistance	5,031,750	3.35%
Grants	24,129,097	16.05%
Benefits and Claims*	37,838,153	25.16%
Transfers Out	1,416,419	0.94%
Bonds	30,919,526	20.56%
Other Post Employment Benefits	251,837	0.17%
Total Expenditures	\$150,381,777	100.00%
Funding		
General Fund	\$6,374,270	4.24%
State Special Revenue	35,341,257	23.50%
Federal Special Revenue	24,220,504	16.11%
Long Range Building	201,927	0.13%
Proprietary	84,243,819	56.02%
Total Funding	\$150,381,777	100.00%

*Excluding STIP distributions and disbursements

- Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- Current plans to address obsolescence
- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$12,718,998	\$0	\$9,500,000	\$22,218,998	8.8%
State Special Total	11,898,104	-	65,111,869	77,009,973	30.6%
Federal Special Total	35,431,622	-	2,140,402	37,572,024	14.9%
Proprietary Total	-	112,303,720	2,939,462	115,243,182	45.7%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	\$60,048,724	\$112,303,720	\$79,691,733	\$252,044,177	
Percent - Total All Sources	23.8%	44.6%	31.6%		

Over 75% of the overall funding for the Department of Commerce is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as a statutory appropriation. Within HB 2, the Governor proposes restoring several programs that were funded with one-time-only general fund appropriations by the 2011 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections. The Governor proposes restoring the programs as listed below:

- Primary Business Sector Training – OTO - \$2.0 million for the 2015 biennium
- Main Street – OTO - \$0.3 million for the 2015 biennium
- Tribal Economic Development – \$1.6 million for the 2015 biennium

General fund also supports the Census and Economic Information Center, Regional Development Bureau, trade and international relations activities, Entrepreneur Development Program /NxLevel, and the Made in Montana program; and provides match for the federal Community Development Block Grant. \$9.5 million of general fund is statutorily appropriated for the Research and Commercialization Program. This is discussed as an issue in the program narrative for the Business Resources Division.

State special revenues support the Montana Promotion Division, the Microbusiness Loan Program, research and commercialization, the Treasure State Endowment Program, the Coal Board, the Hard Rock Mining Board, Distressed Wood Products Program, quality school project grants and the Montana Heritage Commission. The Montana Heritage Commission is funded with \$400,000 in lodging use facility taxes received each year, a portion of light vehicle registrations, and revenues generated by Virginia and Nevada cities as well as Reeder’s Alley. The funding supports 12.00 FTE and the operational costs of operating the historic properties.

Federal special revenues include the Community Development Block Grant, Small Business Development Centers, and various programs for housing.

A significant portion of the funding for the agency is non-budgeted proprietary funding. Proprietary funds are discussed in detail in the narrative sections of each program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	3,166,889	3,166,889	6,333,778	49.80%	16,911,281	16,911,281	33,822,562	56.33%
Statewide PL Adjustments	362,802	358,993	721,795	5.67%	738,472	685,937	1,424,409	2.37%
Other PL Adjustments	154,695	158,940	313,635	2.47%	9,804,933	9,648,522	19,453,455	32.40%
New Proposals	3,174,895	2,174,895	5,349,790	42.06%	3,174,149	2,174,149	5,348,298	8.91%
Total Budget	\$6,859,281	\$5,859,717	\$12,718,998		\$30,628,835	\$29,419,889	\$60,048,724	

The statewide present law adjustments provide for personal service adjustments including:

- Refunding vacancy savings, minus 4%
- Annualization of broadband pay plan increases
- Funding statutorily required increases for longevity

The adjustments also include increases for both fixed costs such as State Information Technology Services (SITSD), insurance and bonds, messenger services, SABHRS and HRIS fees, and warrant writing services and decreases for gasoline, statewide indirect costs and workers’ compensation management fees.

Other present law adjustments include administrative and federal grant adjustments. New proposals include requests to restore one-time-only funding for the primary business sector training and tribal economic development.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	20.84	20.84	24.34	24.34	20.84	24.34	3.50	16.79%
Personal Services	1,174,751	1,438,014	1,734,406	1,734,844	2,612,765	3,469,250	856,485	32.78%
Operating Expenses	2,417,014	4,333,439	4,221,945	4,434,821	6,750,453	8,656,766	1,906,313	28.24%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Grants	941,092	3,348,507	5,329,625	4,329,951	4,289,599	9,659,576	5,369,977	125.19%
Total Costs	\$4,532,857	\$9,119,960	\$11,285,976	\$10,499,616	\$13,652,817	\$21,785,592	\$8,132,775	59.57%
General Fund	1,844,043	1,861,084	5,130,866	4,130,817	3,705,127	9,261,683	5,556,556	149.97%
State Special	1,064,998	2,204,807	2,197,048	2,196,636	3,269,805	4,393,684	1,123,879	34.37%
Federal Special	1,623,816	5,054,069	3,958,062	4,172,163	6,677,885	8,130,225	1,452,340	21.75%
Total Funds	\$4,532,857	\$9,119,960	\$11,285,976	\$10,499,616	\$13,652,817	\$21,785,592	\$8,132,775	59.57%

Program Description

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs, the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts.

Program Highlights

Business Resources Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ General fund increases mainly due: <ul style="list-style-type: none"> ● Continued funding of programs that have been funded as one-time-only in previous biennia including: <ul style="list-style-type: none"> ○ Indian county economic development ○ Primary business sector training ● New proposals for : <ul style="list-style-type: none"> ○ Montana Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) ○ Biomedical Research Grants
Major LFD Issues
<ul style="list-style-type: none"> ◆ Ongoing programs continue to be designated as one-time-only ◆ Statutory appropriations for research and development are appropriated twice

Program Discussion

Personal services increases are due to a broadband pay adjustment and restoring vacancies for an overall vacancy savings rate of 23.3% compared to a budgeted 4% rate. Operating costs increase due to proposals to adjust costs for administrative expenses such as loans for community development block grants and increased appropriation authority for federal grants.

General fund for the program increases significantly due to new requests for:

- Economic development funding for tribal businesses
- One-time-only funding for primary business sector grants for new and existing Montana businesses to train new employees

**LFD
ISSUE**

Ongoing Programs Continue to Be Designated As One-Time-Only

The 2005 Legislature approved funding for three programs as one-time-only for the 2007 biennium:

- Indian County Economic Development Program
- Main Street Program
- Worker Training Program, which evolved into the Primary Business Sector Training Program

Subsequent legislatures have funded the programs, primarily using general fund, as one-time-only since that time. The programs have been in operation for over nine years, but have been funded as though the program activities would not be continued in the next biennium.

The executive is once again requesting general fund to support these programs in the 2015 biennium, and is requesting that two of the programs – Primary Business Sector Training Program and the Main Street Program – be funded as one-time-only. Given that the programs have been in continuous operation since FY 2006, the legislature may wish to consider if the designation of one-time-only is appropriate for the funding.

As part of the information submitted in the budget, the executive has provided a discussion of the goals, performance criteria, risks, and milestones for each of the “new” programs since FY 2008. The goals of the projects include job and business creation, workforce training, and community revitalization. To further evaluate the need and value of these programs, the legislature may wish to examine the successes the programs had in terms of their goals, objectives, and performance criteria. The evaluation could be used to gauge the success of the programs, whether any successes warrant further funding, and whether the goals and objectives provided fit with the one-time-only funding request or if the projects should be funded on an on-going basis.

Legislative Option

The legislative choices include:

- Fund the programs on an ongoing basis, removing the one-time-only designation
- Continue to fund the programs as one-time-only

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget - Business Resources Division							
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$9,261,683	\$0	\$9,500,000	\$18,761,683	38.5%		
State Special Total	\$4,393,684	\$0	\$15,265,748	\$19,659,432	40.4%		
02090 Business Asst-private	\$180,000	\$0	\$0	\$180,000	0.4%		
02094 Distressed Wood Match	\$0	\$0	\$24,030	\$24,030	0.0%	90-1-504	Direct
02100 Distressed Wood State	\$0	\$0	\$999,532	\$999,532	2.1%	90-1-50	Direct
02116 Accommodation Tax Account	\$0	\$0	\$300,000	\$300,000	0.6%	15-65-121	Direct
02210 Microbusiness Admin Acct	\$203,684	\$0	\$0	\$203,684	0.4%		
02212 Microbusiness Loan Acct	\$4,000,000	\$0	\$0	\$4,000,000	8.2%		
02557 Research & Commercialization	\$0	\$0	\$7,300,000	\$7,300,000	15.0%	90-3-1003	Direct
02771 Economic Development Trust Fund	\$0	\$0	\$6,642,186	\$6,642,186	13.6%	90-1-205	Direct
02848 Sbdc Private Revenue Nonfed	\$10,000	\$0	\$0	\$10,000	0.0%		
Federal Special Total	\$8,130,225	\$0	\$2,140,402	\$10,270,627	21.1%		
03059 Community Development Block	\$5,271,257	\$0	\$0	\$5,271,257	10.8%		
03061 Eda Revolving Loan Fund	\$801,020	\$0	\$0	\$801,020	1.6%		
03092 Distressed Woods Federal	\$0	\$0	\$2,140,402	\$2,140,402	4.4%	90-1-504	Direct
03207 Small Business Dev. Centers	\$1,471,850	\$0	\$0	\$1,471,850	3.0%		
03233 Instep/epscor Funds	\$50,000	\$0	\$0	\$50,000	0.1%		
03932 Cdbg Rlf	\$536,098	\$0	\$0	\$536,098	1.1%		
Total All Funds	\$21,785,592	\$0	\$26,906,150	\$48,691,742	100.0%		
Percent - Total All Sources	44.7%	0.0%	55.3%				

HB 2 Funding

General fund supports a number of functions including technology and biomedical research programs, the Montana Capital Investment Board, the Census and Economic Information Center, tribal economic development, the Made in Montana program, regional development programs, and international relations programs. The general fund increase is primarily due:

- A proposal to continue funding for economic development programs that had been designated as one-time-only in the previous biennia
- New economic development programs including Montana Small Business Innovation Research Program and the Small Business Technology Transfer Program
- One-time-only funding for biomedical research grants to support biomedical research in Montana

State special revenues includes authority for loans made through the Small Business Development Center to micro-business development centers.

Federal special revenues are mainly comprised of federal funding for community development block grants.

LFD COMMENT	The Budget Control Act includes automatic spending reductions, called sequesters, that are currently scheduled to take effect January 2, 2013. For discretionary spending the estimated amount of the reduction is 8.2%. Community development block grants are included in the programs that are covered by the BCA required reductions. As a result, funding for the program may be reduced below what is shown in the executive's proposed budget.
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Statutory Appropriations

Over half of the funding in the Business Resource Division is statutorily appropriated. The legislature may effect change in these appropriations through changes to the statutes listed in the table shown above.

General fund for the research and commercialization program and business and economic development programs is provided in statute. State special revenues include funding for the Distressed Wood Products Program, research and development funds that are transferred from the general fund, and the economic development trust fund account that receives interest and income from the coal tax trust.

LFD
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Statutory Appropriations for Research and Commercialization Appropriated Twice

15-35-108(9) (b), MCA, appropriates general fund money to the research and commercialization state special revenue account. Money in this state special revenue account is itself statutorily appropriated. This means the expenditure of the same money is being recorded twice on the accounting system. Money moved from one account into another account within the state treasury is a transfer and does not require an appropriation.

During the interim the Legislative Finance Committee reviewed the appropriations of the general fund and the research and commercialization state special revenue account and determined the general fund appropriation should be eliminated. To ensure the funding was available to the program the LFC approved a proposed committee bill that transfers the general fund into the state special revenue fund for use by the Research and Commercialization Program and eliminates the general fund appropriation.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,844,043	1,844,043	3,688,086	39.82%	4,532,857	4,532,857	9,065,714	41.61%
Statewide PL Adjustments	150,022	148,460	298,482	3.22%	358,752	352,039	710,791	3.26%
Other PL Adjustments	(38,226)	(36,713)	(74,939)	(0.81%)	3,219,642	3,439,995	6,659,637	30.57%
New Proposals	3,175,027	2,175,027	5,350,054	57.77%	3,174,725	2,174,725	5,349,450	24.55%
Total Budget	\$5,130,866	\$4,130,817	\$9,261,683		\$11,285,976	\$10,499,616	\$21,785,592	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					412,665					413,434
Vacancy Savings					(63,483)					(63,516)
Inflation/Deflation					(236)					(46)
Fixed Costs					9,806					2,167
Total Statewide Present Law Adjustments		\$150,022	\$26,650	\$182,080	\$358,752		\$148,460	\$25,994	\$177,585	\$352,039
DP 5103 - BRD Administrative Costs Adjustments - HB 2	0.00	(38,226)	1,105,400	552,468	1,619,642	0.00	(36,713)	1,105,644	771,064	1,839,995
DP 5104 - BRD Federal Grants Adjustments - HB 2	0.00	0	0	1,600,000	1,600,000	0.00	0	0	1,600,000	1,600,000
Total Other Present Law Adjustments	0.00	(\$38,226)	\$1,105,400	\$2,152,468	\$3,219,642	0.00	(\$36,713)	\$1,105,644	\$2,371,064	\$3,439,995
Grand Total All Present Law Adjustments	0.00	\$111,796	\$1,132,050	\$2,334,548	\$3,578,394	0.00	\$111,747	\$1,131,638	\$2,548,649	\$3,792,034

DP 5103 - BRD Administrative Costs Adjustments - HB 2 – The executive requests additional funding for ongoing expenses on grants received by the Business Resources Division. Included in the adjustment are contracts with three eastern Montana Certified Regional Development Corporations (CRDC) to provide a plan for impacts of energy development in eastern Montana, per diem for the Economic Development Advisory Council board members, costs for recording revolving loans, and cost associated with adjusting ongoing federal appropriations for grants received by the Business Resources Division. State special revenue support is provided from the microbusiness loan account.

DP 5104 - BRD Federal Grants Adjustments - HB 2 - This decision package adjusts ongoing federal appropriations for grants received by the Business Resources Division to match estimated available federal funds for the 2015 biennium for federally funded programs.

LFD COMMENT

The legislature may wish to consider the impacts of the federal Budget Control Act in relation to this program prior to approving additional authority that may or may not be needed.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5101 - BRD Indian Country Economic Development - HB 2	51	1.00	800,000	0	0	800,000	1.00	800,000	0	0	800,000
DP 5102 - BRD Primary Business Sector Training - OTO/BIEN	51	2.00	1,000,000	0	0	1,000,000	2.00	1,000,000	0	0	1,000,000
DP 5106 - Montana SBIR/STTR Program - BIEN	51	0.50	375,000	0	0	375,000	0.50	375,000	0	0	375,000
DP 5107 - BRD - Biomedical Research Grant - BIEN / OTO	51	0.00	1,000,000	0	0	1,000,000	0.00	0	0	0	0
DP 6101 - Professional Development Center Fee Allocation	51	0.00	27	0	(302)	(275)	0.00	27	0	(302)	(275)
Total	3.50	\$3,175,027	\$0	(\$302)	\$3,174,725	3.50	\$2,175,027	\$0	(\$302)	\$2,174,725	

DP 5101 - BRD Indian Country Economic Development (ICED) - HB 2 - The executive requests support for the Tribal Economic Development Program, which provides resources to existing and new tribal businesses to expand operations and facilities, and train and employ new workers. The Tribal Economic Development Program assists by helping tribal members in Montana get hired into permanent full-time jobs, start their own businesses, and improve their economic

circumstance.

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

Justification - One of the greatest economic development challenges that Montana faces is capitalizing on or creating opportunities for job creation and economic prosperity on Montana's Indian Reservations and with non-reservation tribal members.

According to the 2010 Census, there were 62,555 self-identified American Indians in Montana, or about 6.3% of the total population. Approximately 38,354 American Indians, or about 61.3%, lived on one of the seven reservations in the state. The Blackfeet and the Flathead reservations were the largest, with 8,944 and 7,042 American Indian residents, respectively. Rocky Boy's (3,221) and the Fort Belknap (2,704) reservations had the smallest number of American Indians residents.

Based upon the methodology used, the unemployment rate for Reservations in Montana has historically ranged from 15% to 30% using the Bureau of Labor Statistics methodology; and from 25% to 75% using Bureau of Indian Affairs methodology. Whichever methodology is used, these rates are considerably higher than the rest of the state, even in an economic downturn.

According to 1999 Census Bureau statistics, an estimated 30.6% of families are below the poverty level on reservations in Montana. A more recent 2008 survey of poverty in school districts (whose boundaries are on the reservations) estimate American Indian children ages 5-17 in families in poverty at:

- 0.5% of the families in school districts with boundaries on the Blackfeet reservation live in poverty of which 76.6% are Blackfeet families
- 27.5% of the families in school districts with boundaries on the Crow reservation live in poverty of which 82.9% are Crow families
- 21.2% of the families in school districts with boundaries on Flathead reservation live in poverty of which 23.6% are Confederated Salish & Kootenai Tribes families
- 28% of the families in school districts with boundaries on the Fort Belknap reservation live in poverty of which 59.8% are Fort Belknap Indian Community families
- 28.2% of the families in school districts with boundaries on the Fort Peck reservation live in poverty of which 48% are Fort Peck Assiniboine & Sioux families
- 33.5% of the families in school districts with boundaries on the Northern Cheyenne reservation live in poverty of which 63% are Northern Cheyenne families
- 22% of the families in school districts with boundaries on the Rocky Boy reservation live in poverty of which 42.8% are Chippewa Cree families

Project Outcomes - The goals of this program are to attract new and existing business investment on reservations in Montana. This new investment is in the form of business development, workforce training, tribal entrepreneurial training, feasibility studies and economic development needs surveys, start-up and expansion funds for tribal member-owned businesses, and other tribal priority business development projects.

Performance Criteria - Success of the ICED investment will be measured by tracking:

- Number of jobs created, retained, and/or trained through the project
- Number of tribal member businesses created or expanded through grant funding
- Number of tribal members enrolling in and graduating from Indianpreneurship training
- Amount of leveraged and matched funds
- Number of projects that meet or exceed their proposed goals

Milestones - Since the Montana Department of Commerce has been operating the Indian Country Economic

Development Program since 2006, the key activities of the program have become well-established. An application process and guidelines have been developed and refined. The grant review committee has been established and has met to adopt the guidelines and to review and make grant awards. Contracts with the current grantees are in place.

FTE - The work is being performed by existing staff for the Montana Department of Commerce.

Funding – General fund is requested for this program. The Indian Country Economic Development Program is designed to promote progress in business and employment opportunities in Montana's reservation communities. The grant review committee may award grants to tribal governments and individual small business tribal members for proposals that start or expand businesses, assess business feasibility and needs, provide entrepreneurial and other necessary business training, or other projects that will have a systemic effect on the economic development opportunities for a specified reservation. A tribal government proposal is encouraged to provide a match of \$1 for every \$1 awarded. Match includes:

- Direct project-related costs such as new equipment, fixed assets, and buildings
- In-kind tribal government and administrative time dedicated to proposal development
- For individual tribal member businesses, the business owner must provide a 1:1 match including firm loan commitments and collateral (cash or in-kind)

Obstacles - The proposal has been implemented and is working efficiently since 2006.

Risk - Failing to renew the Indian Country Economic Development Program would reverse the measurable progress that has been made in developing economies of reservation communities. If the proposal is not adopted, the economies on Montana's Indian reservations will continue to lag behind the rest of Montana's economy. The elimination of economic development opportunities in tribal communities may cause the tribes to be more vulnerable to the current economic downturn. The economic status quo could result in increasing poverty and unemployment rates.

DP 5102 - BRD Primary Business Sector Training - OTO/BIEN - The executive requests funding for the Primary Sector Business Training Program to provide grant funds to new and existing Montana businesses to train new employees. A seven member grant review committee consisting of both public and private members, reviews application and allocates funding through the Department of Commerce.

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

Justification - The Primary Sector Business Training Program provides grant funds to new and existing Montana businesses to train employees in new jobs. This economic development tool is a catalyst for creating new, good jobs in Montana that pay benefits. Montana continues to struggle with low wages and under-trained workers.

The Primary Sector Business Training Program is needed to:

- Provide an essential incentive for new businesses to locate to Montana. State-supported worker training programs are among the incentives most important to expanding or relocating businesses
- Provide existing businesses with essential support to train employees in new jobs that allows them to expand their business in Montana without needing to leave the state

Project Outcomes - The goals of this program are:

- Attract new investment in Montana by providing support to train new employees in new jobs as a major incentive to relocate
- Assist new and existing businesses in creating new jobs that pay a minimum of the average weekly wage that meets or exceeds the lesser of 170% of Montana's current minimum wage or the current average weekly wage of the county

Performance Criteria – The following will be tracked and reported to measure success:

- Creation of eligible new jobs and the hiring of employees for those jobs
- Salaries of trainees and changes to salaries through the project
- Summaries of the training program as planned and as delivered
- Amount expended for training in a new job

Milestones - Since the Montana Department of Commerce has been operating the Primary Sector Business Training Program for the last four biennia, the key activities of the program have already been completed. There is an application process and guidelines that have been developed. A grant review committee has been established and has met to review and make grant awards. Contracts with current grantees are in place. Staff is continuing to work with potential applicants informing them that additional funding is being requested for the program that would be available at the beginning of the new biennium.

FTE - The work is being performed by existing staff of the Montana Department of Commerce.

Funding – General fund is requested for this program. The Primary Sector Business Workforce Training Act is designed to encourage the creation of good-paying jobs in primary sector businesses. The division may award workforce training grants to primary sector businesses that provide education or skills-based training to employees in new jobs. To be potentially eligible for a grant, an applicant shall demonstrate that at least 50% of the applicant's sales will be from outside of Montana or that the applicant is a manufacturing company with 50% of its sales from companies that have 50% of their sales outside of Montana and shall meet at least one of various established criteria. The maximum grant award is \$5,000 for each full-time new job and \$2,500 for each part-time new job. The business is required to provide a match of at least \$1 for every \$3 awarded. The grant award may only be used for direct costs associated with education or skills-based training for employees in new jobs.

Obstacles - The proposal has been implemented and is working well.

Risk – The risks if the program is not funded are:

- Loss of incentives to attract new business enterprises to Montana
- Loss of a competitive recruitment and retention tool that almost all other states employ placing Montana at a disadvantage for expanded jobs and businesses
- Montana workers will not receive training in new production methods on state of the art equipment and will not accrue skills that could benefit them throughout their working life

DP 5106 - Montana SBIR/STTR Program – The executive requests a biennial appropriation of \$750,000 to expand the existing Montana SBIR/STTR program. The funding would be used to provide matching funds to businesses that have been awarded federal grants to conduct feasibility research or to develop commercially viable innovations based on the research.

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Consideration of Program Success Could Be Used to Determine the Need for Additional Funding

To further evaluate the need and value of these programs, the legislature may wish to examine the successes the programs have had in terms of their goals, objectives, and performance criteria. As the funding is provided to match federal grants, the legislature may wish to discuss the federal performance criteria established for the programs. Further, the legislature may wish to discuss the successes and/or challenges the programs have encountered in meeting these federal requirements. This evaluation could be used to gauge the success of the programs and whether any successes warrant further funding.

DP 5107 – BRD – Biomedical Research Grant – BIEN/OTO – The executive requests a biennial appropriation of one-time-only funding to provide grant funding to support biomedical research. The funding may be used to expand, renovate, and purchase equipment for biomedical research or to expand infrastructure.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
Operating Expenses	173,344	770,192	786,229	750,000	943,536	1,536,229	592,693	62.82%
Total Costs	\$173,344	\$770,192	\$786,229	\$750,000	\$943,536	\$1,536,229	\$592,693	62.82%
State Special	173,344	770,192	786,229	750,000	943,536	1,536,229	592,693	62.82%
Total Funds	\$173,344	\$770,192	\$786,229	\$750,000	\$943,536	\$1,536,229	\$592,693	62.82%

Program Description

The Montana Promotion Division strives to strengthen Montana's economy through increased visitor travel, visitor expenditures, and film production, in the state. The division is responsible for implementing and promoting a positive brand image for Montana as a vacation destination and works to ensure brand consistency amongst its marketing and promotional efforts. The division focuses on attracting high value, low impact geotraveler visitors who contribute to Montana's economic and social prosperity while respecting and appreciating Montana's authentic natural and cultural assets. This program goal is accomplished through various marketing efforts, networking with the state's public and private sector tourism and recreation industry and agencies, along with education and development assistance. The division works to project a positive image of the state through consumer advertising, electronic marketing, public relations efforts, international and domestic group travel marketing, printing and distribution of literature, staffing support and training of professional travel counselors, assisting in the development of tourism infrastructure and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes event marketing and infrastructure grants and oversees expenditures of six regional non-profit corporations and the twelve qualified convention and visitors bureaus.

Program Highlights

Montana Promotion Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ Over 96% of the Montana Promotion Division budget, including 28.50 FTE, is supported by statutory appropriations not reflected in HB 2 ◆ The increase of 62.8% from the 2013 biennium is due to statewide present law adjustments and an increase in private funds authority

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget - Montana Promotion Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$1,536,229	\$0	\$46,266,071	\$47,802,300	100.0%		
02116 Accommodation Tax Account	\$36,229	\$0	\$34,185,716	\$34,221,945	71.6%	15-65-121	Direct
02154 Mt Promotion-private	\$1,500,000	\$0	\$0	\$1,500,000	3.1%		
02254 Regional Accommodation Tax	\$0	\$0	\$11,968,355	\$11,968,355	25.0%	15-65-121	Direct
02271 L&c Bicentennial Plate Fund	\$0	\$0	\$110,000	\$110,000	0.2%		
02293 Film Production Credit	\$0	\$0	\$2,000	\$2,000	0.0%		
Total All Funds	\$1,536,229	\$0	\$46,266,071	\$47,802,300	100.0%		
Percent - Total All Sources	3.2%	0.0%	96.8%				

The Montana Promotion Division is funded entirely with state special revenues. The primary funding source is a portion of the statutorily appropriated 4% accommodations tax. The funding table denotes the funding provided in HB 2 and the statutorily appropriated funds.

HB 2

The portion of the division’s budget that is considered by the legislature in HB 2 is less than 4% of the division’s total budget for the 2015 biennium. \$750,000 each year is from private contributions to joint private/state targeted advertising campaigns. The remaining funding is appropriated from a portion of the 4% Montana lodging facility use tax for legislative audit costs.

Statutory Appropriations

The majority of the lodging facility use taxes are statutorily appropriated to the division. The legislature can affect change to these appropriations through amendments to the statutes listed in the funding tables. For additional information on the history, distribution, and division’s uses of the funds see the appendix for the Department of Commerce.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	173,344	173,344	346,688	22.57%
Statewide PL Adjustments	0	0	0	0.00%	27,143	(9,062)	18,081	1.18%
Other PL Adjustments	0	0	0	0.00%	585,742	585,718	1,171,460	76.26%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$786,229	\$750,000	\$1,536,229	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2014-----					-----Fiscal 2015-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Inflation/Deflation				30					54	
Fixed Costs				27,113					(9,116)	
Total Statewide Present Law Adjustments	\$0	\$27,143	\$0	\$27,143	\$0	(\$9,062)	\$0	(\$9,062)		
DP 5201 - MPD Private funds & Audit Adjustments - HB 2	0.00	0	585,742	0	585,742	0.00	0	585,718	0	585,718
Total Other Present Law Adjustments	0.00	\$0	\$585,742	\$0	\$585,742	0.00	\$0	\$585,718	\$0	\$585,718
Grand Total All Present Law Adjustments	0.00	\$0	\$612,885	\$0	\$612,885	0.00	\$0	\$576,656	\$0	\$576,656

DP 5201 - MPD Private funds & Audit Adjustments - HB 2 - The executive recommends increasing the HB 2 private funds appropriation to \$750,000 each year.

LFD COMMENT	Private funds from cooperative marketing agreements deposited to the Montana Promotion Division private state special revenue fund totaled \$164,200 in FY 2012. The private revenue has not exceeded \$600,000 since FY 2010 and has averaged \$468,000 for the last five years. If the legislature approves the executive budget request, it may wish to establish a restricted appropriation for these private funds so unused authority, if any, reverts at the end of the year.
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Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00%
Personal Services	264,501	332,393	331,874	332,603	596,894	664,477	67,583	11.32%
Operating Expenses	184,859	122,607	161,508	162,180	307,466	323,688	16,222	5.28%
Total Costs	\$449,360	\$455,000	\$493,382	\$494,783	\$904,360	\$988,165	\$83,805	9.27%
General Fund	449,360	455,000	493,382	494,783	904,360	988,165	83,805	9.27%
Total Funds	\$449,360	\$455,000	\$493,382	\$494,783	\$904,360	\$988,165	\$83,805	9.27%

Program Description

The Energy Promotion and Development Division (EPDD) was created in 2007 as a result of the state’s commitment to ‘clean and green’ energy development in Montana. EPDD staff conducts the analysis of complex energy issues, balancing the interests of both private developers with those of the public sector, and prepares and delivers written and oral communications that seek to resolve conflicts and achieve resolutions to problems that can delay or prevent energy development projects. The goal of this work is to create jobs and increase the tax base statewide by facilitating the development of clean and responsible energy projects in Montana.

Program Highlights

Energy Promotion and Development Division Major Budget Highlights	
◆	Statewide present law adjustments make up the only changes in the budget of this division

Program Discussion

The program had one position or 20% of its FTE vacant during all of FY 2012. Refunding the vacant position in the 2015 biennium results in the increase in personal services shown in the budget comparison table above. Increases for indirect administrative costs and rent drive the changes for operating expenses shown in the table.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget - Energy Promotion & Dev Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$988,165	\$0	\$0	\$988,165	100.0%		
Total All Funds	\$988,165	\$0	\$0	\$988,165	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%	0.0%			

The division is wholly supported by general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	449,360	449,360	898,720	90.95%	449,360	449,360	898,720	90.95%
Statewide PL Adjustments	66,852	67,623	134,475	13.61%	66,852	67,623	134,475	13.61%
Other PL Adjustments	(22,718)	(22,088)	(44,806)	(4.53%)	(22,718)	(22,088)	(44,806)	(4.53%)
New Proposals	(112)	(112)	(224)	(0.02%)	(112)	(112)	(224)	(0.02%)
Total Budget	\$493,382	\$494,783	\$988,165		\$493,382	\$494,783	\$988,165	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					81,201					81,960
Vacancy Savings					(13,828)					(13,858)
Inflation/Deflation					(70)					(28)
Fixed Costs					(451)					(451)
Total Statewide Present Law Adjustments		\$66,852	\$0	\$0	\$66,852		\$67,623	\$0	\$0	\$67,623
DP 5501 - EPDD Administrative Cost Adjustments	0.00	(22,718)	0	0	(22,718)	0.00	(22,088)	0	0	(22,088)
Total Other Present Law Adjustments	0.00	(\$22,718)	\$0	\$0	(\$22,718)	0.00	(\$22,088)	\$0	\$0	(\$22,088)
Grand Total All Present Law Adjustments	0.00	\$44,134	\$0	\$0	\$44,134	0.00	\$45,535	\$0	\$0	\$45,535

DP 5501 - EPDD Administrative Cost Adjustments - The request includes increases for rent and agency indirect costs offset by reductions in contracted services. The adjustments are based upon anticipated costs in the next biennium.

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----					
			General Fund	State Special	Federal Special	Total Funds	General Fund	State Special	Federal Special	Total Funds		
	DP 6101 - Professional Development Center Fee Allocation	55	0.00	(112)	0	0	(112)	0.00	(112)	0	0	(112)
	Total	0.00	(\$112)	\$0	\$0	(\$112)	0.00	(\$112)	\$0	\$0	(\$112)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE

counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	20.33	20.33	21.33	21.33	20.33	21.33	1.00	4.92%
Personal Services	1,163,894	1,251,502	1,484,289	1,483,029	2,415,396	2,967,318	551,922	22.85%
Operating Expenses	582,250	674,823	835,748	822,702	1,257,073	1,658,450	401,377	31.93%
Grants	4,661,752	9,639,248	7,248,954	6,870,993	14,301,000	14,119,947	(181,053)	(1.27%)
Total Costs	\$6,407,896	\$11,565,573	\$9,568,991	\$9,176,724	\$17,973,469	\$18,745,715	\$772,246	4.30%
General Fund	873,486	888,349	1,235,033	1,234,117	1,761,835	2,469,150	707,315	40.15%
State Special	2,317,872	5,192,768	3,029,498	2,638,693	7,510,640	5,668,191	(1,842,449)	(24.53%)
Federal Special	3,216,538	5,484,456	5,304,460	5,303,914	8,700,994	10,608,374	1,907,380	21.92%
Total Funds	\$6,407,896	\$11,565,573	\$9,568,991	\$9,176,724	\$17,973,469	\$18,745,715	\$772,246	4.30%

Program Description

The Community Development Division (CDD) administers four programs directly: Community Development Block Grant Program (CDBG); Community Technical Assistance Program (CTAP); Neighborhood Stabilization Program (NSP); and Treasure State Endowment Program (TSEP).

Two citizen boards appointed by the Governor, Montana Coal Board and Montana Hard Rock Mining Impact Board, are attached to CDD for administrative purposes. The division provides office facilities, staff, and administrative support for the two boards.

Overall, the six programs of the CDD seek to assure viable, sustainable communities and the provision of cost-effective and efficient community services and facilities by encouraging well-planned community growth and development.

Program Highlights

Community Development Division Major Budget Highlights	
◆	Funding for the division increases between the two biennia primarily due to anticipated increases in federal funding and increased costs associated with the Hard Rock Mining Impact Board and Coal Board
◆	State special revenue funds decrease between the two biennia due a reduction in funding to the Coal Board. The funding goes from 5.8% of coal severance tax revenues to 2.9% in the 2015 biennium per statute

Program Discussion

Personal services increases are due to three factors:

- Request for an additional FTE in the 2015 biennium
- Broadband pay increases granted in FY 2012 that are annualized in the 2015 biennium
- A vacancy rate of 6.3% in FY 2012 compared to the legislatively established 4%

Operating costs increases are mainly for requests for additional support for consulting and professional services, printing, computers, postage, dues and indirect administrative costs. In addition, the division is requesting an additional \$100,000 in general operating costs for a statutorily required reserve account for the Hard Rock Mining Board.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget - Community Development Division							
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$2,469,150	\$0	\$0	\$2,469,150	12.4%		
State Special Total	\$5,668,191	\$0	\$1,200,000	\$6,868,191	34.4%		
02049 Hard Rock Mining	\$404,860	\$0	\$1,200,000	\$1,604,860	8.0%		
02270 Treasure State Endowment	\$1,128,331	\$0	\$0	\$1,128,331	5.7%		
02445 Coal Board	\$4,135,000	\$0	\$0	\$4,135,000	20.7%		
Federal Special Total	\$10,608,374	\$0	\$0	\$10,608,374	53.2%		
03059 Community Development Block	\$10,608,374	\$0	\$0	\$10,608,374	53.2%		
Total All Funds	\$18,745,715	\$0	\$1,200,000	\$19,945,715	100.0%		
Percent - Total All Sources	94.0%	0.0%	6.0%				

General fund:

- Provides matching funds for the Community Development Block Grant (CDBG)
- Wholly supports the Community Technical Assistance Program, Quality Schools Program, and the proposed Main Street Program

State special revenues is dominated by grant funding for Coal Board programs that fund governmental services that are a direct consequence of an increase or decrease of coal development or as the result of an increase or decrease in the consumption of coal by a coal-using energy complex. See appendix for Department of Commerce for a listing of projects funded in FY 2012 and the fund balance for the account.

LFD COMMENT

Currently, statute requires that 5.8% of the coal severance tax revenues be distributed into the coal board account. After September 2013, the allocation decreases to 2.9% resulting in a reduction in the amount of funding for grants.

The Treasure State Endowment Program is funded with interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund until June 30, 2016. The Hard-Rock Mining Impact Board is funded by a 2.5% allocation of the Metalliferous Mines License Tax.

The CDBG program is primarily funded with federal block grant funds, allocated through the US Department of Housing and Urban Development (HUD). The general fund provides a required match for a portion of the administrative costs of the program equal to 2% of the annual CDBG allocation.

LFD COMMENT The federal Budget Control Act includes automatic spending reductions, called sequesters, that are currently scheduled to take effect January 2, 2013. For discretionary spending the estimated amount of the reduction is 8.2%. Community development block grants are included in the programs that are covered by the BCA required reductions. As a result, funding for the program may be reduced below what is shown in the executive's proposed budget

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	873,486	873,486	1,746,972	70.75%	6,407,896	6,407,896	12,815,792	68.37%
Statewide PL Adjustments	145,928	142,910	288,838	11.70%	257,115	250,112	507,227	2.71%
Other PL Adjustments	215,639	217,741	433,380	17.55%	2,904,364	2,519,100	5,423,464	28.93%
New Proposals	(20)	(20)	(40)	0.00%	(384)	(384)	(768)	0.00%
Total Budget	\$1,235,033	\$1,234,117	\$2,469,150		\$9,568,991	\$9,176,724	\$18,745,715	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					309,137					307,918
Vacancy Savings					(58,855)					(58,801)
Inflation/Deflation					(205)					(28)
Fixed Costs					7,038					1,023
Total Statewide Present Law Adjustments		\$145,928	\$27,732	\$83,455	\$257,115		\$142,910	\$24,514	\$82,688	\$250,112
DP 6001 - CDD Main Street - OTO HB 2	1.00	150,000	0	0	150,000	1.00	150,000	0	0	150,000
DP 6002 - CDD Administrative Costs Adjustments - HB 2	0.00	65,639	683,998	4,727	754,364	0.00	67,741	296,411	4,948	369,100
DP 6003 - CDD Federal Grants Adjustments - HB 2	0.00	0	0	2,000,000	2,000,000	0.00	0	0	2,000,000	2,000,000
Total Other Present Law Adjustments	1.00	\$215,639	\$683,998	\$2,004,727	\$2,904,364	1.00	\$217,741	\$296,411	\$2,004,948	\$2,519,100
Grand Total All Present Law Adjustments	1.00	\$361,567	\$711,730	\$2,088,182	\$3,161,479	1.00	\$360,651	\$320,925	\$2,087,636	\$2,769,212

DP 6001 - CDD Main Street - OTO HB 2 - The executive is requesting one-time-only funding for the Montana Main Street Program. Main Street Program helps communities strengthen and preserve their historic downtowns by focusing on economic development through organization, design, and promotion. During the 2013 biennium, the Montana Main Street program was transferred from the Business Resources Division to the Community Development Division. The program goals are to:

- o Retain and attract small businesses and entrepreneurs and their employees
- o Increase the municipal tax base
- o Increase downtown area property values

- Maintain local historic integrity, quality of life, sense of place and belonging
- Build financial and managerial capacity for spurring economic development
- Receive technical services from professionals in the fields of land use planning, economic development, market studies, tourism, organization management, public facility financing, and historic preservation
- Network with other Montana communities regarding strategies for downtown revitalization
- Plan for the short- and long-term growth of the historic downtown core of communities facing large-scale oil and gas development

For a discussion of the LFD Issue with this request refer to the narrative for the Business Resources Division

LFD COMMENT	This decision package is a new proposal, not a present law adjustment. The program was funded via a one-time-only appropriation by the 2011 Legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.
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DP 6002 - CDD Administrative Costs Adjustments - HB 2 – The executive requests funding for per diem for the Hard Rock Mining Impact Board and Coal Board . In addition the executive requests authority to establish a \$100,000 reserve account for the Hard Rock Mining Impact Board. Additional costs include consulting services for a designation study for allocation of Coal Board grants, publication costs, computer equipment, public notice, and printing costs.

DP 6003 - CDD Federal Grants Adjustments - HB 2 – The executive request additional federal appropriations for grants received by the Community Development Division to match available federal funds for the 2015 Biennium.

LFD COMMENT	The legislature may wish to consider the impacts of the federal Budget Control Act in relation to this program prior to approving additional authority that may or may not be needed.
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New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	60	0.00	(20)	(104)	(260)	(384)	0.00	(20)	(104)	(260)	(384)
Total	0.00	(\$20)	(\$104)	(\$260)	(\$384)	0.00	(\$20)	(\$104)	(\$260)	(\$384)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates**Proprietary Program Description**

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers and for-profit manufacturing facilities. Cost savings are shared with consumers in the form of lower fees. The ability to issue industrial development revenue bonds for small manufacturing facilities was added in the 61st Legislative Session, effective July 1, 2009.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions.

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

Facility Finance Authority (06012 and 06015)

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	5.83	5.83	5.83	5.83	5.83	5.83	0.00	0.00%
Personal Services	331,008	309,014	355,516	355,746	640,022	711,262	71,240	11.13%
Operating Expenses	395,907	1,097,340	1,053,894	1,058,173	1,493,247	2,112,067	618,820	41.44%
Grants	4,175,926	4,250,000	6,175,926	6,175,926	8,425,926	12,351,852	3,925,926	46.59%
Benefits & Claims	183,921	0	358,921	358,921	183,921	717,842	533,921	290.30%
Total Costs	\$5,086,762	\$5,656,354	\$7,944,257	\$7,948,766	\$10,743,116	\$15,893,023	\$5,149,907	47.94%
State Special	0	25,800	150,000	150,000	25,800	300,000	274,200	1,062.79%
Federal Special	5,086,762	5,630,554	7,794,257	7,798,766	10,717,316	15,593,023	4,875,707	45.49%
Total Funds	\$5,086,762	\$5,656,354	\$7,944,257	\$7,948,766	\$10,743,116	\$15,893,023	\$5,149,907	47.94%

Program Description

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The division includes the Housing and Urban Development (HUD) HOME Investment Partnerships program, the HUD Tenant Based and Project Based Section 8 Housing programs, and the Board of Housing and its programs.

Program Highlights

Housing Division Major Budget Highlights	
◆	The budget increases by 47.9% compared to the 2013 biennium mainly due to \$4.8 million in anticipated federal grants for Housing and Urban Development HOME Investment Partnerships
◆	Non-budgeted proprietary funds support 85.9% of the program. These are enterprise funds in which the legislature has no rate setting action

Program Discussion

The majority of the increases between the 2013 and 2015 biennia are the result of additional federal grant authority proposed by the executive. The proposal includes increases for:

- HUD Comprehensive Counseling
- Emergency Homeowner's Loan Program
- Home Grants
- BOH Foreclosure Mitigation

Operating cost increases include a request for additional authority for consulting and professional services above that provided in the 2013 biennium. Benefits and claims increase due to a proposal to increase services provided by the Section 8 Shelter Care Plus Program.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget - Housing Division							
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$300,000	\$0	\$0	\$300,000	0.3%		
02575 Mobile Home Revolving Loan Fund	300,000	-	-	300,000	0.3%		
Federal Special Total	\$15,593,023	\$0	\$0	\$15,593,023	13.8%		
03110 Hud Comprehensive Counseling	550,000	-	-	550,000	0.5%		
03144 Shelter Plus Care - Hud	749,996	-	-	749,996	0.7%		
03282 Emergency Homeowners Loan Prog	500,000	-	-	500,000	0.4%		
03300 Home Grants	13,243,027	-	-	13,243,027	11.7%		
03945 Boh Foreclosure Mitigation	550,000	-	-	550,000	0.5%		
Proprietary Total	\$0	\$96,885,621	\$0	\$96,885,621	85.9%		
06030 Boh Financial Program Fund	-	8,928,297	-	8,928,297	7.9%		
06031 Housing Trust Fund	-	20,000	-	20,000	0.0%		
06074 Sec 8 Project Based	-	42,038,664	-	42,038,664	37.3%		
06075 Hud Section 8 Housing Program	-	42,105,150	-	42,105,150	37.3%		
06079 Revolving Loan Fund - Tanf	-	20,000	-	20,000	0.0%		
06085 Section 8 Mod Rehab	-	3,753,510	-	3,753,510	3.3%		
Total All Funds	\$15,893,023	\$96,885,621	\$0	\$112,778,644	100.0%		
Percent - Total All Sources	14.1%	85.9%	0.0%				

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

The programs funded through HB 2 are the Housing and Urban Development HOME Investment Partnerships Program and Montana' Manufactured Home Replacement Program (MHR). The HUD HOME program is an annual categorical federal grant from HUD. Grant funds are distributed, using a competitive process, to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program. MHR provided loans to remodel manufactured homes. The 2015 biennium includes funding in the event that any prior loans are repaid and funding can be re-loaned.

LFD COMMENT

The federal Budget Control Act includes automatic spending reductions, called sequesters, that are currently scheduled to take effect January 2, 2013. For discretionary spending the estimated amount of the reduction is 8.2%. Home Investment State Grants and tenant-based rental assistance from HUD are included in the programs that are covered by the BCA required reductions. As a result, funding for the program may be reduced below what is shown in the executive's proposed budget.

In addition the low-income housing tax credit, administered by the Board of Housing has been mentioned for possible changes to the federal tax code. The legislature may wish to discuss the current status of Congressional deliberations and its impacts on the grant programs included in both HB 2 and the proprietary rates.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	5,086,762	5,086,762	10,173,524	64.01%
Statewide PL Adjustments	0	0	0	0.00%	28,610	25,225	53,835	0.34%
Other PL Adjustments	0	0	0	0.00%	2,828,965	2,836,859	5,665,824	35.65%
New Proposals	0	0	0	0.00%	(80)	(80)	(160)	0.00%
Total Budget	\$0	\$0	\$0		\$7,944,257	\$7,948,766	\$15,893,023	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					37,919					38,159
Vacancy Savings					(14,757)					(14,767)
Inflation/Deflation					1					39
Fixed Costs					5,447					1,794
Total Statewide Present Law Adjustments		\$0	\$0	\$28,610	\$28,610		\$0	\$0	\$25,225	\$25,225
DP 7401 - HD Administrative Costs Adjustments - HB 2	0.00	0	150,000	53,965	203,965	0.00	0	150,000	61,859	211,859
DP 7402 - HD Federal Grants Adjustments - HB 2	0.00	0	0	2,625,000	2,625,000	0.00	0	0	2,625,000	2,625,000
Total Other Present Law Adjustments	0.00	\$0	\$150,000	\$2,678,965	\$2,828,965	0.00	\$0	\$150,000	\$2,686,859	\$2,836,859
Grand Total All Present Law Adjustments	0.00	\$0	\$150,000	\$2,707,575	\$2,857,575	0.00	\$0	\$150,000	\$2,712,084	\$2,862,084

DP 7401 - HD Administrative Costs Adjustments - HB 2 – The executive proposes to annualize the cost of maintenance fees for HOME programs, lease agreements, and indirect costs to the Director’s Office.

DP 7402 - HD Federal Grants Adjustments - HB 2 – The executive requests federal appropriation authority for grants received by the Housing Assistance Bureau’s HOME Program to match available federal funds for the 2015 biennium.

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----					
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
	DP 6101 - Professional Development Center Fee Allocation	74	0.00	0	0	(80)	(80)	0.00	0	0	(80)	(80)
	Total	0.00	\$0	\$0	(\$80)	(\$80)	0.00	\$0	\$0	(\$80)	(\$80)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates

Proprietary Description

The Montana Housing Act of 1975 created the Montana Board of Housing (board). The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The board provides direction to the agency staff for its programs that include the Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Montana Fund, and the Reverse Annuity Mortgage (RAM) Program. The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed.

The Project Based Section 8 (PBS8) Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Section 8 program is funded with revenues derived from a performance based Annual Contribution Contract with HUD.

Board of Housing – (Funds 06030, 06031, 06078, and 06079)

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

Proprietary Rates

Program Description

The Board of Investments (board) manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Statute grants the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$12.0 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the board manages several investment pools in which funds of similar types are invested. The board manages seven investment pools, which operate like mutual funds.

- Retirement Funds Bond Pool
- Trust Funds Bond Pool
- Short Term Investment Pool
- Montana Domestic Stock Pool
- Montana International Equity Pool
- Montana Private Equity Pool
- Montana Real Estate Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

Section 17-6-305, MCA, authorizes the board to invest 25% of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the trust fund in participation with financial institutions. The board lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The board also lends low-interest monies funded from the trust fund to value-added type businesses creating jobs. Throughout FY 2010, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

The board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to 15 years and short-term loans to finance cash flow deficits or bridge financing are also available.

Program Narrative

Expenses

Overall the program costs increase over 13% between FY 2012 and the 2015 biennium. Figure 2 shows the proposed increases in costs and related funding.

Figure 2

Department of Commerce Board of Investments					
	FY 2012	FY 2014	% Change	FY 2015	% Change
FTE	32.00	32.00	0.00	32.00	0.00
Personal Services	\$2,661,343	\$3,059,481	14.96%	\$3,060,044	14.98%
Operating Costs	<u>2,065,197</u>	<u>2,341,836</u>	<u>13.40%</u>	<u>2,304,695</u>	<u>11.60%</u>
Total Costs	<u>\$4,726,540</u>	<u>\$5,401,317</u>	14.28%	<u>\$5,364,739</u>	13.50%
Funding					
Industrial Revenue Bonds	306,088	484,620	58.33%	464,608	51.79%
Investment Division	<u>4,726,540</u>	<u>5,401,317</u>	<u>14.28%</u>	<u>5,364,739</u>	<u>13.50%</u>
Total Funding	<u>\$5,032,628</u>	<u>\$5,885,937</u>	16.96%	<u>\$5,829,347</u>	15.83%

Significant increased costs for personal services include:

- o Refunding of 4.00 FTE that were vacant all of FY 2012; 3.00 FTE have been vacant since at least FY 2010 with 1.00 FTE vacant since FY 2007
- o Additional funding for 5.00 FTE that were vacant a portion of the year
- o Broadband pay increases granted in FY 2012 but annualized in the 2015 biennium

Increases associated with operating costs include:

- o Consulting and professional services
- o Legal fees and court costs
- o Data network services
- o Rent
- o Indirect administrative costs

Revenues

Nearly all bond program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the bond program between draws. Remaining revenues are received monthly from the board’s contract with the Montana Facility Finance Authority.

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

Significant Present Law Adjustments

Adjustments include the changes to personal services and operating costs that are discussed in the program narrative.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This process has been utilized since the passage of HB 576 in 1995 and this methodology is continued in the 2015 biennium.

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
BOI Administrative Fee Rate	4,831,041	4,831,041	5,109,144	5,234,796
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.				

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
Grants	261,062	600,000	550,000	550,000	861,062	1,100,000	238,938	27.75%
Total Costs	\$261,062	\$600,000	\$550,000	\$550,000	\$861,062	\$1,100,000	\$238,938	27.75%
Federal Special	261,062	600,000	550,000	550,000	861,062	1,100,000	238,938	27.75%
Total Funds	\$261,062	\$600,000	\$550,000	\$550,000	\$861,062	\$1,100,000	\$238,938	27.75%

Program Description

The Director’s Office provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions and administratively attached boards. The office provides executive, administrative, legal, and policy direction along with offering problem-solving guidance. The office keeps abreast of department related issues and acts in a public relations and informational capacity. The office works closely with economic and community development organizations, businesses, communities, governmental entities, elected officials and the public to diversify and expand the state’s economic base. The office acts as the liaison with private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, other governmental agencies, and the Governor’s Office.

The Director’s Office also provides internal support to Department of Commerce staff, programs, bureaus, divisions and administratively attached boards. Services are provided by the Offices of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information.

The Montana Council on Developmental Disabilities is a citizen based advocacy group. Its members, appointed by the Governor, work to provide increased independence, integration and productivity for persons with developmental disabilities.

Program Highlights

Director’s Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ 76.2% of the Director’s Office, including 19.00 FTE, is funded with proprietary funds that are not included in HB 2 ◆ The HB 2 budget increases 27.7% due to projected increases in federal funds supporting the Montana Council on Developmental Disabilities

Program Discussion

The main table reflects funding only for the Developmental Disabilities Planning and Advisory Council (DDPAC), which is the only portion of this program for which the appropriation is made in HB 2. The federal Developmental Disabilities Assistance and Bill of Right Act of 2000 requires each state to designate a state agency to administer the federal funds as long as the designated state agency does not provide or pay for services for individuals with developmental disabilities.

Since FY 2005 the department has had a contract with the Montana Council on Developmental Disabilities (MCDD), a nonprofit corporation that carries out the responsibilities of DDPAC. DDPAC still remains administratively attached to

the Department of Commerce, with the department acting as a go-between for disbursing (pass through) federal funds to the nonprofit under the terms and conditions of the contract.

Projected increases in the federal funds are the only change shown for the 2015 biennium.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Commerce Funding by Source of Authority 2015 Biennium Budget - Director'S Office							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
Federal Special Total	\$1,100,000	\$0	\$0	\$1,100,000	23.8%		
03441 Ddpac - Dev Disabled Council	1,100,000	-	-	1,100,000	23.8%		
Proprietary Total	\$0	\$3,521,380	\$0	\$3,521,380	76.2%		
06542 Commerce Centralized Services	-	3,521,380	-	3,521,380	76.2%		
Total All Funds	\$1,100,000	\$3,521,380	\$0	\$4,621,380	100.0%		
Percent - Total All Sources	23.8%	76.2%	0.0%				

The Director’s Office is funded by an internal service proprietary fund from indirect costs charged to all agency programs. For further discussion of the proprietary funded portion of this program refer to the “Proprietary Rates” section.

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	261,062	261,062	522,124	47.47%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	288,938	288,938	577,876	52.53%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$550,000	\$550,000	\$1,100,000	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8101 - DO Federal Grants Adjustments - HB 2	0.00	0	0	288,938	288,938	0.00	0	0	288,938	288,938
Total Other Present Law Adjustments	0.00	\$0	\$0	\$288,938	\$288,938	0.00	\$0	\$0	\$288,938	\$288,938
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$288,938	\$288,938	0.00	\$0	\$0	\$288,938	\$288,938

DP 8101 - DO Federal Grants Adjustments - HB 2 – The executive proposes increases in federal appropriations for grants received by the Director's Office to match estimated available federal funds for the 2015 biennium for the Montana Council on Developmental Disabilities.

LFD COMMENT	Federal funds for developmental disabilities protection and advocacy that support the Montana Council on Developmental Disabilities are considered discretionary funds under the federal Budget Control Act. The Budget Control Act includes automatic spending reductions, called sequesters, that are currently scheduled to take effect January 2, 2013. For discretionary spending the estimated amount of the reduction is 8.2%. As a result, funding for the program may be reduced beyond below what is shown in the executive’s proposed budget. The legislature may wish to discuss the impacts of Congressional deliberations on the funding for the program.
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Proprietary Rates

Program Description

The Director’s Office provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions and administratively attached boards. Services are provided by the Office of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information.

Program Narrative

Overall, costs for the program increase by almost 14% when compared to the FY 2012 base. The majority of the increases are in personal service costs which are about 15.5% higher when compared to FY 2012. Figure 4 shows the changes in personal service and operating costs when compared to the FY 2012 base amounts.

Figure 4

Department of Commerce					
Director's Office					
	FY 2012	FY 2014	% Increase	FY 2015	% Increase
Personal Services	\$1,322,134	\$1,526,685	15.47%	\$1,527,824	15.56%
Operating Costs	<u>224,995</u>	<u>232,560</u>	<u>3.36%</u>	<u>234,311</u>	<u>4.14%</u>
	<u>\$1,547,129</u>	<u>\$1,759,245</u>	13.71%	<u>\$1,762,135</u>	13.90%

The increased costs are allocated to each of the other programs within the Department of Commerce. Figure 5 shows the increased costs for administration that are apportioned to each of the programs.

Figure 5

Department of Commerce Director's Office Increases in Administrative Costs		
Division	FY 2014	FY 2015
Business Resources Division	\$93,251	\$93,482
Montana Promotion Division	64,347	64,928
Energy Division	14,367	14,473
Community Development Division	56,870	56,700
Facility Finance Authority	8,895	8,883
Housing Division	11,080	11,114
Board of Investments	103,616	103,698
Montana Heritage Commission	<u>40,259</u>	<u>40,449</u>
Total Increases	<u>\$392,685</u>	<u>\$393,727</u>

The increases are included as part of the proposals related to administrative cost adjustments.

Expenses

Significant costs for the program include:

- Personal service increases that are almost entirely due to the annualization of broadband pay increases granted in the last half of FY 2012
- Operating costs, which include increased costs for SITSD charges and rent

Revenues

The Director's Office is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the divisions indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated and legislatively approved indirect cost rates applied to actual personal services expenditures.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive. The rates charged in the base year were 12.95%.

	FY 2014	FY 2015
2015 Biennium Requested Rate	14.650%	14.650%
2015 Biennium Rate W/O Admin Costs	14.570%	14.570%
Variance:	(.00.080)%	(00.080)%

The Director's Office calculates a federal indirect cost rate on an annual basis. This rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department.

The federally calculated rate requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the Director's Office under-recovered or over-recovered in a given fiscal year. This computation compares what was originally calculated to what actually occurred. The difference is then carried forward into the following year's rate.

The indirect cost rate is determined based on guidelines prescribed by the federal government. The rate approved by the legislature is considered a cap; therefore, the department cannot impose a rate higher than what has been approved by the legislature. However, the annually calculated federal rate may be slightly lower.

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

Total Department Of Commerce Funding by Source of Authority
2015 Biennium Budget

Funds	Non-		Statutory Appropriation	Total All Sources	% Total All Funds
	HB 2	Budgeted Proprietary			
General Fund	\$12,718,998	\$0	\$9,500,000	\$22,218,998	8.8%
State Special Total	\$11,898,104	\$0	\$65,111,869	\$77,009,973	30.6%
02049 Hard Rock Mining	\$404,860	\$0	\$1,200,000	\$1,604,860	0.6%
02090 Business Asst-private	\$180,000	\$0	\$0	\$180,000	0.1%
02094 Distressed Wood Match	\$0	\$0	\$24,030	\$24,030	0.0%
02100 Distressed Wood State	\$0	\$0	\$999,532	\$999,532	0.4%
02102 Mt Heritage Pres & Development	\$0	\$0	\$2,380,050	\$2,380,050	0.9%
02116 Accommodation Tax Account	\$36,229	\$0	\$34,485,716	\$34,521,945	13.7%
02154 Mt Promotion-private	\$1,500,000	\$0	\$0	\$1,500,000	0.6%
02210 Microbusiness Admin Acct	\$203,684	\$0	\$0	\$203,684	0.1%
02212 Microbusiness Loan Acct	\$4,000,000	\$0	\$0	\$4,000,000	1.6%
02254 Regional Accommodation Tax	\$0	\$0	\$11,968,355	\$11,968,355	4.7%
02270 Treasure State Endowment	\$1,128,331	\$0	\$0	\$1,128,331	0.4%
02271 L&c Bicentennial Plate Fund	\$0	\$0	\$110,000	\$110,000	0.0%
02293 Film Production Credit	\$0	\$0	\$2,000	\$2,000	0.0%
02445 Coal Board	\$4,135,000	\$0	\$0	\$4,135,000	1.6%
02557 Research & Commercialization	\$0	\$0	\$7,300,000	\$7,300,000	2.9%
02575 Mobile Home Revolving Loan Fund	\$300,000	\$0	\$0	\$300,000	0.1%
02771 Economic Development Trust Fund	\$0	\$0	\$6,642,186	\$6,642,186	2.6%
02848 Sbdc Private Revenue Nonfed	\$10,000	\$0	\$0	\$10,000	0.0%
Federal Special Total	\$35,431,622	\$0	\$2,140,402	\$37,572,024	14.9%
03059 Community Development Block	\$15,879,631	\$0	\$0	\$15,879,631	6.3%
03061 Eda Revolving Loan Fund	\$801,020	\$0	\$0	\$801,020	0.3%
03092 Distressed Woods Federal	\$0	\$0	\$2,140,402	\$2,140,402	0.8%
03110 Hud Comprehensive Counseling	\$550,000	\$0	\$0	\$550,000	0.2%
03144 Shelter Plus Care - Hud	\$749,996	\$0	\$0	\$749,996	0.3%
03207 Small Business Dev. Centers	\$1,471,850	\$0	\$0	\$1,471,850	0.6%
03233 Instep/epscor Funds	\$50,000	\$0	\$0	\$50,000	0.0%
03282 Emergency Homeowners Loan Prog	\$500,000	\$0	\$0	\$500,000	0.2%
03300 Home Grants	\$13,243,027	\$0	\$0	\$13,243,027	5.3%
03441 Ddpac - Dev Disabled Council	\$1,100,000	\$0	\$0	\$1,100,000	0.4%
03932 Cdbg Rlf	\$536,098	\$0	\$0	\$536,098	0.2%
03945 Boh Forclosure Mitigation	\$550,000	\$0	\$0	\$550,000	0.2%
Proprietary Total	\$0	\$112,303,720	\$2,939,462	\$115,243,182	45.7%
06014 Industrial Revenue Bond I-95	\$0	\$949,228	\$2,939,462	\$3,888,690	1.5%
06015 Facilities Finance Authority	\$0	\$1,130,663	\$0	\$1,130,663	0.4%
06030 Boh Financial Program Fund	\$0	\$8,928,297	\$0	\$8,928,297	3.5%
06031 Housing Trust Fund	\$0	\$20,000	\$0	\$20,000	0.0%
06074 Sec 8 Project Based	\$0	\$42,038,664	\$0	\$42,038,664	16.7%
06075 Hud Section 8 Housing Program	\$0	\$42,105,150	\$0	\$42,105,150	16.7%
06078 Affordable House Revolving Ln	\$0	\$20,000	\$0	\$20,000	0.0%
06079 Revolving Loan Fund - Tanf	\$0	\$20,000	\$0	\$20,000	0.0%
06085 Section 8 Mod Rehab	\$0	\$3,753,510	\$0	\$3,753,510	1.5%
06527 Investment Division	\$0	\$9,816,828	\$0	\$9,816,828	3.9%
06542 Commerce Centralized Services	\$0	\$3,521,380	\$0	\$3,521,380	1.4%
Total All Funds	\$60,048,724	\$112,303,720	\$79,691,733	\$252,044,177	100.0%
Percent - Total All Sources	23.8%	44.6%	31.6%		

5% Base Budget Reduction Form

[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 6501 Department of Commerce

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 158,260	\$ 146,536
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Line item 62102 Consult & Prof Services in the Business Resources Division in MBARS decision package 5103 reduces general fund expenditures by \$49,436 each FY.	\$ 49,436	
2	Line item 66156 Special Projects in the Business Resources Division in MBARS decision package 5103 reduces general fund expenditures by \$50,000 each FY.	\$ 50,000	
3	Line item 62102 Consult & Prof Services in the Energy Promotion & Development Division in MBARS decision package 5501 reduces general fund expenditures by \$50,000 each FY.	\$ 50,000	
4	Reduce HB 2 private fund authority in the Montana Promotion Division by \$146,536		\$ 146,536
5	General fund programs throughout the agency would take an across the board reduction of \$8,824 each FY.	\$ 8,824	
6			
7			
8			
9			
10			
11			
	TOTAL SAVINGS	\$ 158,260	\$ 146,536
	DIFFERENCE		0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6501 Department of Commerce

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

This proposed reduction is intended to meet part of the 5% reduction plan required in (MCA 17-7-111(3)(f)). The Division contracted with three eastern Montana Certified Regional Development Corporations (CRDC's) to provide for the development of a plan and other resources to address impacts of energy development on eastern Montana. The three organizations we contracted with were the Great Northern Development Corporation in Wolf Point, the Eastern Plains RC&D in Terry and the Southeast Montana Development Corporation in Colstrip. A partner organization that is also participating is Richland County Economic Development in Sydney. The Division also contracted with the Montana Manufacturing Extension Center to provide training to Montana small businesses on strategic growth planning.

#2 THE SAVINGS THAT ARE EXPECTED:

\$49,436 each FY.

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

Similar activities that need to be addressed in regional and local economic development may not be funded as a result of this reduction.

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

By not reducing the funding.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6501 Department of Commerce

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

This proposed reduction is intended to meet part of the 5% reduction plan required in (MCA 17-7-111(3)(f)). The Division granted \$50,000 to Southeast Montana Development Corporation to provide partial funding for a revolving loan fund for small businesses impacted by the extensive wildfires in the region during the summer of 2012.

#2 THE SAVINGS THAT ARE EXPECTED:

\$50,000 each FY.

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

Similar activities that need to be addressed in regional and local economic development may not be funded as a result of this reduction.

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

By not reducing the funding.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6501 Department of Commerce

- #1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:**
Line item 62102 Consult and Prof Services in the Energy Promotion & Development Division reduces 2015 general fund expenditures for OTO Eastern Montana energy studies that will not be needed in the 2015 biennium.
- #2 THE SAVINGS THAT ARE EXPECTED:**
\$50,000 each FY.
- #3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:**
Similar activities that need to be addressed in regional and local economic development may not be funded as a result of this reduction.
- #4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:**
By not reducing the funding.
- #5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:**
No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6501 Department of Commerce

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

The Department proposes to reduce the amount of HB 2 private funds authority for the MT Promotion Division by \$146,536.

#2 THE SAVINGS THAT ARE EXPECTED:

An overall annual reduction of \$146,536 in SSR authority in HB 2 would be recognized, and reduce the amount of funds from private organizations that could be used in cooperative marketing efforts.

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

Reduced cooperative marketing efforts.

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

Reduced cooperative marketing efforts would translate into less exposure of MT as a tourist destination.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6501 Department of Commerce

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

General fund programs throughout the agency would take an across the board reduction of \$8,824 each FY.

#2 THE SAVINGS THAT ARE EXPECTED:

\$8,824 each FY.

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

The proposed impact would mean positions would remain vacant longer, supplies and material purchases delayed slightly.

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

Impacts to constituents and staff is thought to be minimal.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

- #2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

- #2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

- #2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

- #2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

Form B

Department of Commerce

Mission:

The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image.

"The Department of Commerce will enhance and sustain a healthy economy so Montana businesses, communities, and people can prosper."

Goals and Objectives:

- Work to improve the state's economy through business creation, expansion, retention, and diversification of the state's economic base.
- Provide direct technical assistance and training for Montana's entrepreneurs, businesses, and their employees in partnership with communities, counties, and local and regional development groups.
- Enhance the growth of the Montana economy through the promotion of tourism development, promoting and protecting historic sites, and the marketing of Montana as a travel and filmmaking destination.
- Promote access to new markets, both foreign and domestic, for Montana goods and services.
- Provide financing for homeownership and rental assistance opportunities for Montana families.
- Develop and improve public infrastructure and housing opportunities for the state's citizens by providing grants and technical assistance to Montana communities and counties.
- Prudently manage the investments of state and local government funds.
- Provide fair and equal treatment of our fellow employees and our customers.

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	613,161	679,618	713,097	475,000	490,000	490,000
Investment Earnings	74,960	64,046	53,025	6,000	49,000	49,000
Securities Lending Income	620	1,018	-	80	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	782	-	-	-
Total Operating Revenue	688,742	744,682	766,904	481,080	539,000	539,000
Operating Expenses:						
Personal Services	194,679	189,575	186,424	197,984	222,458	222,375
Other Operating Expenses	199,590	140,763	202,074	197,640	330,331	319,499
Total Operating Expenses	394,270	330,338	388,498	395,624	552,789	541,874
Operating Income (Loss)	294,472	414,344	378,406	85,456	(13,789)	(2,874)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	294,472	414,344	378,406	85,456	(13,789)	(2,874)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(22,299)	(17,955)	(17,419)	(22,299)	(18,000)	(18,000)
Change in net assets	272,173	396,389	360,987	63,157	(31,789)	(20,874)
Total Net Assets- July 1	3,478,010	3,750,183	4,151,874	4,512,861	4,576,018	4,544,229
Prior Period Adjustments	-	5,303	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	3,478,010	3,755,486	4,151,874	4,512,861	4,576,018	4,544,229
Net Assets- June 30 (Fund Balance)	3,750,183	4,151,874	4,512,861	4,576,018	4,544,229	4,523,355
60 days of expenses						
(Total Operating Expenses divided by 6)	65,712	55,056	64,750	65,937	92,132	90,312

**Requested Rates for Enterprise Funds
Fee/Rate Information**

Application Fee:	
Loan Amount	Fee
Up to \$5,000,000	30 basis points (bp) (.0030)
Up to \$10,000,000	the > of 25 bp or \$ 15,000
Up to \$25,000,000	the > of 15 bp or \$ 25,000
Up to \$50,000,000	the > of 12.5 bp or \$ 37,500
Up to \$100,000,000	the > of 7.5 bp or \$ 62,500
Over \$100,000,000	the > of 6.5 bp or \$ 75,000
Annual Fee:	
	Fee
Stand Alone Bond Issues	5 bp X the outstanding principal amount
Private Placement bond issues	5 bp X the outstanding principal amount
Trust Fund Loan Program	5 bp X the outstanding principal amount
Master Loan Program	10 bp X the outstanding principal amount

Authority: Fee revenues: 90-7-202 and 90-7-211, MCA; Investment Earnings: 90-7-202, MCA

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Fee Revenues	-	-	-	500	1,000	1,500
Investment Earnings	261,771	90,953	67,797	140,994	172,137	203,280
Securities Lending Income	165	233	184	350	400	450
Premiums	-	-	-	-	-	-
Other Operating Revenues	2,270,083	1,549,944	1,345,856	1,251,784	1,484,732	1,716,019
Total Operating Revenue	2,532,018	1,641,130	1,413,837	1,393,628	1,658,269	1,921,249
Operating Expenses:						
Personal Services	205,745	167,630	275,326	305,632	308,035	323,312
Other Operating Expenses	134,030	121,932	133,865	150,066	189,153	170,960
Debt Service Expenses (Statutory)	1,828,551	835,910	740,441	1,102,290	1,344,662	1,594,800
Total Operating Expenses	2,168,325	1,125,472	1,149,632	1,557,988	1,841,850	2,089,072
Operating Income (Loss)	363,693	515,658	264,205	(164,360)	(183,581)	(167,823)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	363,693	515,658	264,205	(164,360)	(183,581)	(167,823)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	494,639	17,955	17,419	18,000	18,000	18,000
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	858,331	533,613	281,624	(146,360)	(165,581)	(149,823)
Total Net Assets- July 1	5,406,924	6,265,256	6,798,869	7,080,493	6,934,133	6,768,552
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	5,406,924	6,265,256	6,798,869	7,080,493	6,934,133	6,768,552
Net Assets- June 30 (Fund Balance)	6,265,256	6,798,869	7,080,493	6,934,133	6,768,552	6,618,729
60 days of expenses						
(Total Operating Expenses divided by 6)	361,388	187,579	191,605	259,665	306,975	348,179
Requested Rates for Enterprise Funds						
Fee/Rate Information						
	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Budgeted Revenues						
Fees & Investment Revenues	\$3,026,657	\$ 1,659,085	\$1,431,256	\$ 1,393,628	\$1,658,269	\$1,921,249

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	4,869,468	4,416,709	4,619,784	4,430,000	5,109,144	5,234,796
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	167	-	-	-	-
Total Operating Revenue	4,869,468	4,416,876	4,619,784	4,430,000	5,109,144	5,234,796
Operating Expenses:						
Personal Services	2,369,344	2,372,134	2,498,975	2,729,157	2,956,401	3,101,061
Other Operating Expenses	1,967,820	1,917,749	2,001,642	2,075,915	2,152,743	2,133,735
Total Operating Expenses	4,337,163	4,289,883	4,500,617	4,805,072	5,109,144	5,234,796
Operating Income (Loss)	532,305	126,993	119,167	(375,072)	-	-
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	532,305	126,993	119,167	(375,072)	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(472,340)	-	-	-	-	-
Change in net assets	59,965	126,993	119,167	(375,072)	-	-
Total Net Assets- July 1	213,850	273,815	400,808	519,975	144,903	144,903
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	213,850	273,815	400,808	519,975	144,903	144,903
Net Assets- June 30 (Fund Balance)	273,815	400,808	519,975	144,903	144,903	144,903
Net Current Assets- June 30 (Working Capital)	651,587	934,921	1,105,769	730,697	730,697	730,697
60 days of expenses						
(Total Operating Expenses divided by 6)	722,861	714,981	750,103	800,845	851,524	872,466

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
BOI Administrative Fee Rate	4,819,844	4,768,607	4,831,041	4,831,041	5,109,144	5,234,796

Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06030	BOH Financial Programs			
06031	Housing Trust Fund	65010	Dept. of Commerce	Housing Division - Board of Housing
06078	Affordable Housing Revolving			
06079	Revolving Loan - TANF			

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	223,565	183,134	183,530	801,963	224,539	241,676
Investment Earnings	8,570,449	7,020,518	7,035,692	5,742,364	8,607,791	9,264,751
Securities Lending Income	1,205	987	989	1,487	1,210	1,303
Premiums	-	-	-	-	-	-
Other Operating Revenues	39,057,822	31,994,371	32,063,524	35,159,448	39,228,000	42,221,940
Total Operating Revenue	47,853,041	39,199,010	39,283,735	41,705,262	48,061,540	51,729,670
Operating Expenses:						
Personal Services	1,125,272	1,111,775	1,124,704	1,435,938	1,518,130	1,518,171
Other Operating Expenses	2,301,115	2,350,725	2,474,160	3,518,052	2,991,850	2,962,218
Debt Service	42,710,828	36,415,846	32,057,885	34,657,188	40,413,893	44,059,725
Total Operating Expenses	46,137,215	39,878,346	35,656,749	39,611,178	44,923,873	48,540,114
Operating Income (Loss)	1,715,826	(679,336)	3,626,986	2,094,084	3,137,667	3,189,556
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	1,715,826	(679,336)	3,626,986	2,094,084	3,137,667	3,189,556
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	1,715,826	(679,336)	3,626,986	2,094,084	3,137,667	3,189,556
Total Net Assets- July 1	155,486,686	157,202,512	156,523,176	160,150,162	162,244,246	165,381,913
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	155,486,686	157,202,512	156,523,176	160,150,162	162,244,246	165,381,913
Net Assets- June 30 (Fund Balance)	157,202,512	156,523,176	160,150,162	162,244,246	165,381,913	168,571,469
60 days of expenses						
(Total Operating Expenses divided by 6)	7,689,536	6,646,391	5,942,792	6,601,863	7,487,312	8,090,019

Requested Rates for Enterprise Funds

Fee/Rate Information

Fee	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Cancellation fees-Single	1/2 of 1% of the loan amount reserved	No Change	No Change	No Change	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change	No Change
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change	No Change
Post Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change	No Change
Pre 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change	No Change
Post 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change	No Change	No Change	No Change
Reservation fees-Low Income Tax Credit Program	4 1/2% of the tax credit amount reserved	No Change	No Change	No Change	No Change	No Change
Compliance monitoring fee-LITC Program	\$25 per unit	No Change	No Change	No Change	No Change	No Change
Interest income on reverse annuity	5% (new) 7% (old) loans	No Change	No Change	No Change	No Change	No Change
Housing Revolving Loan Fund (HRLA)	variable rates ranging from 2% to 6%	No Change	No Change	No Change	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change	No Change	No Change	No Change

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	1,330,551	1,138,504	1,205,764	1,280,764	1,500,371	1,501,677
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	25,052	25,000	25,000	25,000	25,000	25,000
Total Operating Revenue	1,355,603	1,163,504	1,230,764	1,305,764	1,525,371	1,526,677
Operating Expenses:						
Personal Services	1,285,645	1,290,793	1,332,811	1,324,103	1,603,019	1,608,032
Other Operating Expenses	311,984	316,172	282,389	316,560	232,560	234,311
Total Operating Expenses	1,597,629	1,606,965	1,615,200	1,640,663	1,835,579	1,842,343
Operating Income (Loss)	(242,026)	(443,462)	(384,436)	(334,899)	(310,208)	(315,666)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	237,389	339,601	302,365	302,365	302,365	302,365
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	237,389	339,601	302,365	302,365	302,365	302,365
Income (Loss) Before Operating Transfers	(4,638)	(103,861)	(82,071)	(32,534)	(7,843)	(13,301)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(4,638)	(103,861)	(82,071)	(32,534)	(7,843)	(13,301)
Total Net Assets- July 1	215,728	211,090	107,229	25,158	(7,376)	(15,219)
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	215,728	211,090	107,229	25,158	(7,376)	(15,219)
Net Assets- June 30 (Fund Balance)	211,090	107,229	25,158	(7,376)	(15,219)	(28,520)
Net Current Assets- June 30 (Working Capital)	414,220	420,948	367,207	334,673	326,830	313,529
60 days of expenses						
(Total Operating Expenses divided by 6)	266,271	267,828	269,200	273,444	305,930	307,057

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
State Programs						
Indirect Cost Rate	12.95%	12.95%	12.95%	12.95%	14.65%	14.65%
Federal Programs						
Indirect Cost Rate	12.95%	12.95%	12.95%	12.95%	14.65%	14.65%

Allocation Methodology: Indirect costs for the Director's Office are allocated to supported programs via a federally calculated indirect cost plan for federally funded programs, and a legislatively approved rate for state funded programs. Indirect cost rates are charged to supported programs based upon actual personal services expenditures. Authority: Federally calculated indirect cost plan for federally funded programs, and legislatively approved rate for state funded programs. FY 2014 and FY 2015 federally approved rate is an estimated rate.

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Fund 06074	Fund Name SEC 8 Project Based	Agency # 65010	Agency Name Dept. of Commerce	Program Name Housing Division - PB Section 8
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	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	-	-	-	-	-	-
Investment Earnings	32,654	22,588	22,167	37,650	37,650	37,650
Securities Lending Income	1,032	1,520	1,029	1,100	1,100	1,100
Premiums	-	-	-	-	-	-
Other Operating Revenues	19,149,479	19,851,612	19,783,329	21,343,140	20,874,772	21,579,677
Total Operating Revenue	19,183,166	19,875,719	19,806,525	21,381,890	20,913,522	21,618,427
Operating Expenses:						
Personal Services	421,378	475,984	524,127	413,911	442,956	443,668
Other Operating Expenses	18,426,207	19,073,973	19,153,923	20,558,398	20,280,076	20,871,964
Total Operating Expenses	18,847,584	19,549,958	19,678,051	20,972,309	20,723,032	21,315,632
Operating Income (Loss)	335,581	325,762	128,474	409,581	190,490	302,795
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	335,581	325,762	128,474	409,581	190,490	302,795
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	335,581	325,762	128,474	409,581	190,490	302,795
Total Net Assets- July 1	2,934,621	3,270,202	3,595,964	3,724,438	4,134,019	4,324,509
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	2,934,621	3,270,202	3,595,964	3,724,438	4,134,019	4,324,509
Net Assets- June 30 (Fund Balance)	3,270,202	3,595,964	3,724,438	4,134,019	4,324,509	4,627,304
60 days of expenses						
(Total Operating Expenses divided by 6)	3,141,264	3,258,326	3,279,675	3,495,385	3,453,839	3,552,605

Requested Rates for Enterprise Funds
Fee/Rate Information

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Administration Contract Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Base fee rate paid by HUD = 2% time Fair Market Rent for all projects under ACC contract for standard performance, as judged by HUD monthly, quarterly and annually.						
Administration Contract Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Performance fee incentive rate based on 17 Incentive Based Performance Standards (IBPS), graded monthly, quarterly, and annually by HUD Can be either positive or negative, based on whether time standards and performance requirements are met on each of the 17 IBPS standards Rate 3 (per unit)						
Rents Contract Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents

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

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	-	-	-	-	-	-
Investment Earnings	11,016	13,389	15,005	11,680	11,680	11,680
Securities Lending Income	1,116	1,983	1,316	2,050	2,050	2,050
Premiums	-	-	-	-	-	-
Other Operating Revenues	20,501,276	21,522,755	20,368,189	22,527,000	22,159,270	22,824,270
Total Operating Revenue	20,513,408	21,538,127	20,384,511	22,540,730	22,173,000	22,838,000
Operating Expenses:						
Personal Services	589,949	570,858	593,635	631,262	728,770	730,156
Other Operating Expenses	19,901,263	19,454,580	20,686,941	21,945,323	21,952,777	22,446,957
Total Operating Expenses	20,491,212	20,025,438	21,280,576	22,576,585	22,681,547	23,177,113
Operating Income (Loss)	22,196	1,512,689	(896,065)	(35,855)	(508,547)	(339,113)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	22,196	1,512,689	(896,065)	(35,855)	(508,547)	(339,113)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	22,196	1,512,689	(896,065)	(35,855)	(508,547)	(339,113)
Total Net Assets- July 1	4,643,446	4,664,867	6,177,556	5,281,491	5,245,636	4,737,089
Prior Period Adjustments	(775)	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,642,671	4,664,867	6,177,556	5,281,491	5,245,636	4,737,089
Net Assets- June 30 (Fund Balance)	4,664,867	6,177,556	5,281,491	5,245,636	4,737,089	4,397,976
60 days of expenses						
(Total Operating Expenses divided by 6)	3,415,202	3,337,573	3,546,763	3,762,764	3,780,258	3,862,852

Requested Rates for Enterprise Funds

Fee/Rate Information

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Administration Contract						
Rate	\$ 54.85	\$ 63.44	\$ 64.07	\$ 55.21	\$ 60.18	\$ 66.19
Base fee rate paid by HUD = \$45.79 per unit per month under lease for Housing Choice Vouchers, and \$45.79 per month for each unit under HAF contract on Mod Rehab. Estimate increases of 3.5% per year for FY 2006 and FY 2007.						
Under HUD contract, for every family with 3 or more minors which either leases the first time or moves; HUD will pay a fee of \$75.00						
Homeownership Start-up Fee						
Rate	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$ 1,000.00	\$ 1,000.00
Under HUD contract, for every family the program starts in Homeownership Vouchers Homeownership Assistance, HUD allows a fee of \$1,000						
Project Based Section 8 Opt-Out Start-up Fee						
Rate	\$250.00	\$250.00	\$250.00	\$250.00	\$ 250.00	\$ 250.00
Under HUD contract, for every unit HUD approves transferring from Project Based Section 8 to the Housing Choice Vouchers Program, HUD provides reimbursement of start-up expenses of \$250.						
Rents Contract						
Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents						

Lodging Facility Use Taxes

Montana currently has a 7 percent tax on lodging facilities in the state, commonly referred to as the “bed tax”. The total tax is divided into two parts:

- A 4 percent Lodging Facility Use Tax has been in place since 1987. This tax equals 4 percent of the rate charged on accommodations and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The revenues are distributed as discussed below.
- A 3 percent Lodging Sales & Use Tax was enacted by the 2003 legislature. This tax, imposed for the “privilege of using property or services within this state”, is equal to three percent of the rate charged on accommodations. All revenues are deposited to the general fund.

Pursuant to the statement of intent provided by the legislature when it enacted the 4 percent bed tax, all proceeds are to be dedicated to the promotion of Montana's travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana Heritage Preservation and Development Account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. Additionally, state funds are reimbursed for any bed tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on estimated costs of collecting and disbursing the proceeds from the tax (currently less than 1% of collections). The remaining proceeds are statutorily allocated as follows:

- 64.9% to the Department of Commerce
- 22.5 % to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101 (6), MCA
- 6.5 % to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parks that have both resident and nonresident use
- 3.6% Montana Historical Society, 2.6% for Montana historical interpretation and 1% for the installation or maintenance of roadside historical signs and historical sites
- 2.5% to the Montana university system for operation of the Montana travel research program

The figure below shows the collections and distributions of the lodging use facilities taxes over the last two biennia, and the amounts projected by the Legislative Fiscal Division for the 2015 biennium.

Department of Commerce							
Lodging Facilities Use Taxes							
	Distribution Basis	Actual FY 2010	Actual FY 2011	Actual FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015
Accommodations Tax Receipts		\$29,265,000	\$33,809,000	\$37,724,000	\$40,389,000	\$42,831,000	\$45,424,000
Distributions							
General Fund	3% tax	12,331,000	14,241,000	15,606,000	17,309,000	18,356,000	19,467,000
Department of Revenue - Administration	Reimburse	131,000	132,000	136,000	136,000	141,000	141,000
Montana Heritage Preservation & Development	Fixed	400,000	400,000	400,000	400,000	400,000	400,000
Montana University System	2.5% of net	410,075	475,900	539,550	563,600	598,350	635,400
Montana Historical Society							
Sites and Signs	1.0% of net	164,030	190,360	215,820	225,440	239,340	254,160
Historical Interpretation	2.6% of net	0	0	561,132	586,144	622,284	660,816
Fish Wildlife & Parks	6.5% of net	1,066,195	1,237,340	1,402,830	1,465,360	1,555,710	1,652,040
Department of Commerce							
Department Use	64.9% of net	11,072,025	12,849,300	14,006,718	14,631,056	15,533,166	16,494,984
Distribution to Regions and Cities	22.5% of net	3,690,675	4,283,100	4,855,950	5,072,400	5,385,150	5,718,600

Of those amounts, the largest share is the 64.9% to the Department of Commerce to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue funded in HB 2 to promote the tourism industry in Montana. The Office of Tourism FY 12 Annual Report breaks Montana Promotion Division spending into the following categories:

- Consumer Marketing – 40%
- Montana Brand – 1%

- Visitor Information Services – 2%
- Group Marketing – 1%
- Tourism Development – 6%
- Telemarketing and Fulfillment – 5%
- Publicity & Public Relations – 4%
- Publications – 3%
- International Marketing – 3%
- Industry Services and Administration – 16%
- Electronic Marketing – 8%

Department of Commerce
Coal Board Grants
FY 2012

Entity	Description	Amount	Meeting	Grant #
Ashland Fire District	Protective Fire Clothing*	\$18,000	7/15/2011	0681
Ashland Fire District	PAR	19,000	4/20/2012	0712
Big Horn County	Crow Agency Water Disinfection	148,300	7/15/2011	0671
Big Horn County	Tandem Truck and Dump Box*	74,000	7/15/2011	0683
Big Horn County	Rural Fire Equipment*	34,000	7/15/2011	0684
Big Horn County	Residences for Sheriffs' Officers	100,000	9/30/2011	0697
Big Horn County	Public Library Improvements	72,125	9/30/2011	0698
Big Horn County	Hospital Generator	205,000	1/20/2012	0705
Big Horn County	Little Big Horn College Work Readiness	49,500	1/20/2012	0706
Big Horn County	Automatic Vehicle Location System	65,000	1/20/2012	0707
Big Horn County	Growth Policy Update	23,500	4/20/2012	0708
Big Horn County	Heritage Acres Window Replacement	35,000	4/20/2012	0709
Big Horn County	Portable Radios	35,000	7/20/2012	0715
Big Horn County	Public Safety Software	75,000	10/19/2012	0721
Colstrip	Emergency Alert System	25,000	7/15/2011	0670
Colstrip	Fire Truck	190,000	9/30/2011	0692
Colstrip	Water Master Plan	36,662	4/20/2012	0710
Colstrip	Shop Building	200,000	4/20/2012	0711
Colstrip	SHAC Building Repairs	68,000	10/19/2012	0723
Crow Tribe	Wastewater UV Disinfection	95,106	7/15/2011	0672
Crow Tribe	Pryor Senior Center Improvement	61,890	1/20/2012	0701
Crow Tribe	Chlorination Room	46,250	7/20/2012	0717
Custer County	Jail Facility PAR	60,000	10/19/2012	0722
Forsyth	Wastewater Collection Improvements	250,000	7/15/2011	0682
Forsyth School District #4	Boiler and HVAC Improvements	125,000	7/15/2011	0666
Hardin	Water Project	400,000	9/30/2011	0699
Hardin	Fire Dept. Personal Protective Equipment	46,625	4/20/2012	0714
Hardin	Wastewater Equipment	100,000	7/20/2012	0716
Lame Deer School District #6	Elementary School Library Completion	175,239	7/20/2012	0719
Lavina	Water Preliminary Engineering Report	41,200	9/30/2011	0685
Miles Community College	Heavy Equipment Program Equipment	120,000	9/30/2011	0694
Musselshell Co	Contract amendment to #0644	46,242	7/15/2011	0644A

Musselshell County	Ongoing Staffing Request	263,514	7/15/2011	0669
Musselshell County	Fattig Road Chip Seal-Old Dived Road Crack Seal	70,000	7/15/2011	0675
Musselshell County	Dean Creek VFD Expansion	195,000	9/30/2011	0686
Musselshell County	VFD Bunker Suits	17,622	9/30/2011	0687
Musselshell County	Roundup Memorial Healthcare Improvements	200,000	9/30/2011	0688
Musselshell County	Snow Removal Equipment	180,000	9/30/2011	0689
Musselshell County	Sheriff's Department Tasers and Video Equipment*	44,000	9/30/2011	0690
Musselshell County	Pager System Upgrade/Repeater Site Generators	200,000	1/20/2012	0702
Musselshell County	Jail Camera Security System*	23,070	1/20/2012	0703
Musselshell County	Jail Restroom Renovation	13,000	1/20/2012	0704
Norther Cheyenne	Contract amendment to #0678	15,000	4/20/2012	0678A
Northern Cheyenne	Renovation of Admin Offices for NCUC	92,001	7/15/2011	0678
Powder River County	Update Growth Policy and Land Plan	15,000	7/15/2011	0680
Rosebud Co	Contract amendment to #0663	81,447	7/15/2011	0663A
Rosebud County	Courthouse Roof Repair*	170,000	9/30/2011	0695
Rosebud County	Bus Barn Project*	50,000	1/20/2012	0696
Rosebud County	Rosebud Health Rural Care Center	400,000	1/20/2012	0700
Roundup	Water Distribution Upgrades	500,000	7/15/2011	0668
Roundup	Ceiling Tile Repair*	12,638	7/15/2011	0676
Roundup	Portable Classroom Lease & Setup	43,727	7/15/2011	0677
Roundup	Wastewater UV Disinfection	220,000	7/15/2011	0679
Roundup	City Hall Updates amendment	23,117	9/30/2011	0665A
Treasure County	Sheriff's Vehicle*	25,684	7/15/2011	0673
		<u>\$5,895,459</u>		

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	756.58	756.58	752.58	752.58	756.58	752.58	(4.00)	(0.53%)
Personal Services	40,122,529	42,222,224	43,265,007	43,309,143	82,344,753	86,574,150	4,229,397	5.14%
Operating Expenses	21,438,114	23,569,354	22,921,975	23,040,631	45,007,468	45,962,606	955,138	2.12%
Equipment & Intangible Assets	122,027	274,234	436,602	398,986	396,261	835,588	439,327	110.87%
Grants	11,535,458	11,779,098	12,228,606	12,228,678	23,314,556	24,457,284	1,142,728	4.90%
Benefits & Claims	91,464	74,840	91,464	91,464	166,304	182,928	16,624	10.00%
Transfers	484,630	357,757	454,199	454,199	842,387	908,398	66,011	7.84%
Debt Service	3,889	3,775	13,103	13,103	7,664	26,206	18,542	241.94%
Total Costs	\$73,798,111	\$78,281,282	\$79,410,956	\$79,536,204	\$152,079,393	\$158,947,160	\$6,867,767	4.52%
General Fund	1,474,826	1,483,665	2,646,492	2,647,416	2,958,491	5,293,908	2,335,417	78.94%
State Special	38,439,794	41,914,681	40,097,044	40,056,805	80,354,475	80,153,849	(200,626)	(0.25%)
Federal Special	33,823,455	34,794,419	36,667,420	36,831,983	68,617,874	73,499,403	4,881,529	7.11%
Other	60,036	88,517	0	0	148,553	0	(148,553)	(100.00%)
Total Funds	\$73,798,111	\$78,281,282	\$79,410,956	\$79,536,204	\$152,079,393	\$158,947,160	\$6,867,767	4.52%

Agency Mission: The purpose of the Department of Labor and Industry is to promote the well-being of Montana's workers, employers, and citizens, and to uphold their rights and responsibilities.

For additional information please refer to the agency profile.

Agency Highlights

Department of Labor and Industry Major Budget Highlights
<ul style="list-style-type: none"> ◆ 2015 biennium budget increases mainly due to increased personal services costs for vacant positions and broadband pay increases ◆ The executive proposes to increase general fund by \$2.0 million to fund Research and Analysis Bureau and Jobs for Montana Graduates previously funded with state special revenue funds
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Employer assessment used to fund the Employment Security Account could be reduced ◆ Legislature could use excess fund balance in Uninsured Employers' Fund for other uses ◆ Employment security account statute includes allowable expenditures for research and analysis functions

Agency Discussion

Agency Personal Services

The personal services budget for the 2015 biennium increases over the FY 2012 base due to:

- o An overall vacancy savings rate of 8.9% compared to a budgeted 4% rate.
- o Annualization of broadband pay increases that were granted at various times in FY 2012. The total annual cost from all funding sources, both HB 2 and non-budgeted proprietary funds is about \$1.6 million.
- o As of November 17, 2012, there were 16 positions that had been vacant for longer than six months, including 10 employment specialists in the Workforce Services Division.

LFD
ISSUE

Funding for Temporary Services Could Be Reduced

The agency spent \$376,000 on temporary services in FY 2012, which are carried forward in the base into the 2015 biennium. Because the statewide present law adjustments for personal services restore funding for those vacant positions that necessitated the temporary positions, the budget could be reduced by \$376,000. If temporary services are again needed due to vacancies, they can be funded with vacancy savings.

Legislative Option
Reduce appropriations for operating expenses by \$376,000 for temporary services that are provided through permanent staff funded through personal services.

DOLI indicates that about 10% of their employees are currently eligible for either early or full retirement. In FY 2012 the agency paid \$0.25 million in retirement and sick leave payouts that are not included as part of the 2015 biennium personal services funding.

The agency faces two primary challenges recruiting and retaining employees:

- o The unemployment call center, which the department states is due to stressful working conditions and low salaries
- o Energy development in the eastern part of the state is causing difficulty in filling positions within the current pay structure due to the increasing cost of living and housing shortages. The turnover rate for the eastern Montana offices is projected to be 42% in FY 2012. The regional director position was vacant for over seven months before it was filled.

Agency Wide Decision Packages

The following proposals have common decision packages in several programs across the agency as shown in Figure 1.

- o DP 101 - Legal Funding Switch changes the funding for legal services as shown. The proposal is to switch the funding for the Office of Legal Services from support provided by revenues appropriated in HB 2 to the proprietary fund.

Figure 1

Department of Labor and Industry												
Legal Funding Switch												
Division	Operating Costs		General Fund		State Special		Federal		Proprietary		Total	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Workforce Services Division	\$16,443	\$16,443	\$0	\$0	\$16,443	\$16,443	\$0	\$0	\$0	\$0	\$16,443	\$16,443
Unemployment Insurance Division	187,921	187,921	0	0	0	0	187,921	187,921	0	0	187,921	187,921
Commissioner's Office	74,845	74,845	(103,143)	(103,296)	(441,304)	(441,922)	(222,597)	(222,928)	841,889	842,991	74,845	74,845
Employment Relations Division	562,956	562,956	141,266	141,266	409,406	409,406	12,284	12,284	0	0	562,956	562,956
Business Standards Division	39,106	39,106	0	0	39,106	39,106	0	0	0	0	39,106	39,106
Agency Total	\$881,271	\$881,271	\$38,123	\$37,970	\$23,651	\$23,033	(\$22,392)	(\$22,723)	\$841,889	\$842,991	\$881,271	\$881,271

As shown above, the proposal increases general fund, state special, and proprietary funds and reduces support from federal revenues. The majority of the impact is to the Employment Relation Division which has increased costs of \$0.5 million each year of the biennium for the indirect charges for legal services. A portion of the increase in the general fund

for the Employment Relation Division can be offset by federal funds. Refer to the LFD Issue in the narrative for the division for further information.

5% Plans

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

For this agency the general fund impact of the 5% plan is \$73,741 and the state special revenue impact is \$1,101,519.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining
- o Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- o Current plans to address obsolescence
- o Costs to replace the system
- o Costs of maintaining the current system
- o Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$5,293,908	\$0	\$0	\$5,293,908	1.1%
State Special Total	80,153,849	-	1,528,454	81,682,303	17.3%
Federal Special Total	73,499,403	-	-	73,499,403	15.5%
Proprietary Total	-	313,023,047	-	313,023,047	66.1%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	\$158,947,160	\$313,023,047	\$1,528,454	\$473,498,661	
Percent - Total All Sources	33.6%	66.1%	0.3%		

The majority of the funding for the division is non-budgeted proprietary funding for unemployment benefits. State special revenue funds include the employment security account, individual accounts for each professional licensing board or program, and the uninsured employers fund. General fund supports activities within the Workforce Services Division and the Employment Relations Division.

**LFD
ISSUE**Employment Security Account Fund Balance is Growing

State statute provides for a special administration assessment that is deposited into the Employment Security Account. The rate is assessed at varying rates, 0.08% to 0.18%, depending on the rate class and type of employer, with separate rates for nonprofits and government employers. Statute outlines the allowed uses of the fund as the following:

- Unemployment insurance benefits
- Administration of the unemployment insurance program
- Costs for collecting special administrative assessments
- Costs for employment offices including expenses for providing services to the business community
- Apprenticeship and training programs
- Displaced homemaker programs
- Department of Labor and Industry (DOLI) research and analysis programs
- Wage and hour laws, prevailing wages, and collective bargaining expenses of the DOLI
- Principal, interest, and redemption on employment security revenue bonds

Figure 2 shows the revenues, expenditure, and fund balance for the account for the 2013 and 2015 biennia.

Figure 2

Department of Labor and Industry Economic Security Account				
Revenues, Expenditures, Fund Balance	Actual FY 2012	Budgeted FY 2013	Budgeted FY 2014	Budgeted FY 2015
Beginning Fund Balance	\$9,428,160	\$9,508,079	\$7,857,017	\$9,489,113
Revenues				
Contributions/Premiums	14,994,621	15,427,000	15,942,000	16,475,000
BOI Investment Earnings	<u>34,701</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total Revenues	15,029,323	15,432,000	15,947,000	16,480,000
Expenditures				
Workforce Services Division	9,886,884	10,619,281	8,850,817	8,851,167
Unemployment Insurance Division	3,389,198	3,667,627	3,777,656	3,777,656
Commissioner's Office	247,219	1,314,120	179,030	179,027
Employment Relations Division	<u>1,435,729</u>	<u>1,482,034</u>	<u>1,507,401</u>	<u>1,507,433</u>
Total Expenditures	14,959,031	17,083,062	14,314,904	14,315,283
Adjustments	9,628			
Ending Fund Balance	<u>\$9,508,079</u>	<u>\$7,857,017</u>	<u>\$9,489,113</u>	<u>\$11,653,830</u>
Unemployment Insurance Tax Modernization	16,735,567			
Ending Fund Balance with IT project	(\$7,227,488)	(\$8,878,550)	(\$7,246,454)	(\$5,081,737)

The 2009 Legislature approved the unemployment tax modernization information technology project in HB 10 using \$16.7 million in employment security revenue bonding authority and \$3.0 million in federal revenues. The funding was approved as a long range IT project. As a long range IT project, the appropriation authority for the employment security revenue bonds does not revert at the end of the biennium but is continued until the bonds are issued and the project is completed or the legislature removes the authority through legislation.

LFD
ISSUE CONT.

The Governor canceled the unemployment tax modernization prior to the issuance of the revenue bonds. However, the authority for the bonds remains and can be utilized at any time. The source of payment for the revenue bonds is the employment security account. The amount does not include interest or administrative costs of issuing the bonds. The figure above shows the impact on the fund balance if the entire amount was removed at one time. It should be noted however, the revenue bonds for information technology projects are repaid over a ten year period so the impacts on the fund balance would be spread out over a longer period but would be higher due to interest and bond issuance costs. The agency has indicated it has recently issued a request for proposed for the unemployment for modernization project in spite of Governor Schweitzer’s cancelation of the project.

In addition, the executive proposes to switch funding for the Research and Analysis Bureau and the Jobs for Montana Graduates Program from the ESA to the general fund (see the Workforce Services Division for a further discussion). Without the appropriation authority for the revenue bonds and assuming the proposed funding switch, the fund balance for the employment security fund is growing. The legislature has two general options:

- Expand the allowable uses of the fund, including maintaining all previous uses of ESA funding for the Research and Analysis Bureau and Jobs for Montana Graduates Program
- Reduce the assessments on Montana businesses to a level in line with on-going costs

Legislative Options

- Eliminate the funding authority for the employment security revenue bonds
- Continue to fund Research and Analysis Bureau and Jobs for Montana Graduates and/or adjust statute to expand the potential uses of the fund
- Reduce the assessment rates for special administrative funds as outlined in 39-51-404, MCA

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,474,826	1,474,826	2,949,652	55.72%	73,798,111	73,798,111	147,596,222	92.86%
Statewide PL Adjustments	54,997	55,880	110,877	2.09%	3,953,858	4,150,267	8,104,125	5.10%
Other PL Adjustments	4,057	4,079	8,136	0.15%	1,440,753	1,487,936	2,928,689	1.84%
New Proposals	1,112,612	1,112,631	2,225,243	42.03%	218,234	99,890	318,124	0.20%
Total Budget	\$2,646,492	\$2,647,416	\$5,293,908		\$79,410,956	\$79,536,204	\$158,947,160	

The statewide present law adjustments provide for personal service adjustments including:

- Refunding vacancy savings, minus 4%
- Annualization of broadband pay plan increases
- Funding statutorily required increases for longevity

The adjustments also include increases for both fixed costs such as State Information Technology Services Division (SITSD) and rent adjustments, and decreases for gasoline.

The executive proposes shifting costs for the Research and Analysis Bureau and the Jobs for Montana Graduates Program from state special revenue funds to the general fund. This is discussed in the narrative for the Workforce Services Division.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	293.95	293.95	293.95	293.95	293.95	293.95	0.00	0.00%
Personal Services	14,375,781	15,812,593	15,890,688	15,911,111	30,188,374	31,801,799	1,613,425	5.34%
Operating Expenses	6,255,553	6,520,131	6,907,887	6,904,228	12,775,684	13,812,115	1,036,431	8.11%
Equipment & Intangible Assets	9,209	50,261	9,209	9,209	59,470	18,418	(41,052)	(69.03%)
Grants	9,031,994	9,319,862	9,031,994	9,031,994	18,351,856	18,063,988	(287,868)	(1.57%)
Transfers	333,399	171,867	333,399	333,399	505,266	666,798	161,532	31.97%
Debt Service	3,889	0	13,103	13,103	3,889	26,206	22,317	573.85%
Total Costs	\$30,009,825	\$31,874,714	\$32,186,280	\$32,203,044	\$61,884,539	\$64,389,324	\$2,504,785	4.05%
General Fund	0	0	844,823	844,994	0	1,689,817	1,689,817	n/a
State Special	9,558,551	10,684,411	8,934,390	8,934,889	20,242,962	17,869,279	(2,373,683)	(11.73%)
Federal Special	20,451,274	21,190,303	22,407,067	22,423,161	41,641,577	44,830,228	3,188,651	7.66%
Total Funds	\$30,009,825	\$31,874,714	\$32,186,280	\$32,203,044	\$61,884,539	\$64,389,324	\$2,504,785	4.05%

Program Description

The Workforce Services Division (WSD) operates as a gateway to government services including:

- o Retraining and reemployment services for laid-off workers
- o Employment and training services for people transitioning from welfare to work
- o Employment services for youth, veterans, seasonal/migrant farm workers, and general job seekers

WSD operates four bureaus. The Job Service Operations Bureau coordinates and guides the delivery of workforce development services to communities through a network of 25 Job Service Centers across the state. The 21st Century Workforce Technology, Apprenticeship & Training Bureau administers the Apprenticeship and Training Program, Jobs for Montana Graduates, Incumbent Worker Training Program, and the State Workforce Investment Board (SWIB). The Statewide Workforce Programs and Oversight Bureau performs oversight, regulatory, fiscal, tracking, registration, and support functions statewide for both state and federal programs such as the State Displaced Homemaker Program, Employee Protection Act, Workforce Investment Act (WIA), Trade Adjustment Assistance (TAA) and MontanaWorks. Finally, the Research and Analysis Bureau works in partnership with the US Department of Labor to provide labor market information that is used at the national and state level by businesses, policy makers, and educators. The bureau also provides career resources for use by educators, students, workforce development agencies, and job seekers.

Program Highlights

Workforce Services Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ Costs increase in personal services due to: <ul style="list-style-type: none"> • Vacancy rates above the budgeted rate of 4% • Increases for broadband pay adjustments ◆ Operating expenses increases are for: <ul style="list-style-type: none"> • Reinstating building maintenance costs transferred to the Department of Administration • Increases in fixed costs including information technology and rent ◆ Executive proposes a funding shift, increasing general fund and decreasing state special revenues, for the Research and Analysis Bureau and training programs for the Jobs for Montana Graduates Program 	

Major LFD Issues

- | |
|---|
| <ul style="list-style-type: none"> ◆ Employment security account statute includes allowable expenditures for research and analysis functions |
|---|

Program Discussion

The Workforce Services Division personal services increase due to:

- Broadband pay increases granted throughout FY 2012 that are annualized for the 2015 biennium
- Vacancy savings that were 9.1% in FY 2012 compared to a budgeted rate of 4.0%
- Statutorily required longevity increases

Operating costs increase due to:

- State Information Technology Services Division fixed costs - \$0.7 million
- Proposal to increase costs for building maintenance by the amount transferred to the Architecture and Engineering Division for maintenance on the Helena Job Service Office - \$0.5 million

State special revenues decline due to a proposal by the executive to switch funding support from the Employment Security Account for the Research and Analysis Bureau and the Jobs for Montana Graduates to the general fund.

Figure 3 shows the FY 2012 base expenditures, the proposed costs for each year of the biennium, and the increase when compared to the FY 2012 base for two of the programs within the division:

- Job Service Operations
- Statewide Workforce Programs and Oversight Bureau

Figure 3

Department of Labor and Industry Workforce Services Division 2015 Biennium Executive Request					
	FY 2012	FY 2014	% Increase	FY 2015	% Increase
Job Service Operations					
FTE	246.35	246.35	0.00%	246.35	
Personal Services	\$11,475,163	\$12,865,761	12.12%	\$12,883,346	12.27%
Operating Costs	4,857,228	5,438,061	11.96%	5,435,772	11.91%
Equipment & Intangibles	9,209	9,209	0.00%	9,209	0.00%
Grants	4,600,062	4,600,062	0.00%	4,600,062	0.00%
Transfers	175,021	175,021	0.00%	175,021	0.00%
Debt Service	<u>3,889</u>	<u>13,103</u>	<u>236.92%</u>	<u>13,103</u>	<u>236.92%</u>
Total	<u>\$21,120,572</u>	<u>\$23,101,217</u>	9.38%	<u>\$23,116,513</u>	9.45%
Statewide Workforce Programs and Oversight					
FTE	10.62	10.62	0.00%	10.62	0.00%
Personal Services	\$629,167	\$722,046	14.76%	\$721,663	14.70%
Operating Costs	272,575	308,952	13.35%	307,894	12.96%
Equipment & Intangibles	0	0	0.00%	0	0.00%
Grants	4,289,932	4,289,932	0.00%	4,289,932	0.00%
Transfers	158,378	158,378	0.00%	158,378	0.00%
Debt Service	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0.00%</u>
Total	<u>\$5,350,052</u>	<u>\$5,479,308</u>	2.42%	<u>\$5,477,867</u>	2.39%

As shown, the cost of personal services for the Job Service Operations and the Statewide Workforce Programs and Oversight Bureau increase about 12.2% and 14.7% each year of the biennium when compared to the FY 2012 base costs. The majority of the increase for the Job Service Operations Bureau is related to vacant positions.

- In FY 2012 the effective vacancy savings rate was 9.0% compared to the budgeted 4%
- As of early July the division had 26.1 vacant FTE or over 10.5%
- Employees in this division received general raises averaging 4.2% in keeping with other department staff. The total cost in the 2015 biennium is about \$1.0 million

Further review of the vacancies shows that:

- 14.6 FTE or 56% of the vacant positions have been filled or hired as of November 17, 2012
- 5.0 FTE new FTE were vacant as of November 17, 2012
- 1.5 FTE of the vacant FTE have been vacant for almost two years

Changes in the operating costs include:

- Funding for building maintenance at Helena Job Service office that was transferred to the Architecture and Engineering Division in the Department of Administration - 42% of the increase
- State Information Technology and Services Division fixed costs increases – 55% of the increase
- Reductions in utilities, rent, and other costs

A review of the Statewide Workforce Programs and Oversight Bureau shows that none of the FTE were vacant when personal services were captured for budgeting purposes (the “snapshot”). In addition, as of November 17, 2012 the bureau was fully staffed. Examination of the pay history for the FTE shows that the following increases were granted in FY 2012:

- Longevity - \$9,283 annual salary cost
- Performance adjustment - \$54,058 annual salary cost
- Situation pay - \$4,354 annual salary cost
- Strategic pay - \$10,372 annual salary cost

Operating cost changes for the Statewide Workforce Programs and Oversight Bureau are included in the Statewide Present Law Adjustment for the division. Changes include:

- SITSD fixed costs increases – about 52% of the increase
- Building rent – about 40% of the increase

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Work Force Services Division							
Funds	HB 2	Non-		Total All Sources	% Total All Funds	MCA Reference	Statutory Category
		Budgeted Proprietary	Statutory Appropriation				
General Fund	\$1,689,817	\$0	\$0	\$1,689,817	2.6%		
State Special Total	\$17,869,279	\$0	\$0	\$17,869,279	27.7%		
02258 Employment Security Account	\$17,701,984	\$0	\$0	\$17,701,984	27.5%		
02455 Workers' Comp Regulation	\$167,295	\$0	\$0	\$167,295	0.3%		
Federal Special Total	\$44,830,228	\$0	\$0	\$44,830,228	69.6%		
03124 Employment Trng Grants	\$17,397,232	\$0	\$0	\$17,397,232	27.0%		
03128 L & I Federal Funding	\$522,344	\$0	\$0	\$522,344	0.8%		
03131 Osha Stat Prgm Fed.st Sdy	\$171,283	\$0	\$0	\$171,283	0.3%		
03194 Research/analysis Crn	\$1,505,833	\$0	\$0	\$1,505,833	2.3%		
03197 Wsd-dept Of Education Grant	\$2,395,230	\$0	\$0	\$2,395,230	3.7%		
03297 Labor And Industry Veteran Gra	\$1,100,000	\$0	\$0	\$1,100,000	1.7%		
03682 Wagner Peyser	\$10,374,508	\$0	\$0	\$10,374,508	16.1%		
03692 Alien Labor Certification(alc)	\$173,644	\$0	\$0	\$173,644	0.3%		
03693 Wrk Opportunities Tx Crdt/wotc	\$201,102	\$0	\$0	\$201,102	0.3%		
03694 Trade Adjustment Assist/nafta	\$10,972,600	\$0	\$0	\$10,972,600	17.0%		
Proprietary Total	\$0	\$31,600	\$0	\$31,600	0.0%		
06051 Montana Career Info System	\$0	\$31,600	\$0	\$31,600	0.0%		
Total All Funds	\$64,389,324	\$31,600	\$0	\$64,420,924	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

HB 2 Funding

State special revenue

The majority of the state special revenue funding is from the employment security account. The revenue for this account is generated from an administrative assessment against the payrolls of Montana employers. Stature enumerates the uses of the fund, including the operating expenses of the Job Service offices.

Federal revenues

Approximately 70% of the total funding for the Workforce Services Division is from federal special revenue. Nearly 90% of this funding is from three federal programs: Wagner-Peyser Act, Workforce Investment Act, and Trade Adjustment Assistance Program (Trade Act of 1974). The uses and requirements for these funds are determined by the federal agencies granting the funding.

LFD COMMENT	<p>Under current law, the Budget Control Act (BCA) sequester is scheduled to occur on January 2, 2013. When Congress enacted the BCA, it included automatic spending reductions, known as sequester, to ensure deficit reduction of the federal budget occurred. The current estimate of the reduction for non-defense federal funds is 8.2%. Included in the federal funds subject to sequestration are funds from the federal Department of Labor. The funds that are covered include:</p> <ul style="list-style-type: none"> ○ Workforce Investment Act – Adult Training, Dislocated Workers, Youth Activities ○ Employment Service State grants
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Proprietary Funds

The proprietary funding is considered and approved as rates charged to entities participating in the Montana Career Information System and are discussed in the “Proprietary Rates” section of the narrative.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	30,009,825	30,009,825	60,019,650	93.21%
Statewide PL Adjustments	0	0	0	0.00%	1,891,414	1,908,178	3,799,592	5.90%
Other PL Adjustments	3,246	3,246	6,492	0.38%	273,356	273,356	546,712	0.85%
New Proposals	841,577	841,748	1,683,325	99.62%	11,685	11,685	23,370	0.04%
Total Budget	\$844,823	\$844,994	\$1,689,817		\$32,186,280	\$32,203,044	\$64,389,324	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					2,176,931					2,198,181
Vacancy Savings					(662,024)					(662,851)
Inflation/Deflation					(11,269)					(5,172)
Fixed Costs					387,776					378,020
Total Statewide Present Law Adjustments		\$0	(\$51,282)	\$1,942,696	\$1,891,414		\$0	(\$50,612)	\$1,958,790	\$1,908,178
DP 104 - WSD Rent Adjustment	0.00	3,246	11,633	13,863	28,742	0.00	3,246	11,633	13,863	28,742
DP 105 - Reinstatement for Appropriation Transfer	0.00	0	244,614	0	244,614	0.00	0	244,614	0	244,614
Total Other Present Law Adjustments	0.00	\$3,246	\$256,247	\$13,863	\$273,356	0.00	\$3,246	\$256,247	\$13,863	\$273,356
Grand Total All Present Law Adjustments	0.00	\$3,246	\$204,965	\$1,956,559	\$2,164,770	0.00	\$3,246	\$205,635	\$1,972,653	\$2,181,534

DP 104 - WSD Rent Adjustment - The executive is requesting \$28,742 in each year of the biennium for an increase in off campus rent related to Job Service Offices around the state.

DP 105 - Reinstatement for Appropriation Transfer - This request is to restore the appropriation transferred to the Architecture & Engineering Division in the Department of Administration for building maintenance.

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----			-----Fiscal 2015-----					
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
	DP 101 - Legal Funding Switch										
	01	0.00	0	16,443	0	16,443	0.00	0	16,443	0	16,443
	DP 103 - WSD Funding Correction										
	01	0.00	841,577	(841,577)	0	0	0.00	841,748	(841,748)	0	0
	DP 6101 - Professional Development Center Fee Allocation										
	01	0.00	0	(3,992)	(766)	(4,758)	0.00	0	(3,992)	(766)	(4,758)
	Total	0.00	\$841,577	(\$829,126)	(\$766)	\$11,685	0.00	\$841,748	(\$829,297)	(\$766)	\$11,685

DP 101 - Legal Funding Switch - The executive requests a funding switch to formalize a reorganization of the

department's legal structure. The Legal Unit was operating under two different methodologies and now operates under one, sharing resources and expertise to provide legal services to the department. This request affects five programs within the department, reducing HB 2 authority in the Centralized Services Division and increasing HB 2 authority in the other divisions in order to pay for estimated legal services.

**LFD
COMMENT**

For a further discussion, see the Centralized Services Division.

DP 103 - WSD Funding Correction - The executive requests funds to reinstate general fund in place of state special revenue for the 21st Century Workforce Bureau Jobs for Montana Graduates Program and the Research and Analysis Bureau. The 2011 Legislature switched funding from general fund to employment security account funds authorized by 39-51-409, MCA. The executive contends the use of the account for these purposes is neither appropriate nor sustainable.

**LFD
ISSUE**
Statute Includes Allowable Expenditures for Research and Analysis Functions

According to statute, the Employment Security Account may be used for:

- Unemployment insurance benefits
- Expenses incurred in the administration of the unemployment insurance program
- Expenses incurred for the employment offices, including expenses for providing services to the business community
- Expenses incurred for the Apprenticeship and Training Program
- Expenses incurred for the Displaced Homemaker Program
- Expenses for research and analysis functions that provide employment, wage, and economic data
- Expenses for department functions pertaining to wage and hour laws, prevailing wages, and collective bargaining
- Principal, interest, and redemption premium on employment security revenue bonds

It should be noted that statute specifically includes expenditures for research and analysis functions that provide employment, wage, and economic data.

Statute does not define the Apprenticeship and Training Programs. However, it does state that one of the responsibilities of the department is to provide assistance for the development of on-the-job training programs in occupations that cannot be apprenticed. The goal of the Jobs for Montana Graduates Program is to assist students to stay in school, graduate, and successfully transition from school into employment. One of the performance measurements of the program is the employment rate of the students in the program as the program works to provide classroom instruction and work-based learning opportunities concurrently. This means that students are trained in such things as interviewing skills, resume preparation, and, in some cases, employment after school.

A discussion of the sustainability of the fund can be found in the Agency Discussion section of the narrative.

Legislative Options:

- Given that the Research and Analysis Bureau is provided for in the statute outlining uses of the Employment Security Account and the continued increase in the fund balance, the legislature may wish to consider the need for general fund in relation to the programs.
- The legislature may also wish to consider if the Employment Security Account should continue to support the Jobs for Montana Graduates.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates

Program Description

The purpose of Montana Career Information System (MCIS) is to deliver current career and labor market information to Montanans in an easy-to-use and easy-to-understand format. MCIS is currently being funded by a College Access Challenge Grant for a wide variety of users: job service offices, vocational rehabilitation offices, high schools, community colleges, universities, tribal colleges, educational and training agencies, home use, and adult education programs. When the grant ends, MCIS will need to seek other funding or resort back to license fees for the basic system. There are currently optional components of MCIS not funded by the grant that requires the program to collect fees associated with each optional component.

Program Narrative

Expenses

The expenses of the proprietary program are limited to the operational expenses of the optional features. These are typically site specific licensing fees.

Revenues

Revenue is generated through fees for purchase of a one year optional component license.

Proprietary Rates

For the 2015 biennium the following rates are proposed by the executive. The rates have not changed from those charged in the base year IDEAS Assessment:

- \$100 per site license per year
- Dependable Strengths: \$200 per site license per year
- Peterson's Academic Practice Tests: (per site, per practice test package)
- Enrollment up to 200 - \$225
- Enrollment 201-500 - \$275
- Enrollment over 500 - \$325
- Peterson's Civil Service Practice Test Package: (per site)
- Schools - \$200
- Agencies - \$225

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	153.00	153.00	153.00	153.00	153.00	153.00	0.00	0.00%
Personal Services	7,971,387	7,927,029	8,286,216	8,287,792	15,898,416	16,574,008	675,592	4.25%
Operating Expenses	4,790,355	5,146,089	5,160,463	5,307,145	9,936,444	10,467,608	531,164	5.35%
Transfers	87,345	75,000	87,345	87,345	162,345	174,690	12,345	7.60%
Debt Service	0	3,775	0	0	3,775	0	(3,775)	(100.00%)
Total Costs	\$12,849,087	\$13,151,893	\$13,534,024	\$13,682,282	\$26,000,980	\$27,216,306	\$1,215,326	4.67%
State Special	3,502,688	3,718,627	3,847,656	3,847,656	7,221,315	7,695,312	473,997	6.56%
Federal Special	9,346,399	9,433,266	9,686,368	9,834,626	18,779,665	19,520,994	741,329	3.95%
Total Funds	\$12,849,087	\$13,151,893	\$13,534,024	\$13,682,282	\$26,000,980	\$27,216,306	\$1,215,326	4.67%

Program Description

The Unemployment Insurance (UI) Division administers the state unemployment insurance law and related federal programs, which provide temporary, partial wage replacement to unemployed workers. The bureaus are: Contributions, Claims Processing, and Program Support. The Contributions Bureau is responsible for UI employer registration, contribution rate assignments, tax and wage report collection, wage revisions, and employer audits. The Claims Processing Bureau has two claims processing centers (Billings and Helena) that file and process claims (monetary eligibility, issue investigation, adjudication, and employer charging) and respond to all UI claim related inquires. The Claims Processing Bureau is also responsible for Trade Readjustment Assistance, military, federal, and multi-state claims. The Program Support Bureau manages the information technology systems and infrastructure, the division budget and accounting, and the UI trust fund. They also provide management analysis and research for economic, program management, reporting, and legislative purposes in addition to operating tax and benefit quality control, benefit payment control, and integrity programs.

Program Highlights

Unemployment Insurance Division Major Budget Highlights	
◆	Personal services costs increase due to: <ul style="list-style-type: none"> ● Vacancy rates above the budgeted rate of 4% ● Increases for broadband pay adjustments
◆	Operating costs increase include: <ul style="list-style-type: none"> ● Increases for fixed costs including rent and information technology services ● Postage and mailing cost increases associated with unemployment insurance benefits

Program Discussion

Personal services for the division increase due to:

- The division experienced a vacancy savings rate of about 6.0%
- The majority of employees received a broadband pay increase
- Increases granted for longevity and performance adjustments - \$0.6 million over the biennium

Operating expenses increase due to:

- o Rent increase
- o SITSD fixed cost increase
- o Postage and mailing

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Unemployment Insurance Divisio							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$7,695,312	\$0	\$0	\$7,695,312	2.4%		
02258 Employment Security Account	\$7,555,312	\$0	\$0	\$7,555,312	2.3%		
02315 Dli Info Exchange/rental	\$140,000	\$0	\$0	\$140,000	0.0%		
Federal Special Total	\$19,520,994	\$0	\$0	\$19,520,994	6.0%		
03278 Ui Penalty & Interest	\$1,140,000	\$0	\$0	\$1,140,000	0.4%		
03954 Ui Administrative Grants	\$18,380,994	\$0	\$0	\$18,380,994	5.7%		
Proprietary Total	\$0	\$296,472,656	\$0	\$296,472,656	91.6%		
06069 Ui Tax Benefit Fund	\$0	\$296,472,656	\$0	\$296,472,656	91.6%		
Total All Funds	\$27,216,306	\$296,472,656	\$0	\$323,688,962	100.0%		
Percent - Total All Sources	8.4%	91.6%	0.0%				

HB 2 Funding

The HB 2 funded functions of the division support the administrative and operational portions of unemployment insurance.

State special revenues

The majority of the state special revenues are derived from an assessment charged to employers as a percentage of their payroll and deposited into the employment security account.

Federal Revenues

Unemployment insurance (UI) administrative grants are federal funds that Montana receives for the administration of the unemployment insurance program. Montana businesses pay a federal unemployment tax that is partially used to fund these grants. For further information on the sources and uses of federal unemployment tax See the Appendix for the Department of Labor and Industry.

Proprietary Funding

State unemployment taxes (SUTA) are paid into a proprietary account to fund unemployment benefits for claimants. The amount of the tax depends on the ratio of unemployment insurance trust fund balance to the total covered wages in Montana and the employer’s experience. Montana uses 11 schedules with 9 contribution rates in each schedule to assess the SUTA. In calendar year 2012 Montana used schedule VII, in calendar year 2013 the rate will be calculated using schedule VI, a reduction in costs to Montana employers.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	12,849,087	12,849,087	25,698,174	94.42%
Statewide PL Adjustments	0	0	0	0.00%	499,805	648,063	1,147,868	4.22%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	185,132	185,132	370,264	1.36%
Total Budget	\$0	\$0	\$0		\$13,534,024	\$13,682,282	\$27,216,306	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					659,650					661,304
Vacancy Savings					(344,821)					(344,899)
Inflation/Deflation					16,840					32,654
Fixed Costs					168,136					299,004
Total Statewide Present Law Adjustments		\$0	\$344,968	\$154,837	\$499,805		\$0	\$344,968	\$303,095	\$648,063
Grand Total All Present Law Adjustments	0.00	\$0	\$344,968	\$154,837	\$499,805	0.00	\$0	\$344,968	\$303,095	\$648,063

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----				
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
	DP 201 - Legal Funding Switch										
	02	0.00	0	0	187,921	187,921	0.00	0	0	187,921	187,921
	DP 6101 - Professional Development Center Fee Allocation										
	02	0.00	0	0	(2,789)	(2,789)	0.00	0	0	(2,789)	(2,789)
	Total	0.00	\$0	\$0	\$185,132	\$185,132	0.00	\$0	\$0	\$185,132	\$185,132

DP 201 - Legal Funding Switch - The executive requests a funding switch to formalize a reorganization of the department's legal structure. The Legal Unit was operating under two different methodologies and now operates under one, sharing resources and expertise to provide legal services to the department. This request affects five programs within the department, reducing HB 2 authority in the Centralized Services Division and increasing HB 2 authority in the other divisions in order to pay for estimated legal services.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE

counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates

Program Description

The Department of Labor and Industry (DLI) collects the contributions paid by employers, based on their industry or individual experience rate, to pay for their unemployment insurance. DLI expends the funds by paying unemployment insurance benefit claims.

Program Narrative

Expenses

Significant costs for the program are for unemployment insurance benefits paid to claimants while unemployed, including federal withholding tax and child support payments the claimants have elected to be taken out of the benefit check.

Revenues

The revenues received in the proprietary fund are from unemployment insurance tax collections, federal reimbursement for claims on federal employees, military personnel, claimants in other states, and interest earnings to the Unemployment Insurance Trust Fund.

Significant Present Law Adjustments

The division has reduced the FY 2012 base for unemployment benefits and claims by \$70 million each year of the 2015 biennium.

Figure 4 shows that unemployment insurance benefits made during the last four fiscal years, during the recession and recovery period since, as well as the percentage increase or decrease from the preceding period.

Figure 4

Department of Labor and Industry Unemployment Insurance Division Unemployment Insurance Benefits						
Fiscal Year	Regular Unemployment Insurance	Trade Adjustment Readjustment	Emergency Unemployment Compensation	UI Benefit Modernization	Total	% Change
2009	\$180,456,413	\$177,273	\$41,373,353	\$5,848	\$222,012,887	
2010	197,098,174	352,955	121,921,938	3,715,952	323,089,019	45.53%
2011	157,091,080	2,023,599	103,806,117	6,433,280	269,354,076	-16.63%
2012	134,200,858	2,065,957	73,217,900	7,425,196	216,909,911	-19.47%

As shown, the continuing benefits peaked in FY 2010 and have declined more than 15% in FY 2011 and FY 2012. Currently emergency unemployment compensation will be terminated as of December 29, 2012. The impact of this change is a reduction in the overall unemployment insurance benefits of about \$73 million when compared to the FY 2012 base benefit payments.

Proprietary Rates

The Unemployment Insurance Division administers the state unemployment insurance law. The proprietary rate is set in statute under 39-5-1217, MCA.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	17.00	17.00	9.00	9.00	17.00	9.00	(8.00)	(47.06%)
Personal Services	1,138,658	1,227,796	613,997	613,775	2,366,454	1,227,772	(1,138,682)	(48.12%)
Operating Expenses	324,338	405,654	175,216	174,609	729,992	349,825	(380,167)	(52.08%)
Total Costs	\$1,462,996	\$1,633,450	\$789,213	\$788,384	\$3,096,446	\$1,577,597	(\$1,518,849)	(49.05%)
General Fund	277,929	279,307	183,460	183,185	557,236	366,645	(190,591)	(34.20%)
State Special	583,520	685,338	221,572	221,527	1,268,858	443,099	(825,759)	(65.08%)
Federal Special	541,511	580,288	384,181	383,672	1,121,799	767,853	(353,946)	(31.55%)
Other	60,036	88,517	0	0	148,553	0	(148,553)	(100.00%)
Total Funds	\$1,462,996	\$1,633,450	\$789,213	\$788,384	\$3,096,446	\$1,577,597	(\$1,518,849)	(49.05%)

Program Description

The Commissioner's Office and the Centralized Services Division provide program direction and legal, administration, and support services to the department's five programs and two administratively attached entities.

Program Highlights

Commissioner's Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ The budget for the Commissioner's Office decreases due to a proposal to switch the funding for the Office of Legal Services from support provided by revenues appropriated in HB 2 to the proprietary funding ◆ Proprietary funding supports the Office of Legal Services, Centralized Services Division, and the Office of Information Technology

Program Discussion

The budget for the Commissioner's Office decreases due to a proposal to switch the funding for the Office of Legal Services from support provided by revenues appropriated in HB 2 to the proprietary fund. The remaining services provided in HB 2 are mainly for the hearings unit function that holds impartial administrative hearings and provides dispute resolution services in unemployment insurance cases, wage and hour claims, public employee collective bargaining and unfair labor practices cases, state employee classification appeals and grievances, uninsured employer regulatory matters, professional and occupational licensing appeals, and human rights complaints.

Figure 5 shows the FY 2012 base costs included in HB 2 and the changes for the 2015 biennium for the Hearing Unit, one of the functions within the commissioner's office.

Figure 5

Department of Labor and Industry Commissioner's Office 2015 Biennium Executive Request HB 2					
Hearings Unit - HB 2	FY 2012	FY 2014		FY 2015	
FTE	9.00	9.00		9.00	
Personal Services	\$593,999	\$613,997	3.37%	\$613,775	3.33%
Operating Costs	<u>164,036</u>	<u>154,338</u>	-5.91%	<u>153,731</u>	-6.28%
Total	\$758,035	\$768,335	1.36%	\$767,506	1.25%
General Fund	178,272	183,460	2.91%	183,185	2.76%
State Special	189,647	200,694	5.83%	200,649	5.80%
Federal	390,116	384,181	-1.52%	383,672	-1.65%
Proprietary	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0.00%</u>
	<u>\$758,035</u>	<u>\$768,335</u>	1.36%	<u>\$767,506</u>	1.25%

Increases for the personal services are related to longevity and performance adjustments. Decreases in operating costs are the result of reductions for the costs of SITSD that are allocated to the hearing unit.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Commissioner'S Office/Csd							
Funds	HB 2	Non-		Total All Sources	% Total All Funds	MCA Reference	Statutory Category
		Budgeted Proprietary	Statutory appropriatio				
General Fund	\$366,645	\$0	\$0	\$366,645	2.2%		
State Special Total	\$443,099	\$0	\$0	\$443,099	2.7%		
02233 Bsd Hearings	\$70,533	\$0	\$0	\$70,533	0.4%		
02258 Employment Security Account	\$358,057	\$0	\$0	\$358,057	2.2%		
02315 Dli Info Exchange/rental	\$2,142	\$0	\$0	\$2,142	0.0%		
02455 Workers' Comp Regulation	\$12,367	\$0	\$0	\$12,367	0.1%		
Federal Special Total	\$767,853	\$0	\$0	\$767,853	4.6%		
03122 Eeoc	\$64,722	\$0	\$0	\$64,722	0.4%		
03954 Ui Administrative Grants	\$703,131	\$0	\$0	\$703,131	4.2%		
Proprietary Total	\$0	\$15,048,099	\$0	\$15,048,099	90.5%		
06546 Commissioner's Office/csd	\$0	\$7,023,385	\$0	\$7,023,385	42.2%		
06552 Admin Services	\$0	\$4,171,667	\$0	\$4,171,667	25.1%		
06568 Office Of Information Tech	\$0	\$3,853,047	\$0	\$3,853,047	23.2%		
Total All Funds	\$1,577,597	\$15,048,099	\$0	\$16,625,696	100.0%		
Percent - Total All Sources	9.5%	90.5%	0.0%				

HB 2 Funding

The majority of the funding for HB 2 supports the Hearings Unit. The state special revenue is mainly derived from the assessments on employers and deposited into the Employment Security Account. Unemployment insurance administrative grants make up the majority of the federal funding.

Proprietary rates

The Commissioner's Office has three different proprietary funding sources for the operations of the various functions within the office. A discussion of the proposed uses and funding for each of the functions is included under the Proprietary Rates section of the narrative. These funds are considered and approved as rates charged to other divisions within the agency.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	277,929	277,929	555,858	151.61%	1,462,996	1,462,996	2,925,992	185.47%
Statewide PL Adjustments	8,731	8,609	17,340	4.73%	162,529	163,379	325,908	20.66%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(103,200)	(103,353)	(206,553)	(56.34%)	(836,312)	(837,991)	(1,674,303)	(106.13%)
Total Budget	\$183,460	\$183,185	\$366,645		\$789,213	\$788,384	\$1,577,597	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					223,858					226,197
Vacancy Savings					(54,501)					(54,594)
Inflation/Deflation					119					356
Fixed Costs					(6,947)					(8,580)
Total Statewide Present Law Adjustments		\$8,731	\$79,410	\$65,381	\$162,529*		\$8,609	\$79,983	\$65,203	\$163,379*
Grand Total All Present Law Adjustments	0.00	\$8,731	\$79,410	\$65,381	\$162,529*	0.00	\$8,609	\$79,983	\$65,203	\$163,379*

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

Statewide present law adjustments shown above include changes in personal services for the Legal Unit that are proposed to shift to a proprietary fund. Overall the division had a 10.3% vacancy rate compared to the budgeted rate of 4%.

New Proposals

Program	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301 - Legal Funding Switch										
03	(8.00)	(103,143)	(441,304)	(222,597)	(836,087)*	(8.00)	(103,296)	(441,922)	(222,928)	(837,766)*
DP 6101 - Professional Development Center Fee Allocation										
03	0.00	(57)	(54)	(114)	(225)	0.00	(57)	(54)	(114)	(225)
Total	(8.00)	(\$103,200)	(\$441,358)	(\$222,711)	(\$836,312)*	(8.00)	(\$103,353)	(\$441,976)	(\$223,042)	(\$837,991)*

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

DP 301 - Legal Funding Switch - The executive requests a funding switch to formalize a reorganization of the department's legal structure. The Legal Unit was operating under two different methodologies and now operates under one, sharing resources and expertise to provide legal services to the department. This request affects five programs within the department, reducing HB 2 authority in the Centralized Services Division and increasing HB 2 authority in the other divisions in order to pay for estimated legal services.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates

Program Description

The proprietary programs included in the Commissioner's Office include:

- o Centralized Services Division
- o Legal Unit
- o Office of Information Technology

Supportive services provided by the Commissioner's Office and Centralized Services Division are funded through a cost allocation plan whereby the department programs are assessed a percentage of their personal service costs. Services provided by the cost allocation plan include: budgeting, accounting and fiscal management, internal controls, contracting, purchasing, asset management, human resources, payroll, and benefits.

The Office of Information Technology provides network support to the department's five programs and two administratively attached entities. The office is funded by revenues generated through the collection of a cost recovery rate, based on full time equivalent positions in each division.

The Office of Legal Services provides legal assistance to the department's five programs and two administratively attached entities. Previously, support for 8.00 FTE and related operating costs were budgeted and funded within HB 2. These staff provided legal services to the programs within DOLI with the exception of the Business Standards Division. Services of the remaining 11.75 FTE within the office were charged to the Business Standards Division at an hourly rate. The executive is proposing to move the 8.00 FTE from HB 2 into the proprietary fund. The legal services provided to the divisions other than Business Services will be charged on an hourly rate in the 2015 biennium.

Figure 6 shows the FY 2012 base expenditures for each function and the proposed changes for the 2015 biennium by fiscal year for the proprietary fund. As shown, changes proposed by the executive increase FTE by 8.00 and shift program costs to proprietary funding that is then allocated to the various divisions based on use of services.

The costs for the Centralized Services Division increase significantly, both personal services and operating costs. A review of personal service costs shows increases for a vacant position and longevity and performance adjustments are the driving factors. Operating increases include costs for audit fees related to the biennial nature of the costs, rent, indirect costs, and SITSD costs.

Figure 6

Department of Labor and Industry Commissioner's Office 2015 Biennium Executive Request Proprietary					
	FY 2012	FY 2014	% Increase	FY 2015	% Increase
Legal Unit - Proprietary					
FTE	11.75	20.75		20.75	
Personal Services	\$1,021,830	\$1,725,569	68.87%	\$1,728,418	69.15%
Operating Costs	<u>213,862</u>	<u>360,700</u>	<u>68.66%</u>	<u>356,980</u>	<u>66.92%</u>
Total	\$1,235,692	\$2,086,269	68.83%	\$2,085,398	68.76%
Proprietary	<u>1,235,692</u>	<u>2,086,269</u>	<u>68.83%</u>	<u>2,085,398</u>	<u>68.76%</u>
	<u>\$1,235,692</u>	<u>\$2,086,269</u>		<u>\$2,085,398</u>	
Centralized Services Division - Proprietary					
FTE	33.50	33.50		33.50	
Personal Services	1,754,907	2,034,287	15.92%	2,037,667	16.11%
Operating Costs	<u>1,097,684</u>	<u>1,545,489</u>	<u>40.80%</u>	<u>1,405,942</u>	<u>28.08%</u>
Total	<u>\$2,852,591</u>	<u>\$3,579,776</u>	<u>25.49%</u>	<u>\$3,443,609</u>	<u>20.72%</u>
Proprietary	<u>2,852,591</u>	<u>3,579,776</u>	<u>25.49%</u>	<u>3,443,609</u>	<u>20.72%</u>
Total	<u>\$2,852,591</u>	<u>\$3,579,776</u>	<u>25.49%</u>	<u>\$3,443,609</u>	<u>20.72%</u>
Office of Information Technology - Proprietary					
FTE	21.50	21.50		21.50	
Personal Services	1,509,695	1,526,638	1.12%	1,527,659	1.19%
Operating Costs	<u>448,525</u>	<u>399,579</u>	<u>-10.91%</u>	<u>399,171</u>	<u>-11.00%</u>
Total	<u>\$1,958,220</u>	<u>\$1,926,217</u>	<u>-1.63%</u>	<u>\$1,926,830</u>	<u>-1.60%</u>
Proprietary	<u>1,958,220</u>	<u>1,926,217</u>	<u>-1.63%</u>	<u>1,926,830</u>	<u>-1.60%</u>
Total	<u>\$1,958,220</u>	<u>\$1,926,217</u>	<u>-1.63%</u>	<u>\$1,926,830</u>	<u>-1.60%</u>

Expenses

Significant costs for the programs are:

- Personal services of \$10.58 million over the biennium for 75.75 FTE
- Operating costs of \$4.48 million over the biennium including:
 - \$0.8 million in statewide indirect costs
 - \$0.3 million in rent
 - \$0.2 million in SITSD costs

Revenues

The Commissioner's Office/Centralized Services Division is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based on federally calculated and legislatively approved indirect cost rates applied to actual personal service expenditures as well as rates charged based on time distribution and full time equivalent positions.

The funds used to pay for the services are comprised of approximately 2% general fund, 64% state special revenue funds, 29% federal special revenue funds, and 5% proprietary funds.

Proprietary Rates

The cost allocation rate (CAP) must be approved by the U.S. Department of Labor, which has requirements including a

working capital of no more than 60 days. The rate, which is assessed to personal service expenditures, is determined by calculating the total costs of providing the services divided by the projected department personal services expenditures. The rate requested for the 2015 biennium is 8.00%, compared to a FY 2012 rate of 8.24%.

The Office of Information Technology rate (OIT) must be approved by the U.S. Department of Labor which has requirements including a working capital of no more than 60 days. The monthly rate is calculated based on the projected cost of services for the 2015 biennium divided by the total number of active directory accounts in the department divided by 12 months. The rate request is \$192 per month per full time equivalent position for the 2015 biennium.

The Office of Legal Services rate must be approved by the U.S. Department of Labor which has requirements including a working capital of no more than 60 days. The rate per hour is calculated on projected costs of services for the 2015 biennium divided by the projected direct hours of service to be provided in the 2015 biennium. The rate for the 2015 biennium is \$95 per hour.

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	130.60	130.60	130.60	130.60	130.60	130.60	0.00	0.00%
Personal Services	7,338,563	7,884,282	8,313,105	8,322,508	15,222,845	16,635,613	1,412,768	9.28%
Operating Expenses	3,918,106	4,816,985	4,438,740	4,443,648	8,735,091	8,882,388	147,297	1.69%
Equipment & Intangible Assets	90,810	0	90,810	90,810	90,810	181,620	90,810	100.00%
Benefits & Claims	91,464	74,840	91,464	91,464	166,304	182,928	16,624	10.00%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$11,438,943	\$12,776,107	\$12,934,119	\$12,948,430	\$24,215,050	\$25,882,549	\$1,667,499	6.89%
General Fund	1,073,320	1,080,436	1,260,684	1,261,687	2,153,756	2,522,371	368,615	17.11%
State Special	9,744,309	10,978,490	10,942,609	10,955,819	20,722,799	21,898,428	1,175,629	5.67%
Federal Special	621,314	717,181	730,826	730,924	1,338,495	1,461,750	123,255	9.21%
Total Funds	\$11,438,943	\$12,776,107	\$12,934,119	\$12,948,430	\$24,215,050	\$25,882,549	\$1,667,499	6.89%

Program Description

The Employment Relations Division (ERD) provides five service areas to the public: 1) Workers' Compensation (WC) Regulation Bureau, which regulates WC insurance coverage requirements, policy compliance, medical regulations, contractor registration, and independent contractor exemptions; 2) WC Claims Assistance Bureau, which assists organizations and individuals to arrive at early, less expensive settlements of their disputes, and provides management information on the workers' compensation system; 3) Labor Standards Bureau (and administratively attached Board of Personnel Appeals), which enforces state and federal labor laws related to the payment of wages and provides collective bargaining mediation; 4) Safety and Health Bureau, which administers federal and state industrial safety laws; and 5) Human Rights Bureau (and administratively attached Human Rights Commission), which enforces the Montana Human Rights Act and Governmental Code of Fair Practices through investigations, conciliation, hearings, and education. ERD also has one bureau, Management Services Bureau, that provides administrative and IT support to the other five bureaus.

Program Highlights

Employment Relations Division Major Budget Highlights	
◆	Personal services changes are the result of increases to : <ul style="list-style-type: none"> ● Vacancy rates above the budgeted rate of 4% ● Fund longevity and broadband pay adjustments
Major LFD Issues	
◆	Legislature could use excess fund balance in Uninsured Employers' Fund for other uses
◆	Federal fund could offset general fund for the Human Rights Bureau

Program Discussion

Personal services changes are the result of:

- Vacancy savings that were 12.7% for the year in comparison to the budgeted rate of 4%
- Increases for longevity and broadband pay adjustments

**LFD
ISSUE**

Federal Funds Could Offset General Fund for the Human Rights Bureau

The Human Rights Bureau oversees the Montana Human Rights Act and the Governmental Code of Fair Practices. The program is funded through a combination of federal grants and general fund. Figure 7 shows the income statement for the federal funds that support the bureau.

Figure 7

As shown, the fund balance of the federal funds has been increasing since FY 2010. The federal Equal Employment Opportunity Commission (EEOC) contracts with the Human Rights Bureau for investigations. The EEOC reimburses the bureau for the costs of the investigations once they are completed. As a result, the fund balance in the fund is available to offset general fund costs in the 2015 biennium. At the beginning of FY 2013 the agency had \$406,800 in federal funds that could be used to offset some of the program costs that are currently supported by general fund. As the funding is not ongoing, the legislature could consider this a one-time-only appropriation that would reduce general fund support.

Department of Labor and Industry Employment Relations Division Equal Employment Opportunity Commission			
	FY 2010	FY 2011	FY 2012
Beginning Fund Balance	(\$77,201)	\$127,453	\$235,338
Revenues	345,950	210,150	227,950
Expenditures			
Personal Services	120,643	78,367	22,951
Operating Expenses	<u>20,690</u>	<u>23,893</u>	<u>33,509</u>
Total Expenditures	141,333	102,260	56,460
Adjustments	<u>37</u>	(5)	<u>0</u>
Ending Fund Balance	<u>\$127,453</u>	<u>\$235,338</u>	<u>\$406,828</u>

In the 2015 biennium the division would increase the amount of federal funds supporting the bureau, from \$25,000 in FY 2012 to \$106,300 in both FY 2014 and FY 2015. In FY 2012 the bureau conducted 297 investigations and was reimbursed \$228,000. The bureau estimates it will conduct 300 investigations in both years of the 2015 biennium. If federal reimbursements remain static, the bureau would receive \$230,000 in federal funds each year of the biennium. This represents an additional \$123,700 above the federal funding requested each year of the 2015 biennium. This funding could be used to further reduce general fund support for the bureau.

Legislative Options

The legislature could:

- Increase federal appropriations and reduce general fund by \$203,000 one-time-only to reduce the fund balance for the Equal Opportunity Commission
- Increase federal appropriations and reduce general fund by \$123,700 for ongoing federal support of the program

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Employment Relations Division							
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$2,522,371	\$0	\$0	\$2,522,371	8.7%		
State Special Total	\$21,898,428	\$0	\$1,528,006	\$23,426,434	81.1%		
02258 Employment Security Account	\$3,014,834	\$0	\$0	\$3,014,834	10.4%		
02263 Subsequent Injury Admin	\$89,449	\$0	\$0	\$89,449	0.3%		
02315 Dli Info Exchange/rental	\$12,000	\$0	\$0	\$12,000	0.0%		
02346 Contractor Registration	\$2,725,966	\$0	\$0	\$2,725,966	9.4%		
02455 Workers' Comp Regulation	\$13,300,364	\$0	\$0	\$13,300,364	46.1%		
02941 Uninsured Employer Fund	\$2,755,815	\$0	\$1,528,006	\$4,283,821	14.8%	39-71-503	Direct
Federal Special Total	\$1,461,750	\$0	\$0	\$1,461,750	5.1%		
03122 Eeoc	\$212,713	\$0	\$0	\$212,713	0.7%		
03130 Coal Mine Safety	\$288,163	\$0	\$0	\$288,163	1.0%		
03195 On-site Consultation	\$960,874	\$0	\$0	\$960,874	3.3%		
Proprietary Total	\$0	\$1,470,692	\$0	\$1,470,692	5.1%		
06040 Subsequent Injuiry-trust Fund	\$0	\$1,470,692	\$0	\$1,470,692	5.1%		
Total All Funds	\$25,882,549	\$1,470,692	\$1,528,006	\$28,881,247	100.0%		
Percent - Total All Sources	89.6%	5.1%	5.3%				

HB 2 Funding

General fund supports the personal services and general operating costs of the Human Rights Bureau. State special revenue funds include:

- Employment security funds generated through an assessment charged to employers as a percentage of their payroll
- An annual administrative assessment of 3% of all compensation and medical benefits (excluding costs above \$200,000 per claim) paid during the previous calendar year that funds workers' compensation regulation
- Contractor registration funding supporting the Workers' Compensation Regulation Bureau and a portion of the Management Services Bureau. Registration fees for independent contractor exemptions and construction contractor application fees are deposited into the fund
- Uninsured employer fund assessments statutorily set at the premium uninsured employers would have paid had they been carrying workers' compensation insurance, with a minimum penalty of \$200. The funds are used to provide benefits to employees injured on the job while working for an employer that does not carry workers' compensation insurance as required by law

**LFD
ISSUE**Legislature Could Use Excess Fund Balance in Uninsured Employers' Fund for Other Uses

Statute outlines the uses of the uninsured employer fund, including:

- Indemnity and medical benefits for injured workers' employed by businesses that do not purchase workers' compensation insurance as required by law
- Costs of investigating and prosecuting workers' compensation fraud
- Expenses incurred for administering the uninsured employers fund

Figure 8 shows the fund balance, revenues, and expenditures for the program over the last three biennia and estimated costs for the 2015 biennium.

Figure 8

Department of Labor and Industry Uninsured Employers' Fund								
Revenues, Expenditures, Fund Balance	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Budgeted FY 2013	Budgeted FY 2014	Budgeted FY 2015
Beginning Fund Balance	\$8,192,346	\$11,146,482	\$13,270,545	\$10,780,181	\$12,195,255	\$15,292,111	\$18,687,839	\$21,867,677
Revenues								
Taxes	72	148	265	453	0	0	0	0
Charges for Services	505,652	955,596	(57,011)	392,694	630,112	0	0	0
BOI Investment Earnings	135,026	55,134	11,023	10,027	10,281	0	0	0
Fines/Forfeitures	<u>3,719,936</u>	<u>3,183,045</u>	<u>(547,700)</u>	<u>2,799,895</u>	<u>4,379,954</u>	<u>5,320,000</u>	<u>5,320,000</u>	<u>5,320,000</u>
Total Revenues	4,360,686	4,193,923	(593,422)	3,203,070	5,020,347	5,320,000	5,320,000	5,320,000
Expenditures								
Personal Services	431,759	479,553	762,934	849,580	822,869	911,352	673,565	674,383
Operating Expenses	217,489	208,867	252,519	289,839	362,978	128,950	702,594	705,273
Equipment & Intangible Assets	0	0	0	13,000	0	0	0	0
Benefits & Claims	757,302	1,381,544	882,524	653,390	737,645	883,970	764,003	764,003
Debt Service	<u>0</u>							
Total Expenditures	1,406,550	2,069,963	1,897,977	1,805,808	1,923,491	1,924,272	2,140,162	2,143,659
Adjustments	0	104	1,035	17,812	0	0	0	0
Ending Fund Balance	<u>\$11,146,482</u>	<u>\$13,270,545</u>	<u>\$10,780,181</u>	<u>\$12,195,255</u>	<u>\$15,292,111</u>	<u>\$18,687,839</u>	<u>\$21,867,677</u>	<u>\$25,044,018</u>
% Change		19.06%	-18.77%	13.13%	25.39%	22.21%	17.02%	14.53%

As shown, with the exception of FY 2010, the fund balance has grown between 13% and 25% a year over the period, with an estimated ending fund balance of \$25.0 million at the end of FY 2015. During the same period, the costs associated with the fund have not exceeded \$2.2 million. The legislature could consider transferring a portion of the fund balance for other purposes while maintaining a balance for unanticipated costs associated with injured workers. The highest amount paid in benefits and claims was \$1.4 million in FY 2009. The legislature could maintain twice that amount or \$2.8 million as fund balance in the account for unanticipated costs. It should be noted that a portion of the fund balance is due to accounts receivables.

Under current law, the payment assessed uninsured business owners are considered penalties. Other penalties are deposited into the general fund. The legislature could consider transferring the funding above a fund balance of \$2.8 million into the general fund at the end of each biennium, after determining a reasonable amount for bad debt expense. At FYE 2013 this would result in an estimated transfer of \$15.9 million into the general fund. At FYE 2015 an estimated transfer of \$6.3 million could be deposited into the general fund.

Legislative Option

- Request a bill to define excess balance and require that it be transferred to the general fund at the end of each biennium.

Proprietary Funds

The division oversees the subsequent injury fund, a proprietary account that assists disabled persons in becoming employed by offering a financial incentive to the employers who hire them. The fund rate is based on the total amount of paid losses reimbursed by the fund in the preceding calendar year.

*Statutory Appropriations*Direct Bearing on Agency Operations

Payments for indemnity and medical benefits for workers injured while working for a business that does not carry workers' compensation insurance are statutorily appropriated to the division. The costs of administering the program are included as part of HB 2 appropriations.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,073,320	1,073,320	2,146,640	85.10%	11,438,943	11,438,943	22,877,886	88.39%
Statewide PL Adjustments	45,672	46,653	92,325	3.66%	899,741	911,737	1,811,478	7.00%
Other PL Adjustments	811	833	1,644	0.07%	33,632	35,947	69,579	0.27%
New Proposals	140,881	140,881	281,762	11.17%	561,803	561,803	1,123,606	4.34%
Total Budget	\$1,260,684	\$1,261,687	\$2,522,371		\$12,934,119	\$12,948,430	\$25,882,549	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,320,609					1,330,411
Vacancy Savings					(346,067)					(346,466)
Inflation/Deflation					(4,835)					(89)
Fixed Costs					(69,966)					(72,119)
Total Statewide Present Law Adjustments		\$45,672	\$757,333	\$96,736	\$899,741		\$46,653	\$768,263	\$96,821	\$911,737
DP 402 - ERD Rent Adjustment	0.00	811	32,329	492	33,632	0.00	833	34,609	505	35,947
Total Other Present Law Adjustments	0.00	\$811	\$32,329	\$492	\$33,632	0.00	\$833	\$34,609	\$505	\$35,947
Grand Total All Present Law Adjustments	0.00	\$46,483	\$789,662	\$97,228	\$933,373	0.00	\$47,486	\$802,872	\$97,326	\$947,684

DP 402 - ERD Rent Adjustment - The Employment Relations Division is requesting funds each year of the biennium for an increase in off campus rent

New Proposals

New Proposals										
Program	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 401 - Legal Funding Switch										
04	0.00	141,266	409,406	12,284	562,956	0.00	141,266	409,406	12,284	562,956
DP 6101 - Professional Development Center Fee Allocation										
04	0.00	(385)	(768)	0	(1,153)	0.00	(385)	(768)	0	(1,153)
Total	0.00	\$140,881	\$408,638	\$12,284	\$561,803	0.00	\$140,881	\$408,638	\$12,284	\$561,803

DP 401 - Legal Funding Switch - The Department of Labor and Industry requests a funding switch to formalize a reorganization of the legal structure. The legal fund switch includes an increase of \$562,956 in both years of the biennium of general fund, state special and federal special revenue. The Legal Unit was operating under two different methodologies and now operates under one, sharing resources and expertise to provide the most efficient and knowledgeable service to the department. This request affects five programs within the department, reducing HB 2 authority in the Centralized Services Division and increasing HB 2 authority in the divisions in order to pay for legal services provided.

LFD COMMENT	For a further discussion, see the Centralized Services Division.
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DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Proprietary Rates

Subsequent Injury Fund (06040)

The Subsequent Injury Fund was established in 1973 to assist disabled persons in becoming employed by offering a financial incentive to the employers who hire them. The incentive has a limit of 104 weeks of benefits paid by their Workers' Compensation carrier in the event of an on-the-job injury to the certified employee, thus minimizing workers' compensation expenses. Beginning July 1, 1999, the fund is maintained by annual assessment of all Montana Workers' Compensation insurers, including self insured employers, private insurers, and the State Fund. The asset balance is maintained at approximately \$700,000 to provide an operating balance for payment of benefits and administrative costs. (39-71-901-920, MCA)

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	151.03	151.03	154.03	154.03	151.03	154.03	3.00	1.99%
Personal Services	8,523,619	8,602,808	9,321,847	9,332,953	17,126,427	18,654,800	1,528,373	8.92%
Operating Expenses	5,803,038	6,276,039	5,873,404	5,845,149	12,079,077	11,718,553	(360,524)	(2.98%)
Equipment & Intangible Assets	22,008	223,973	336,583	298,967	245,981	635,550	389,569	158.37%
Grants	8,582	15,136	8,582	8,582	23,718	17,164	(6,554)	(27.63%)
Transfers	33,455	30,850	33,455	33,455	64,305	66,910	2,605	4.05%
Total Costs	\$14,390,702	\$15,148,806	\$15,573,871	\$15,519,106	\$29,539,508	\$31,092,977	\$1,553,469	5.26%
General Fund	0	0	100,000	100,000	0	200,000	200,000	n/a
State Special	14,388,649	15,136,137	15,473,871	15,419,106	29,524,786	30,892,977	1,368,191	4.63%
Federal Special	2,053	12,669	0	0	14,722	0	(14,722)	(100.00%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$14,390,702	\$15,148,806	\$15,573,871	\$15,519,106	\$29,539,508	\$31,092,977	\$1,553,469	5.26%

Program Description

The Business Standards Division consists of five bureaus: Building Codes Bureau, Weights & Measures Bureau, Board Management Bureau, Licensing Bureau, and Operations Bureau. The Building Codes Bureau establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator, and boiler codes. The bureau also provides support for five licensing programs. The Weights & Measures Bureau is responsible for licensing, inspecting, testing, and certifying all weighing and measuring devices used in making commercial transactions in Montana and enforces laws and regulations pertaining to the quantity control of prepackaged goods, petroleum products, and is responsible for operating the State Metrology Laboratory. The Licensing Bureau and Board Management Bureau provide support for 33 licensing boards, two programs, and the Prescription Drug Registry. The Licensing and Board Management Bureaus include 208 board members and eight advisory council members appointed by the Governor. The Operations Bureau has three units within the Business Standards Division that provide support to the other bureaus and the division.

Program Highlights

Business Services Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The majority of the budget changes in the division are due to personal services increases including: <ul style="list-style-type: none"> ● Vacancy rates above the budgeted rate of 4% ● Increases for broadband pay adjustments
Major LFD Issues
<ul style="list-style-type: none"> ◆ Legislature may wish to consider reducing costs and related appropriations for accounts with negative fund balances ◆ Excess fund balances indicate fees for some licenses are not commensurate with the costs of operating the programs

Program Discussion

Personal services increases include adjustments for:

- Restoring vacancy savings which were 9.7% in FY 2012 compared to a budgeted rate of 4%
- Increases for longevity and broadband pay adjustments

Operating costs decrease mainly due to reductions in the costs of SITSD services for the division. Equipment increases due to:

- Reductions in spending in the FY 2012 base year
- Proposal to purchase new metrology laboratory equipment used to inspect and test all commercial devices statewide

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Business Standards Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$200,000	\$0	\$0	\$200,000	0.6%		
State Special Total	\$30,892,977	\$0	\$448	\$30,893,425	99.4%		
02024 Blaster Licensing	\$22,185	\$0	\$0	\$22,185	0.1%		
02078 Occupational Therapists	\$93,416	\$0	\$0	\$93,416	0.3%		
02079 Fire Protection & Permitting	\$133,488	\$0	\$0	\$133,488	0.4%		
02080 Prescription Drug Registry	\$177,386	\$0	\$0	\$177,386	0.6%		
02082 Real Estate Recovery Account	\$0	\$0	\$448	\$448	0.0%		
02109 Board Of Outfitters	\$1,136,496	\$0	\$0	\$1,136,496	3.7%		
02155 Boiler,blaster,crane Licensing	\$820,216	\$0	\$0	\$820,216	2.6%		
02207 Crane Licensing	\$182,115	\$0	\$0	\$182,115	0.6%		
02359 Chemical Dependency Counselors	\$231,658	\$0	\$0	\$231,658	0.7%		
02446 Board Of Psychologist Exam	\$247,396	\$0	\$0	\$247,396	0.8%		
02448 Building Codes State Spec Rev	\$7,643,674	\$0	\$0	\$7,643,674	24.6%		
02580 Bd Of Athletic Trainers	\$48,401	\$0	\$0	\$48,401	0.2%		
02679 Massage Therapists	\$213,070	\$0	\$0	\$213,070	0.7%		
02764 Bd Of Adolescent Res. Or Outdr Pg	\$125,752	\$0	\$0	\$125,752	0.4%		
02818 Electrical Board	\$853,109	\$0	\$0	\$853,109	2.7%		
02805 Weights & Measures Bureau	\$2,047,160	\$0	\$0	\$2,047,160	6.6%		
02820 Board Of Architects	\$152,521	\$0	\$0	\$152,521	0.5%		
02809 Board Of Speech Pathologists	\$124,050	\$0	\$0	\$124,050	0.4%		
02810 Bd Of Radiologic Technologists	\$221,484	\$0	\$0	\$221,484	0.7%		
02811 Clinical Lab Science Pract.	\$142,914	\$0	\$0	\$142,914	0.5%		
02812 Physical Therapists	\$235,031	\$0	\$0	\$235,031	0.8%		
02813 Bd Of Nursing Home Admin	\$57,699	\$0	\$0	\$57,699	0.2%		
02814 Bd Of Hearing Aid Dispensers	\$170,604	\$0	\$0	\$170,604	0.5%		
02815 Board Of Public Accountants	\$932,628	\$0	\$0	\$932,628	3.0%		
02816 Board Of Sanitarians	\$63,886	\$0	\$0	\$63,886	0.2%		
02818 Electrical Board	\$853,109	\$0	\$0	\$853,109	2.7%		
02819 Board Of Realty Regulations	\$2,012,766	\$0	\$0	\$2,012,766	6.5%		
02820 Board Of Architects	\$152,521	\$0	\$0	\$152,521	0.5%		
02821 Board Of Funeral Service	\$315,382	\$0	\$0	\$315,382	1.0%		
02822 Board Of Chiropractors	\$255,303	\$0	\$0	\$255,303	0.8%		
02823 Professional Engineers	\$777,983	\$0	\$0	\$777,983	2.5%		
02824 Board Of Medical Examiners	\$2,592,440	\$0	\$0	\$2,592,440	8.3%		
02826 Cosmetology Board	\$1,115,379	\$0	\$0	\$1,115,379	3.6%		
02828 Board Of Plumbers	\$609,822	\$0	\$0	\$609,822	2.0%		
02829 Private Investigator	\$409,674	\$0	\$0	\$409,674	1.3%		
02830 Board Of Dentistry	\$547,722	\$0	\$0	\$547,722	1.8%		
02831 Board Of Optometrists	\$94,594	\$0	\$0	\$94,594	0.3%		
02832 Board Of Pharmacy	\$1,516,221	\$0	\$0	\$1,516,221	4.9%		
02833 Board Of Nursing	\$1,871,631	\$0	\$0	\$1,871,631	6.0%		
02834 Board Of Veterinarians	\$296,833	\$0	\$0	\$296,833	1.0%		
02840 Board Of Social Workers	\$532,111	\$0	\$0	\$532,111	1.7%		
02841 Board Of Athletics	\$13,646	\$0	\$0	\$13,646	0.0%		
02852 Bd. Of Alternative Health Care	\$142,023	\$0	\$0	\$142,023	0.5%		
02854 Bd. Of Real Estate Appraisers	\$803,799	\$0	\$0	\$803,799	2.6%		
02855 Bd Of Respiratory Care	\$94,762	\$0	\$0	\$94,762	0.3%		
Total All Funds	\$31,092,977	\$0	\$448	\$31,093,425	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

HB 2 Funding

General fund would support the one-time-only purchase of equipment in the Weights and Measures Bureau. State special revenue accounts are maintained for each type of licensee and professional board. Charges and fees paid by licensees are deposited to the accounts and administrative and operational expenses of the division are charged directly to the funds.

**LFD
ISSUE**Legislature May Wish to Consider Reducing Appropriation Authority for Accounts with Negative Fund Balances

A review of the fund balances of the licensing boards shows that a number of the accounts had a negative fund balance as measured on June 30, 2012. Figure 9 shows the accounts that had a negative fund balance as of June 30, 2012 and the current status of the fund balance.

Figure 9

Department of Labor & Industry Business Standards Division Negative Fund Balances as of June 30, 2012							
Fund Number	Description	Budgeted FY 2013	Beginning Fund Balance	FY 2013 Expenditures As of November	FY 2013 Revenues As of November	% of Revenues Collected as of November (42%)	November Fund Balance
2767	Elevator Licensing Program	\$204,754	(\$312,819)	\$109,827	\$58,204	28.43%	(\$364,442)
2814	Bd Of Hearing Aid Dispensers	44,884	(17,161)	12,977	6,040	13.46%	(\$24,098)
2818	Electrical Board	351,969	(70,061)	119,387	472,768	134.32%	\$283,319
2840	Board Of Social Workers	191,733	(24,473)	60,626	6,850	3.57%	(\$78,249)

As shown, the Electrical Board has collected revenues that are 134% of its annual costs since July 1. This will cover both the negative fund balance and costs of operations through the end of FY 2013. The other three board's financial situations have worsened since July. The situations that lead to the current state of the fund balances vary by board. For example, the Board of Hearing Aid Dispensers lost revenues when a number of audiologists that were licensees were no longer required to obtain a license. This came about after passage of SB 132. SB 132 allowed audiologists to sell hearing aids without a separate hearing aid dispenser license. This leaves the Board of Hearing Aid Dispensers with less income but the same level of costs. To address this the board implemented a \$1,000 licensing fee for the remaining licensees. The increased fee did not provide sufficient revenues in FY 2012 to address the deficit.

Timing of the revenue collections varies depending on the period of the license renewal. For the two boards and one program with negative fund balances the renewal periods are:

- Elevator Licensing – Throughout the Year
- Hearing Aid Dispensers – May 1 – June 30
- Board of Social Workers – November 1 – December 31

In FY 2012 the revenues collected and costs of operations for each board or program were:

- Elevator Licensing Program -\$206,471 in revenues with \$329,589 in operating costs
- Hearing Aid Dispensers - \$54,033 in revenues and \$83,879 in operating costs
- Board of Social Workers - \$210,111 in revenues and \$268,963 in operating costs

The anticipated costs for each board or program in the 2015 biennium are shown in the funding table on the previous page. In each case the budgeted program costs have increased significantly. For example, the Elevator Licensing Program costs increase 267% between FY 2013 and FY 2014. For information on the number of licensees and the costs of the licenses for each board or program see the Appendix for the Department of Labor and Industry.

**LFD
ISSUE CONT.**

Statute requires the division to:

- Provide notice to the board and to the appropriate legislative interim committee when a board cannot operate in a cost-effective manner
- Suspend all duties under this title related to the board except for services related to renewal of licenses
- Review the need for a board and make recommendations to the legislative interim committee with monitoring responsibility for the boards for legislation revising the board's operations to achieve fiscal solvency
- Recover the costs by one-time charges against all licensees of the board after providing notice and meeting the requirements under the Montana Administrative Procedure Act

While the Economic Affairs Interim Committee (EAIC) did discuss fiscal solvency concerns with the Board of Hearing Aid Dispensers, the fee increase did not address the funding deficiency. The division did not notify EAIC of issues with the Board of Social Workers.

The legislature may wish to discuss the impacts of the increased costs with each of the boards in terms of their anticipated revenues. To ensure the boards will be able to operate within the license fee revenues over the next biennium and address the negative fund balances in the accounts the legislature may wish to discuss with the boards the cost cutting measures and revenue enhancements that will be implemented.

To address their financial situations the boards can:

- Reduce operational costs for the boards to ensure the board's costs are within revenues collected
- Increase revenues by increasing the costs of licenses
- Develop a plan that incorporates both components above to address their financial situations

The division can suspend all duties for the affected boards except for license renewals and assess a one-time charge against all licensees of the board to recover the costs.

The Elevator Licensing Program does not have an associated board and thus is not included as an entity under the statute that outlines how to address financial solvency issues. The legislature may wish to consider revising statute to include programs without boards in the notification and monitoring of fiscal solvency issues.

Legislative Option

The legislature may wish to:

- Discuss with the affected boards a plan to reduce costs and related appropriation authority and/or increase revenues for those accounts that have a negative fund balance to ensure the programs operate within their program revenues
- Request a bill draft to include licensing programs without boards under the statute addressing fiscal solvency of licensing boards

**LFD
ISSUE**

License Fees Not Commensurate with Costs of Operating the Program

Statute requires that each board set the fees to be commensurate with the costs of operating the licensing program. Statute further requires that the division ensure that fund balances not exceed twice the annual appropriations of the licensing program. A review of the FY 2012 ending fund balance as of June 30, 2102 shows that a number of boards had fund balances that exceeded two times their FY 2013 appropriation. Figure 10 shows the budgeted appropriations for FY 2013, the beginning fund balance of the account, and the amount the fund balance exceeded the statutory limit.

Figure 10

Department of Labor & Industry Business Standards Division Fund Balance Above Statutory Limit					
Fund Number	Description	Budgeted FY 2013	Statutory Limit on Approp	Beginning Fund Balance	Fund Balance Above Statutory
2024	Blasters Program	\$3,085	\$6,170	\$23,641	\$17,471
2079	Fire Protection & Permitting	61,480	122,960	144,442	21,482
2831	Board Of Optometrists	26,524	53,048	54,578	1,530
2833	Board Of Nursing	986,840	1,973,680	2,186,513	212,833
2855	Bd Of Respiratory Care	<u>33,205</u>	66,410	70,215	<u>3,805</u>
Total		<u>\$1,111,134</u>			<u>\$257,122</u>

Further, the Office of Budget and Program Planning is required to report to the Legislative Finance Committee those funds that exceed this requirement and the need behind the level of funding in the accounts. In the September 2012 report provided to the LFC, Fire Protection and Permitting and the Board of Optometrists were presented. The following was outlined as the explanation behind the excess cash balance:

- o Fire Protection and Permitting – purchase of a new vehicle and additional licensing training in FY 2013 will bring balance to appropriate level
- o Board of Optometrists – Software upgrade completed, thereby drawing down the cash balance. The board will abate fees if balance continues to increase

The report did not include the Blasters Program, the Board of Nursing, or the Board of Respiratory Care.

Legislative Option

The legislature may wish to discuss the planned uses of the excess cash balances with the boards and/or possible adjustments to license fees that may be needed to ensure fees are commensurate with costs of operating the programs.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	14,390,702	14,390,702	28,781,404	92.57%
Statewide PL Adjustments	0	0	0	0.00%	481,063	498,168	979,231	3.15%
Other PL Adjustments	0	0	0	0.00%	575,724	620,520	1,196,244	3.85%
New Proposals	100,000	100,000	200,000	100.00%	126,382	9,716	136,098	0.44%
Total Budget	\$100,000	\$100,000	\$200,000		\$15,573,871	\$15,519,106	\$31,092,977	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					999,911					1,011,744
Vacancy Savings					(376,567)					(377,037)
Inflation/Deflation					(15,937)					(5,746)
Fixed Costs					(126,344)					(130,793)
Total Statewide Present Law Adjustments		\$0	\$483,116	(\$2,053)	\$481,063		\$0	\$500,221	(\$2,053)	\$498,168
DP 502 - BSD General Operating Adjustment	0.00	0	382,957	0	382,957	0.00	0	372,113	0	372,113
DP 503 - BSD - Other General	0.00	0	65,850	0	65,850	0.00	0	65,850	0	65,850
DP 504 - BSD - Online Processing	0.00	0	126,917	0	126,917	0.00	0	182,557	0	182,557
Total Other Present Law Adjustments	0.00	\$0	\$575,724	\$0	\$575,724	0.00	\$0	\$620,520	\$0	\$620,520
Grand Total All Present Law Adjustments	0.00	\$0	\$1,058,840	(\$2,053)	\$1,056,787	0.00	\$0	\$1,120,741	(\$2,053)	\$1,118,688

DP 502 - BSD General Operating Adjustment - The executive requests increased support for off campus rent, and in state travel, repair and maintenance, and other operational costs in the FY 2015 biennium.

DP 503 - BSD - Other General - The executive requests additional state special revenue funding for the Board of Real Estate Appraisers to provide for the anticipated costs of certified appraiser reviews, the Board of Veterinarians to cover consultant's exam costs, and the Board of Realty Regulations to support education programs.

DP 504 - BSD - Online Processing - The executive requests increased support for the Montana Interactive e-check and credit card processing fees to accept and process online applications for license and permit applicants.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 501 - Legal Funding Switch											
05	0.00	0	39,106	0	39,106	0.00	0	39,106	0	39,106	
DP 505 - BSD Weights & Measures OTO Biennial/ Restricted											
05	0.00	100,000	0	0	100,000	0.00	100,000	0	0	100,000	
DP 506 - POL Motor Pool Lease											
05	0.00	0	6,331	0	6,331	0.00	0	6,634	0	6,634	
DP 508 - BSD Medical Impairment Program											
05	3.00	0	(17,737)	0	(17,737)	3.00	0	(134,706)	0	(134,706)	
DP 6101 - Professional Development Center Fee Allocation											
05	0.00	0	(1,318)	0	(1,318)	0.00	0	(1,318)	0	(1,318)	
Total	3.00	\$100,000	\$26,382	\$0	\$126,382	3.00	\$100,000	(\$90,284)	\$0	\$9,716	

DP 501 - Legal Funding Switch - The executive requests a funding switch to formalize a reorganization of the

department's legal structure. The Legal Unit was operating under two different methodologies and now operates under one, sharing resources and expertise to provide legal services to the department. This request affects five programs within the department, reducing HB 2 authority in the Centralized Services Division and increasing HB 2 authority in the other divisions in order to pay for estimated legal services.

**LFD
COMMENT**

For a further discussion, see the Centralized Services Division.

DP 505 - BSD Weights & Measures OTO Biennial/ Restricted - The executive requests \$100,000 in one-time-only general fund for FY 2014 and FY 2015. The Weights and Measures Bureau would replace outdated equipment and update the metrology laboratory in order to fulfill its statutory requirement to inspect and test all commercial devices statewide. Current equipment is in excess of 15 years old and can no longer be maintained with routine repair.

**LFD
ISSUE**

Licensing Fees Could Be Increased Over the Biennium to Fund Equipment Replacement

According to Montana statutes all individuals weighing or measuring devices used commercially in the State of Montana must purchase an annual license from the Building Codes Bureau. License fees are commensurate with the costs associated to test the device. The executive is requesting to substitute state general fund for increased license fees associated with weighing or measuring devices.

Legislative Option

Fund the costs of replacing the equipment with state special revenue funds from the weight and measures account. The impact of this option would be that license fees for weighing or measuring devices would need to be increased to ensure the fees were commensurate with the cost of operating the program, including purchasing new testing equipment.

DP 506 - POL Motor Pool Lease - The Business Standards Division is requesting \$6,331 in FY 2014 and \$6,634 in FY 2015 for one motor pool leased vehicle. This request is funded by state special revenue.

DP 508 - BSD Medical Impairment Program – The executive requests a decrease in appropriation authority for the Business Standards Division Medical Impairment Program authorized in 7-3-203, MCA. This comes as a result of eliminating contracts for the medical impairment program and providing the service in house. Currently the Business Standards Division spends \$401,318 annually on this service with an expected increase of \$70,000 in each year of the 2015 biennium.

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	4.00	4.00	5.00	5.00	4.00	5.00	1.00	25.00%
Personal Services	280,230	266,554	335,245	336,368	546,784	671,613	124,829	22.83%
Operating Expenses	206,074	233,329	215,167	214,625	439,403	429,792	(9,611)	(2.19%)
Grants	2,494,882	2,444,100	3,073,354	3,073,426	4,938,982	6,146,780	1,207,798	24.45%
Transfers	30,431	80,040	0	0	110,471	0	(110,471)	(100.00%)
Total Costs	\$3,011,617	\$3,024,023	\$3,623,766	\$3,624,419	\$6,035,640	\$7,248,185	\$1,212,545	20.09%
General Fund	123,577	123,922	174,156	174,181	247,499	348,337	100,838	40.74%
State Special	27,136	39,389	27,263	27,269	66,525	54,532	(11,993)	(18.03%)
Federal Special	2,860,904	2,860,712	3,422,347	3,422,969	5,721,616	6,845,316	1,123,700	19.64%
Total Funds	\$3,011,617	\$3,024,023	\$3,623,766	\$3,624,419	\$6,035,640	\$7,248,185	\$1,212,545	20.09%

Program Description

The Office of Community Services provides administration for the Corporation for National and Community Service AmeriCorps state programs, community service, and volunteer efforts statewide. The office was created by the 1993 Legislature, at the request of the Governor, to engage citizens in service and support volunteer opportunities focused on critical community needs. The office works with the Montana Commission on Community Service to promote civic engagement, particularly among youth and older Montanans.

Program Highlights

Office of Community Services Major Budget Highlights	
◆	The executive is requesting additional federal grant authority for the AmeriCorps grant

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Office Of Community Services							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$348,337	\$0	\$0	\$348,337	4.8%		
State Special Total	\$54,532	\$0	\$0	\$54,532	0.8%		
02190 Ocs Cbi Training	\$54,532	\$0	\$0	\$54,532	0.8%		
Federal Special Total	\$6,845,316	\$0	\$0	\$6,845,316	94.4%		
03322 Mt Community Service Fsr	\$6,845,316	\$0	\$0	\$6,845,316	94.4%		
Total All Funds	\$7,248,185	\$0	\$0	\$7,248,185	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The majority of the funding for the program is provided through federal AmeriCorp grants. General fund and state special revenue fund most of the administrative expenses for the program, with federal revenue providing the remainder, including the funding for grants and special projects administered by the program.

LFD COMMENT	Under current law, the Budget Control Act sequester is scheduled to occur on January 2, 2013. Included in the discretionary grant programs that are subject to an estimated 8.2% reduction are the federal funds for the AmeriCorp grants. Depending on Congressional actions in relation to the sequester, program funding may be decreased in the 2015 biennium. The legislature may wish to discuss the impacts of Congressional deliberations in relation to the AmeriCorp grants.
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Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	123,577	123,577	247,154	70.95%	3,011,617	3,011,617	6,023,234	83.10%
Statewide PL Adjustments	594	618	1,212	0.35%	14,482	15,062	29,544	0.41%
Other PL Adjustments	0	0	0	0.00%	548,041	548,113	1,096,154	15.12%
New Proposals	49,985	49,986	99,971	28.70%	49,626	49,627	99,253	1.37%
Total Budget	\$174,156	\$174,181	\$348,337		\$3,623,766	\$3,624,419	\$7,248,185	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					16,890					18,061
Vacancy Savings					(11,876)					(11,925)
Inflation/Deflation					(41)					(12)
Fixed Costs					9,509					8,938
Total Statewide Present Law Adjustments		\$594	\$130	\$13,758	\$14,482		\$618	\$136	\$14,308	\$15,062
DP 702 - AmeriCorps Grants	0.00	0	0	548,041	548,041	0.00	0	0	548,113	548,113
Total Other Present Law Adjustments	0.00	\$0	\$0	\$548,041	\$548,041	0.00	\$0	\$0	\$548,113	\$548,113
Grand Total All Present Law Adjustments	0.00	\$594	\$130	\$561,799	\$562,523	0.00	\$618	\$136	\$562,421	\$563,175

DP 702 - AmeriCorps Grants – The executive is requesting \$548,041 additional federal grant authority for the AmeriCorps grant. The request supports AmeriCorps program grants for local communities.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 701 - AmeriCorps FTE Increase	07	1.00	50,001	0	0	50,001	1.00	50,002	0	0	50,002
DP 6101 - Professional Development Center Fee Allocation	07	0.00	(16)	(3)	(356)	(375)	0.00	(16)	(3)	(356)	(375)
Total		1.00	\$49,985	(\$3)	(\$356)	\$49,626	1.00	\$49,986	(\$3)	(\$356)	\$49,627

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	7.00	7.00	7.00	7.00	7.00	7.00	0.00	0.00%
Personal Services	494,291	501,162	503,909	504,636	995,453	1,008,545	13,092	1.32%
Operating Expenses	140,650	171,127	145,774	145,903	311,777	291,677	(20,100)	(6.45%)
Total Costs	\$634,941	\$672,289	\$649,683	\$650,539	\$1,307,230	\$1,300,222	(\$7,008)	(0.54%)
State Special	634,941	672,289	649,683	650,539	1,307,230	1,300,222	(7,008)	(0.54%)
Total Funds	\$634,941	\$672,289	\$649,683	\$650,539	\$1,307,230	\$1,300,222	(\$7,008)	(0.54%)

Program Description

The Workers' Compensation Court, created on July 1, 1975, provides a forum for Montana employees, employers, and the insurance industry to resolve disputes arising from work-related injuries and occupational diseases. The court is attached to the department for administrative purposes only.

Program Highlights

Workers' Compensation Court Major Budget Highlights	
◆	The overall budget decreases due to reductions in fixed costs for the court

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Labor & Industry Funding by Source of Authority 2015 Biennium Budget - Workers Compensation Court							
Funds	HB 2	Non-		Total All Sources	% Total All Funds	MCA Reference	Statutory Category
		Budgeted Proprietary	Statutory Appropriation				
State Special Total	\$1,300,222	\$0	\$0	\$1,300,222	100.0%		
02455 Workers' Comp Regulation	\$1,300,222	\$0	\$0	\$1,300,222	100.0%		
Total All Funds	\$1,300,222	\$0	\$0	\$1,300,222	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The court is entirely funded with state special revenue derived from a fee charged to workers compensation carriers in Montana. The fee is passed on to Montana business when their workers' compensation premiums are determined by the carriers.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	634,941	634,941	1,269,882	97.67%
Statewide PL Adjustments	0	0	0	0.00%	4,824	5,680	10,504	0.81%
Other PL Adjustments	0	0	0	0.00%	10,000	10,000	20,000	1.54%
New Proposals	0	0	0	0.00%	(82)	(82)	(164)	(0.01%)
Total Budget	\$0	\$0	\$0		\$649,683	\$650,539	\$1,300,222	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					30,614					31,372
Vacancy Savings					(20,996)					(21,027)
Inflation/Deflation					58					207
Fixed Costs					(4,852)					(4,872)
Total Statewide Present Law Adjustments		\$0	\$4,824	\$0	\$4,824		\$0	\$5,680	\$0	\$5,680
DP 901 - WCC General Operating Adjustment	0.00	0	10,000	0	10,000	0.00	0	10,000	0	10,000
Total Other Present Law Adjustments	0.00	\$0	\$10,000	\$0	\$10,000	0.00	\$0	\$10,000	\$0	\$10,000
Grand Total All Present Law Adjustments	0.00	\$0	\$14,824	\$0	\$14,824	0.00	\$0	\$15,680	\$0	\$15,680

DP 901 - WCC General Operating Adjustment – The executive requests \$10,000 in each year of the biennium for an increase in off-campus rent and operational costs.

New Proposals

New Proposals	Program	FTE	-----Fiscal 2014-----				-----Fiscal 2015-----					
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
	DP 6101 - Professional Development Center Fee Allocation	09	0.00	0	(82)	0	(82)	0.00	0	(82)	0	(82)
	Total	0.00	\$0	(\$82)	\$0	(\$82)	0.00	\$0	(\$82)	\$0	(\$82)	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

The Legislative Fiscal Division Presents an Agency Profile of: The Department of Military Affairs

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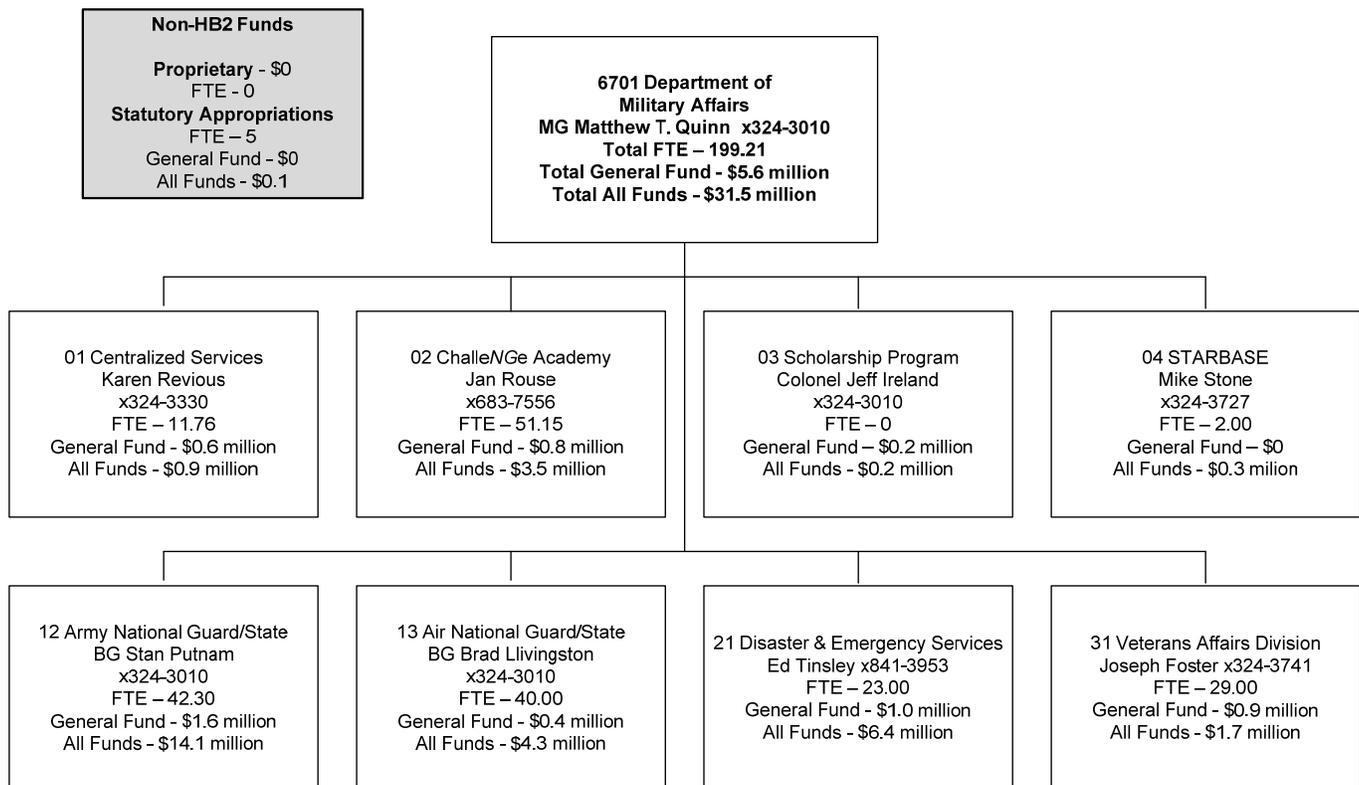
Updated December 2012

Agency Description

Definition of Terms

The Department of Military Affairs, administered by the Adjutant General, oversees activities of the Air and Army National Guard, Disaster and Emergency Services, and the National Guard Youth ChalleNGe program. The Montana Board of Veterans' Affairs is administratively attached to the department. The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty.

The Disaster and Emergency Services Division plans for and coordinates state responses in disaster and emergency situations (all-hazards emergency management). The Board of Veterans' Affairs manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families and is responsible for the three state veterans' cemeteries. The National Guard Youth Challenge Program is focused on at-risk youth, 16-18 years of age, who are no longer enrolled in high school or are considering withdrawing from school. The Challenge program provides values, skills, education, and self-discipline in a quasi-military modeled training environment.



How Services are Provided

The Department of Military Affairs consists of eight divisions/programs with the following functions:

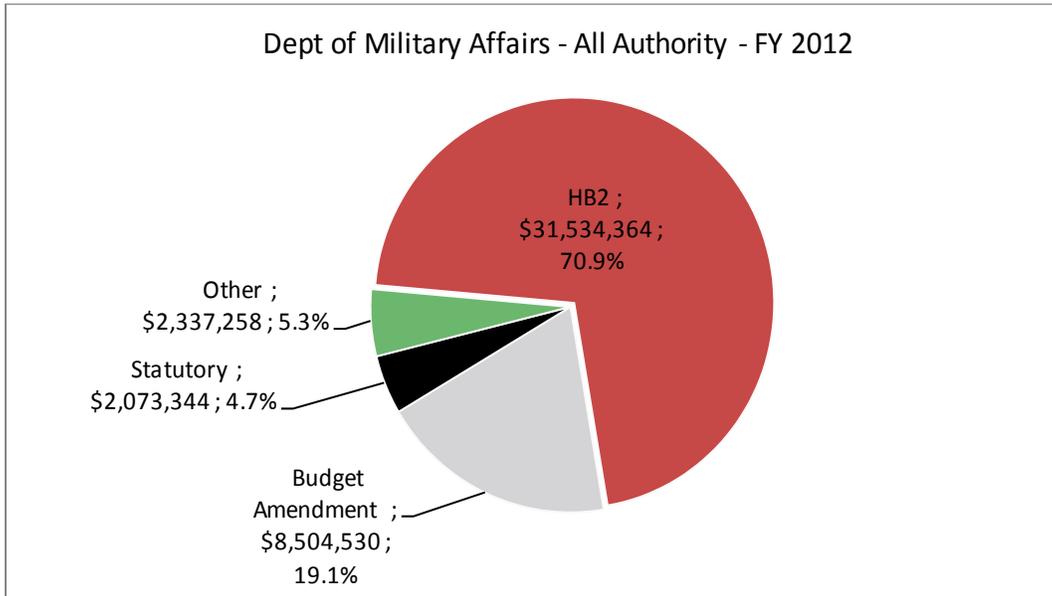
- Army National Guard (ARNG) provides trained and equipped military units for use in the event of state or federal mobilization, maintains numerous military facilities in Montana, plans and contracts for construction of military facilities and training areas, and provides statewide communication services, security contracts, and leases for buildings and land used by ARNG.
- Air National Guard under dual state/federal mandates provides trained and equipped military air units for use in event of state or federal mobilization, including wildfire support.
- Youth Challenge Program operates an education program for “at risk” youth ages 16 to 18 who have dropped out of high school. The program teaches both life skills and academics (leading to GED completion) in a military-modeled training program.
- Department of Defense’s STARBASE Program hosts 5th grade students at Fort Harrison and Gore Hill (Great Falls) for a week long “hands on” “minds on” experience. The program curriculum provides inquiry based instruction in Science, Technology, Engineering, and Math (STEM) and STEM career fields.
- Disaster and Emergency Services (DES) is responsible for statewide disaster planning and preparedness activities and coordination of federal, state, and volunteer assistance to communities, local and tribal governments in the event of an incident, emergency, or disaster.
- Veterans Affairs Program assists discharged veterans and their families regarding veteran benefits and administers three veteran cemeteries located in Montana. The Board of Veterans’ Affairs is administratively attached to the Department of Military Affairs.
- Centralized Services Division provides comprehensive administrative support for all department divisions, programs, and functions.
- Montana National Guard Scholarship Program provides scholarship awards to enlisted Montana National Guard troops enrolled as full-time undergraduate students in colleges, universities, or training programs.

The Department of Military Affairs provides services and functions through the employment of state FTE who recruit and train Guard troops, provide education for youth, staff the statewide disaster preparedness system, provide assistance coordination services to veterans and families, and respond to local emergencies.

Sources of Spending Authority

The chart on the next page shows the sources of appropriation authority for the Department of Military Affairs. For a more detailed description of accounting terminology, please refer to the definition of terms. The operations of the Department of Military Affairs are mainly funded through HB 2. Statutory appropriations are provided to support the three veterans cemeteries with funding generated through cemetery plot allowances and donations. The Office of Budget and Program Planning approved an additional \$8.5 million in federal funding for Army National Guard repair and maintenance, DES grants, and opening an additional STARBASE in Great Falls.

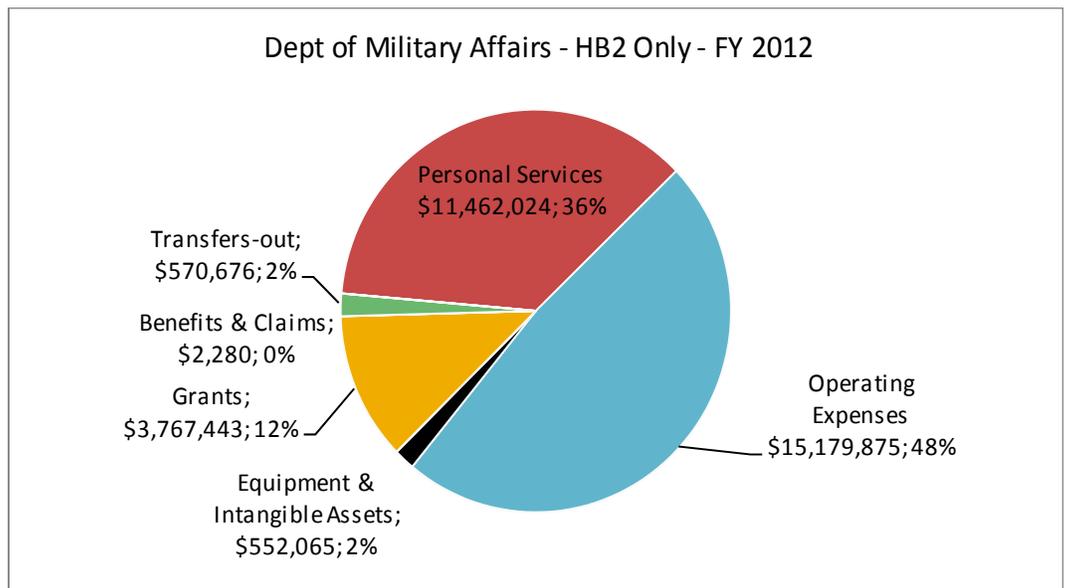
Sources of Spending Authority, cont.



Expenditures

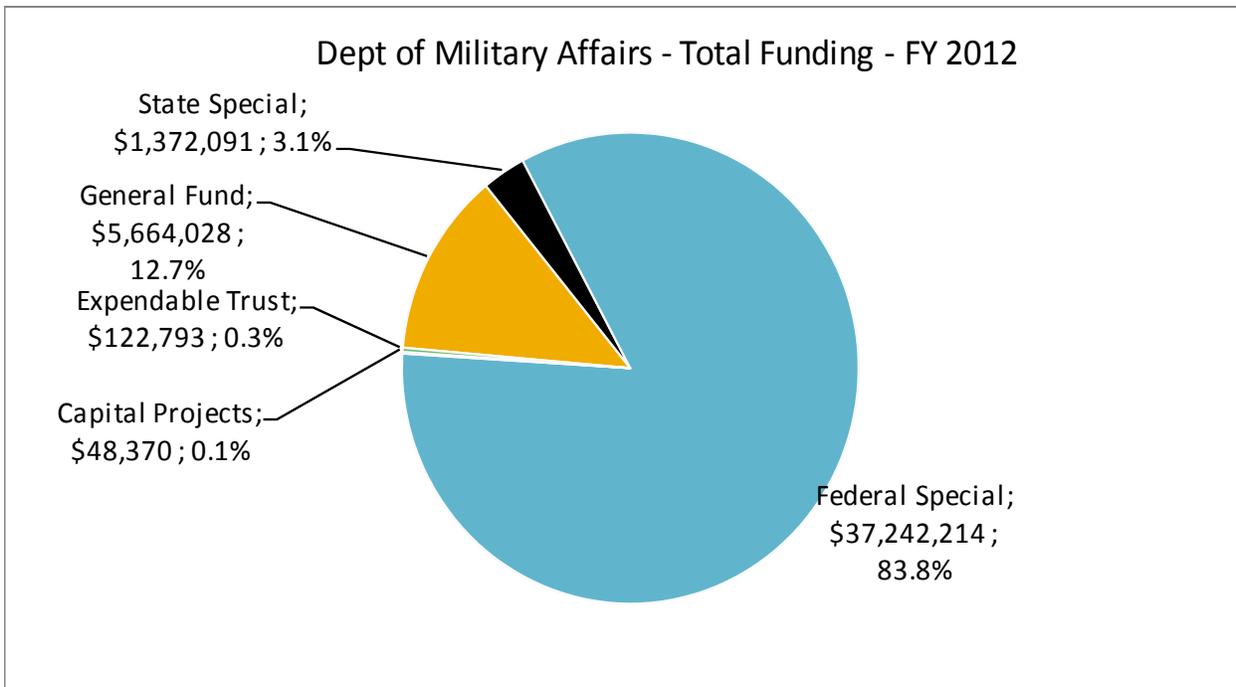
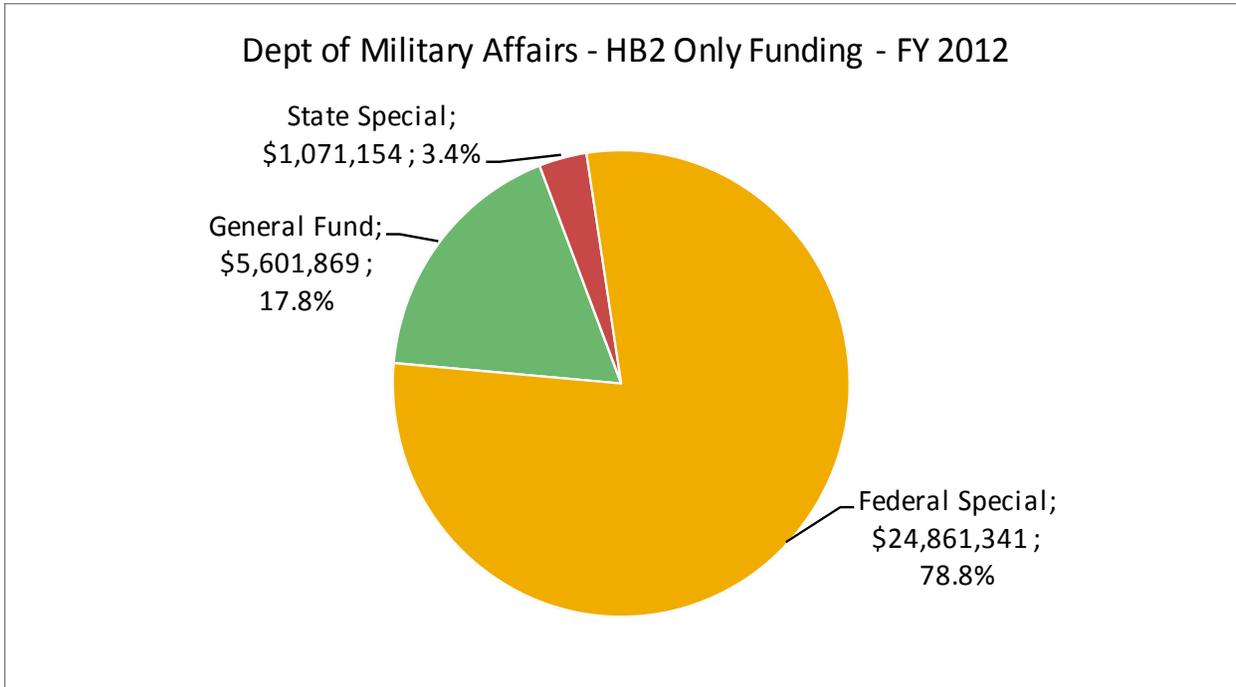
This chart explains how the HB 2 appropriation is spent. Personal service expenditures account for 36% of department costs, and operations account for 48%. This percentage is primarily a reflection of maintaining the various military facilities across the state, which includes utilities, repairs, and contracted services. Costs of facility operations are split between the federal and state government, based upon ownership of each specific facility.

This chart matches the agency base expenditure found in the 2015 Budget Analysis.



Funding

The following charts show the agency's HB 2 funding authority by fund type and all sources of its total funding authority.



Funding

The Department of Military Affairs is funded primarily with federal special revenue that supports both personal service and operations costs of the Army and Air Guard programs. Federal funds also support DES and the Youth Challenge Program. Most of the federal programs require a state match, which is most of the general fund expenditures. General fund match is used in the Youth Challenge Program, DES, and Air National Guard Program, as well as in the operations formula for military facilities operations costs that are a federal/state split based upon facility ownership under the Army National Guard Program. General fund also supports administrative costs in Centralized Services and all funding for the Scholarship Program. State special revenue funds primarily support Veterans' Affairs, with revenue from cemetery plot allowances and sale of veteran license plates.

How the 2013 Legislature Can Effect Change

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

- Number of military facilities in Montana – each military facility located in Montana creates ongoing and future costs for operations and maintenance. While the federal government typically pays 100% of the capital construction costs, operations and maintenance are split using a federal/state expenditure formula. Therefore, addressing the number of military facilities located in the state may change expenditure and activity levels of the department.
- Level of disaster and emergency preparedness - Montana's disaster and emergency preparedness is directly dependent on general fund support. Emergency management, response, and recovery costs are shared 50/50 by the Department of Homeland Security's Federal Emergency Management Agency (FEMA). Department of Military Affairs identifies that when state funding is not adequate, sufficient resource are not available to plan, organize, equip, train, and exercise robust emergency management program.

Major Cost Drivers

Federal mobilization of Montana National Guard troops – in December 2012 more than 300 Montana National Guard troops were mobilized or serving overseas in Afghanistan including:

- 495th Combat Service Support Battalion
- 484th Military Police Company
- 260th Engineers
- 189th General Aviation Support Battalion

Veteran population – Montana has the 2nd largest population of veterans per capita in the country, recently estimated at 105,838. With a large number of young adults enlisting, Montana also has a record number of Montana troops who were previously engaged in combat operations in the Middle East and Afghanistan. The veteran population services include employment, housing, and medical and mental health care. Department expenditures and activities may be changed by looking at service eligibility criteria for a myriad of human services (mental health, drug abuse, homelessness, etc.), as there is historical evidence that veteran populations compose a sizeable percentage of consumers of these services, in particular combat veterans.

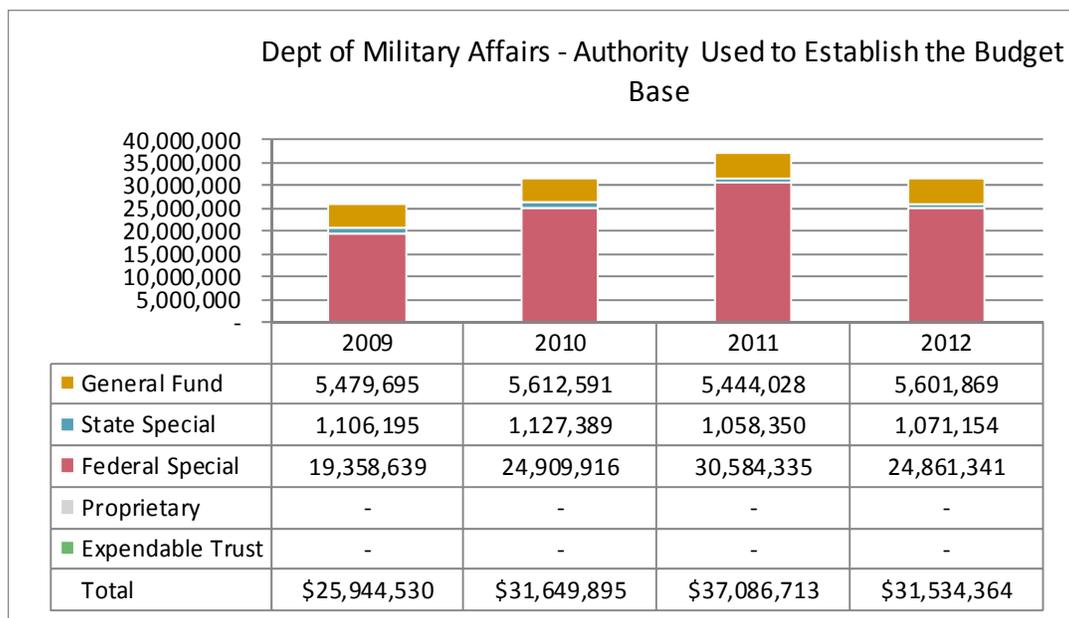
Major Cost Drivers, cont.

Participation in Youth Challenge Program – The Challenge Program is funded with general fund and federal special revenues at a 25/75 state to federal funding ratio for most costs. Department activity can be changed by determining if and at what level Montana will participate in this optional program.

Element	2008	2012	Significance of Data
Number of military facilities in Montana	257	270	Indicates operations costs
Number of disaster declarations	7	12	Reflects demand for DES services
Number of scholarship awards	388	175	Reflects demand for scholarship funds
Number of Youth Challenge enrollees	169	190	Reflects the demand for youth who required a non-traditional setting for education & life coping skills
Number of Youth Challenge graduates	113	131	Measures an essential component of the program including short & long term success of enrollees
Veterans benefits acquired for Montana veterans	\$114 mil	\$160 mil	Actual receipt of VA monetary benefits resultant of agency services
Number of veterans assisted with benefit claims	4317	3354	Reflects need for professional claim product services
STARBASE Helena participants	130	4503 since fall of 2007	Indicates demand for education program
STARBASE Great Falls participants	n/a	1062 since spring 2012	Indicates demand for education program

Funding/Expenditure History

The table below shows historical changes to the agency's base budget authority.



The main change in funding levels is due to increased federal grants supporting the Disaster and Emergency Services Division in FY 2011.

Major Legislative Changes in the Last Ten Years

Veterans' Cemeteries

The 2003 Legislature authorized the Department to perform pre-application requirements provided in the federal Department of Veterans Affairs National Cemetery Administration's state cemetery grants program.

The 2007 Legislature authorized counties to construct and maintain a veterans' cemetery, and allowed the county to fund the cemetery via imposition of a property tax levy and acceptance of gifts, grants, or donations.

Major Legislative Changes in the Last Ten Years, cont.

Search and Rescue Funding

The 2003 Legislature increased fees on certain licenses and created a state special revenue fund for the transfer of funding to entities involved in the search and rescue function.

The 2007 Legislature made the money in the Fish, Wildlife, and Parks (FWP) special revenue account for search and rescue remain available for reimbursement of search and rescue missions and provided matching funds to reimburse counties for search and rescue training and equipment costs.

The 2009 Legislature increased the maximum amount available for transfer to local sheriff's offices for search and rescue operations from \$3,000 to \$6,000 per rescue operation and increased the maximum amount available to match local funds for the purchase of search and rescue equipment from \$2,000 to \$6,000.

Board of Military Affairs

The 2003 Legislature revised the duties and membership of the Board of Veterans' Affairs and, in addition, created a state special revenue fund for the purpose of supporting Veterans' Affairs operations. The new fund receives revenue from: 1) a \$15 surcharge on a generic license plate sponsored by the Department of Military Affairs; and 2) an additional \$0.50 added to the registration fees for most vehicle types.

Active military

The 2005 Legislature allowed members of the Montana National Guard on active duty for a contingency operation to be reimbursed for group life insurance. HB 761 also allows the reimbursement of premiums for the group life insurance to be exempt from state taxation. The legislature appropriated \$300,000 of general fund each year for reimbursement of group life insurance premiums.

The 2007 Legislature transferred \$1.0 million of general fund to a state special revenue fund, established for the purpose of creating a Montana military family relief fund. All money transferred to the fund by the legislature, all monetary contributions, gifts, grants, etc., must be deposited to the state special revenue account and is statutorily appropriated to the Department of Military Affairs for relief grants to National Guard and Reserve members or family members.

ChalleNGe Program

The 2007 Legislature provided the state statutory authorization for the Montana National Guard Youth ChalleNGe Program.

Armories and other military facilities

The 2009 Legislature provided \$1.3 million in federal special revenue for the National Guard Bureau approved projects to improve, repair and modernize facilities through the American Recovery and Reinvestment Act. In addition, the legislature provided general fund appropriations of \$250,000 for a military museum and \$750,000 for Improvised Explosive Device (IED) training.

The 2009 Legislature created a Montana National Guard land purchase account in the state special revenue fund and required that if the state sells an armory, the money from the sale must be deposited in the account. It also created a statutory appropriation from the account for the preparations to purchase or for the purchase of land necessary for the Montana National Guard's mission upon the authorization of the Governor.

For further information, you may wish to contact the agency at: Department of Military Affairs

1956 Mt Majo St., P.O. Box 4789

Fort Harrison, MT 59636-4789

Phone: (406) 324-3000 Webpage: <http://montanama.org>



Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	199.21	199.21	199.21	199.21	199.21	199.21	0.00	0.00%
Personal Services	11,462,034	11,662,829	11,752,583	11,770,429	23,124,863	23,523,012	398,149	1.72%
Operating Expenses	15,179,930	15,422,290	15,901,626	15,795,391	30,602,220	31,697,017	1,094,797	3.58%
Equipment & Intangible Assets	552,065	357,423	552,065	552,065	909,488	1,104,130	194,642	21.40%
Grants	3,767,443	5,101,505	13,335,443	11,735,443	8,868,948	25,070,886	16,201,938	182.68%
Benefits & Claims	2,280	2,280	2,280	2,280	4,560	4,560	0	0.00%
Transfers	570,674	707,549	2,932,674	2,532,674	1,278,223	5,465,348	4,187,125	327.57%
Total Costs	\$31,534,426	\$33,253,876	\$44,476,671	\$42,388,282	\$64,788,302	\$86,864,953	\$22,076,651	34.08%
General Fund	5,601,891	5,725,200	5,907,915	5,900,810	11,327,091	11,808,725	481,634	4.25%
State Special	1,071,157	1,292,045	940,549	842,561	2,363,202	1,783,110	(580,092)	(24.55%)
Federal Special	24,861,378	26,236,631	37,628,207	35,644,911	51,098,009	73,273,118	22,175,109	43.40%
Total Funds	\$31,534,426	\$33,253,876	\$44,476,671	\$42,388,282	\$64,788,302	\$86,864,953	\$22,076,651	34.08%

Agency Description

Agency Mission: To provide for safety and well-being for citizens of Montana through mission-ready forces, for federal and state activations, emergency services as directed by the Governor, and services to Montana veterans.

For additional information please refer to the agency profile.

Agency Highlights

Department of Military Affairs Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Governor's proposed budget increases by 34.1% from the previous biennium due primarily to a change in the requested level of funding for Homeland Security Program Grants ◆ Another proposal continues the addition of a second site for STARBASE at the Malmstrom Air Force Base in Great Falls and increases federal authority for the program by \$0.6 million in the 2015 biennium
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Statewide present law adjustments include general fund at a higher match rate than the state to federal funding ratio ◆ The FY 2012 base budget includes funding for contract costs related to the SECC that are also proposed for additional funding. The legislature could reduce support for the costs already funded in the budget and save \$20,000 in general fund ◆ The executive proposal to eliminate statutory authority from HB 2 increases the base budget for the program by \$42,400 by removing less program costs than indicated

Agency Discussion

Agency Personal Services

Only a small percentage of the overall costs of the Montana National Guard personnel are included in HB 2. The majority of the guard members receive their salary through a federal paymaster. The personal services budget shown in the table above reflects funding for those positions funded under joint state and federal partnerships.

The personal services budget for the 2015 biennium increases over the FY 2012 base budget due to:

- An overall vacancy savings rate of 3.2% compared to a budgeted 4% rate if firefighter positions and those at Montana Youth Challenge Program are not included. Both of these programs had overtime hours in FY 2012 that offset the vacancy savings in the other programs
- Annualization of broadband pay increases that were granted at various times in FY 2012. Statutorily required longevity increases are also granted at various times and are annualized in the 2015 biennium. As of December 5, 2012 there were 7 positions that have been vacant longer than six months, including 1.00 FTE for a construction manager and 0.30 for an administrative assistant position in the Army National Guard Program that have been vacant at least since FY 2011

The Department of Military Affairs indicates that about 7% of their employees are currently eligible for early or full retirement. In FY 2012 the agency paid \$67,400 in retirement and sick leave payouts that are not included as part of the 2015 biennium personal services funding.

The agency faces two primary challenges with recruiting and retaining employees:

- The Veterans' Affairs Division states that they have had a 65% turnover in staff in the last two years. The division further states that entry wages for veterans' service officers are 64% of the market but they are unable to increase entry level salaries due to inequities with existing staff salaries
- Montana Youth Challenge Program states they are having difficulty hiring qualified individuals for the positions including cadre, teachers, and admissions staff. Concerns with a small applicant pool in the Dillon area, low pay, and competition with school districts were outlined

5% Reduction Plan

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

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- New
- Emerging
- Mature
- Declining
- Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- Current plans to address obsolescence
- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

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

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$11,808,725	\$0	\$0	\$11,808,725	13.5%
State Special Total	1,783,110	-	775,647	2,558,757	2.9%
Federal Special Total	73,273,118	-	-	73,273,118	83.6%
Proprietary Total	-	-	-	-	0.0%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	<u>\$86,864,953</u>	<u>\$0</u>	<u>\$775,647</u>	<u>\$87,640,600</u>	
Percent - Total All Sources	99.1%	0.0%	0.9%		

HB 2

The Department of Military Affairs is dominated by federal government initiatives, programs, and objectives. As such the agency's primary funding source is federal funds. General fund supports a portion of most of the programs in the department and 100 percent of the cost of the National Guard Scholarship program.

State special revenue funds the Disaster and Emergency Services Division and Veterans Affairs Program. The Veterans Affairs Division accounts for 71.8 % of the state special revenue funding with revenues generated through vehicle registrations, specialty license plates, and donations.

Federal special revenues account for the majority of the total agency funding. The most significant impact to the total funding increase is for federal Homeland Security Program Grants that remain unspent from previous fiscal years.

Statutory Appropriations

The Department of Military Affairs has two statutory appropriations that are currently estimated to be expended in the 2015 biennium and several others that are either transferred from other agencies or are not currently estimated to be needed in the next biennium.

The Montana Military Family Relief (MMFRF) Program receives a statutory appropriation to provide monetary grants to families of Montana National Guard and Reserve Component members who on or after April 28, 2007 are on active duty for federal service in a contingency operation. MMFRF grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses that become difficult to afford when a wage-earner has temporarily left civilian employment to be placed on active military duty. FY 2012 costs for the program were \$121,000, which is the amount of funding established for each year of the 2015 biennium. The program was originally

funded by a transfer of \$1.0 million in general fund. Ongoing revenues include interest on a declining fund balance and donations of about \$38,000 a year.

The Veterans' Affairs Division has a statutory appropriation for operation of the Montana Veterans' Cemetery Program. The state special revenue funds are generated from cemetery plot allowances and donations.

Statutory appropriations which are not currently estimated for the 2015 biennium include:

- o National guard death benefits paid by the general fund
- o Local incidence responses for emergency and disasters
- o Contingencies to address environmental problems

The Governor is also provided a number of statutory appropriations in the event of a declared emergency or disaster. The most notable of these is the authority to authorize up to \$16 million for disaster relief. These expenditures are authorized through executive orders. In FY 2012, the Governor authorized disaster relief expenditures from the general fund totaling \$7,631 that were used by the Disaster and Emergency Services Division.

LFD COMMENT	<p>The Budget Control Act (BCA) includes automatic spending reductions, called sequesters, that are currently scheduled to take effect January 2, 2013. For discretionary defense spending the estimated amount of the reduction is 9.4%. The BCA allows the president to exempt military personnel accounts entirely from sequester or apply a lower sequester percentage. The administration has indicated that wages and benefits of military personnel are exempt from sequester. However, procurement, building operations and maintenance, and equipment are not exempt. The Army National Guard Program maintains 29 different facilities across Montana with varying amounts of federal support. The Air National Guard Program based in Great Falls is almost entirely funded with federal funds.</p> <p>Discretionary non-defense spending is also addressed in the BCA. The estimated impact on discretionary non-defense spending is a reduction of 8.2%. The Disaster and Emergency Services Division receives Homeland Security Grant Program funds that are subject to sequestration under this part of the BCA.</p> <p>As a result of the various conditions included in the BCA, funding for the Department of Military Affairs may be reduced beyond what is shown in the executive's proposed budget.</p>
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Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	5,601,891	5,601,891	11,203,782	94.88%	31,534,426	31,534,426	63,068,852	72.61%
Statewide PL Adjustments	233,664	222,074	455,738	3.86%	(10,434)	(14,453)	(24,887)	(0.03%)
Other PL Adjustments	71,818	76,303	148,121	1.25%	12,949,995	10,865,625	23,815,620	27.42%
New Proposals	542	542	1,084	0.01%	2,684	2,684	5,368	0.01%
Total Budget	\$5,907,915	\$5,900,810	\$11,808,725		\$44,476,671	\$42,388,282	\$86,864,953	

Statewide present law adjustments are negative from total funds due to reductions for overtime incurred by firefighters in Great Falls. Other present law adjustments include increased federal funding for Homeland Security Grant Program funds within the Disaster and Emergency Services Program.

Other Agency Information**LFD
COMMENT**

In recent biennia a number of construction projects for the Department of Military Affairs have been completed by the Architecture and Engineering Division (A & E) of the Department of Administration. The projects and related appropriation authority were approved through the Long-Range Building Program. The appropriations for these projects are authorized until the project is completed, unlike HB 2 temporary appropriations. Statute provides that the remaining balances on capital projects previously approved by the legislature are reappropriated for the purposes of the original appropriation until the projects are completed. A review of appropriation authority for the projects shows that a number of the projects have been completed but still have unused authority.

The Legislative Finance Committee discussed a situation during the 2013 interim whereby unused authority for construction projects was used to expand the scope of improvements for a facility years after the original project was completed. For a legal opinion on this situation refer to http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_June/renovation.pdf

The legislature may wish to discuss the status of the various military construction projects with the agency and A & E to determine if unneeded authority should be eliminated through legislation.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	11.76	11.76	11.76	11.76	11.76	11.76	0.00	0.00%
Personal Services	851,658	878,718	908,067	907,501	1,730,376	1,815,568	85,192	4.92%
Operating Expenses	95,075	80,575	126,428	116,516	175,650	242,944	67,294	38.31%
Benefits & Claims	2,280	2,280	2,280	2,280	4,560	4,560	0	0.00%
Total Costs	\$949,013	\$961,573	\$1,036,775	\$1,026,297	\$1,910,586	\$2,063,072	\$152,486	7.98%
General Fund	635,181	635,704	724,976	714,498	1,270,885	1,439,474	168,589	13.27%
Federal Special	313,832	325,869	311,799	311,799	639,701	623,598	(16,103)	(2.52%)
Total Funds	\$949,013	\$961,573	\$1,036,775	\$1,026,297	\$1,910,586	\$2,063,072	\$152,486	7.98%

Program Description

The Centralized Services Division provides departmental administration through the Office of the Adjutant General and department-wide support for accounting, fiscal management, personnel, labor relations, and purchasing and property management oversight. The program operates in accordance with Title 2, Chapter 15, part 12 and Title 10, MCA.

Program Highlights

Centralized Services Division Major Budget Highlights
◆ The proposed budget for the division increases from the previous biennium due almost entirely to statewide present law adjustments

Program Discussion

General fund support for the program increases 13.3% from the 2013 biennium due in part to a change in the percentage of general fund support provided in the statewide present law adjustments.

Personal services increase due to annualization of broadband pay adjustments awarded in FY 2012 and longevity increases included as part of the statewide present law adjustments. The operating expenses increases are due to changes for fixed costs provided by the Department of Administration including:

- Information technology services
- Insurance and bonds
- Warrant writing services
- SABHRS administrative costs

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Centralized Services Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,439,474	\$0	\$0	\$1,439,474	69.8%		
Federal Special Total	\$623,598	\$0	\$0	\$623,598	30.2%		
03132 National Guard	\$401,038	\$0	\$0	\$401,038	19.4%		
03134 Disaster & Emergency Services	\$95,000	\$0	\$0	\$95,000	4.6%		
03453 Air National Guard	\$127,560	\$0	\$0	\$127,560	6.2%		
Total All Funds	\$2,063,072	\$0	\$0	\$2,063,072	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

Federal fund support is provided by federal-state agreements. Costs of positions and activities that provide support to federally funded operations are applicable for federal funding. General fund supports the majority of the program in accordance with state-federal agreements.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	635,181	635,181	1,270,362	88.25%	949,013	949,013	1,898,026	92.00%
Statewide PL Adjustments	89,633	79,155	168,788	11.73%	87,600	77,122	164,722	7.98%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	162	162	324	0.02%	162	162	324	0.02%
Total Budget	\$724,976	\$714,498	\$1,439,474		\$1,036,775	\$1,026,297	\$2,063,072	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					94,245					93,655
Vacancy Savings					(37,836)					(37,812)
Inflation/Deflation					53					105
Fixed Costs					31,138					21,174
Total Statewide Present Law Adjustments		\$89,633	\$0	(\$2,033)	\$87,600		\$79,155	\$0	(\$2,033)	\$77,122
Grand Total All Present Law Adjustments	0.00	\$89,633	\$0	(\$2,033)	\$87,600	0.00	\$79,155	\$0	(\$2,033)	\$77,122

Statewide present law adjustments reduce federal funds and increase general fund. Funding for the adjustments reflects the conditions outlined in the cooperative agreement with the National Guard Bureau. Under the agreement 8.0 FTE are partially funded by federal grants. However, none of the operating costs are eligible for federal funding.

New Proposals

New Proposals										
Program	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation										
01	0.00	162	0	0	162	0.00	162	0	0	162
Total	0.00	\$162	\$0	\$0	\$162	0.00	\$162	\$0	\$0	\$162

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	51.15	51.15	51.15	51.15	51.15	51.15	0.00	0.00%
Personal Services	2,281,477	2,373,460	2,326,462	2,332,170	4,654,937	4,658,632	3,695	0.08%
Operating Expenses	1,200,818	1,309,885	1,279,248	1,273,892	2,510,703	2,553,140	42,437	1.69%
Total Costs	\$3,482,295	\$3,683,345	\$3,605,710	\$3,606,062	\$7,165,640	\$7,211,772	\$46,132	0.64%
General Fund	832,471	908,337	859,502	858,911	1,740,808	1,718,413	(22,395)	(1.29%)
Federal Special	2,649,824	2,775,008	2,746,208	2,747,151	5,424,832	5,493,359	68,527	1.26%
Total Funds	\$3,482,295	\$3,683,345	\$3,605,710	\$3,606,062	\$7,165,640	\$7,211,772	\$46,132	0.64%

Program Description

The Montana National Guard Youth Challenge Program is a volunteer program for youth ages 16 to 18 who have stopped attending secondary school before graduating. Challenge is a 17-month, voluntary, two-phased military modeled training program targeting unemployed, drug-free, and crime-free high school dropouts. The program provides an opportunity for high school "at risk" youth to enhance their life skills, and increase their educational levels and employment potential. Phase I of the program is a 22 week residential stay on the campus of Western Montana College of the University of Montana in Dillon focusing on physical training, classroom instruction, personal development, and life skills. Phase II is a year-long mentoring relationship with a specially-trained member of the community where the youth resides to provide a positive role model and to assist the student in gaining employment or enrolling in post-secondary schooling.

Program Highlights

Challenge Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Governor’s proposed budget for the division increases from the previous biennium mainly due to two new proposals: <ul style="list-style-type: none"> ● Additional federal funds to support employees attending required training ● Funding of projected overtime costs
Major LFD Issues
<ul style="list-style-type: none"> ◆ Statewide present law adjustments include general fund at a higher match rate than the state to federal funding ratio

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Challenge Program							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,718,413	\$0	\$0	\$1,718,413	23.8%		
Federal Special Total	\$5,493,359	\$0	\$0	\$5,493,359	76.2%		
03132 National Guard	\$5,493,359	\$0	\$0	\$5,493,359	76.2%		
Total All Funds	\$7,211,772	\$0	\$0	\$7,211,772	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Youth Challenge Program is funded with general fund and federal special revenue at a 25/75 state to federal funding ratio for most costs. Some travel and special projects required by the federal/state cooperative agreement are funded 100 percent from federal funds.

LFD ISSUE	<u>Statewide Present Law Adjustments Funded at Higher Matching Rate</u>
	The Youth Challenge program is funded at a 25/75 state to federal ratio. The statewide present law adjustments are funded at 51.5/48.5 in FY 2014 and 49.2/50.8 in FY 2015. The personal services are funded at 25/75 in the budgeting system. The operating costs include adjustments for general program increases such as computer fees and human resource information which appear to qualify for the 25/75 state to federal match rate.
Legislative Option	
Increase federal authority and decrease the general fund support for the statewide present law adjustment by \$8,678 in FY 2014 and \$7,999 in FY 2015 to reflect the state to federal match rate of 25/75.	

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	832,471	832,471	1,664,942	96.89%	3,482,295	3,482,295	6,964,590	96.57%
Statewide PL Adjustments	16,839	16,248	33,087	1.93%	32,645	32,997	65,642	0.91%
Other PL Adjustments	10,000	10,000	20,000	1.16%	90,000	90,000	180,000	2.50%
New Proposals	192	192	384	0.02%	770	770	1,540	0.02%
Total Budget	\$859,502	\$858,911	\$1,718,413		\$3,605,710	\$3,606,062	\$7,211,772	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2014-----						-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					100,254					106,204
Vacancy Savings					(95,269)					(95,511)
Inflation/Deflation					(1,344)					(688)
Fixed Costs					29,004					22,992
Total Statewide Present Law Adjustments		\$16,839	\$0	\$15,806	\$32,645		\$16,248	\$0	\$16,749	\$32,997
DP 201 - Funding for ChalleNGe 24/7 overtime.	0.00	10,000	0	30,000	40,000	0.00	10,000	0	30,000	40,000
DP 202 - Federal spending authority for Challenge training	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
Total Other Present Law Adjustments	0.00	\$10,000	\$0	\$80,000	\$90,000	0.00	\$10,000	\$0	\$80,000	\$90,000
Grand Total All Present Law Adjustments	0.00	\$26,839	\$0	\$95,806	\$122,645	0.00	\$26,248	\$0	\$96,749	\$122,997

DP 201 - Funding for ChalleNGe 24/7 overtime. - The Montana Youth ChalleNGe Academy is requesting \$40,000 in each year of the biennium to support overtime and holiday salaries. These costs are zero based and not included in the program's base budget. The program is required to have staff coverage 24 hour a day, 7 days a week.

DP 202 - Federal spending authority for Challenge training - This 100% federal spending request for authority is for ChalleNGe employees to participate in training classes required by the National Guard Bureau.

New Proposals

New Proposals											
-----Fiscal 2014-----						-----Fiscal 2015-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation	02	0.00	192	0	578	770	0.00	192	0	578	770
Total	0.00	\$192	\$0	\$578	\$770	0.00	\$192	\$0	\$578	\$770	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
Operating Expenses	209,409	209,408	209,409	209,409	418,817	418,818	1	0.00%
Total Costs	\$209,409	\$209,408	\$209,409	\$209,409	\$418,817	\$418,818	\$1	0.00%
General Fund	209,409	209,408	209,409	209,409	418,817	418,818	1	0.00%
Total Funds	\$209,409	\$209,408	\$209,409	\$209,409	\$418,817	\$418,818	\$1	0.00%

Program Description

The Montana National Guard Scholarship Program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students in Montana colleges, universities, or training programs. The program assists Montana in recruiting and retaining personnel in both the Army and Air National Guard and in enhancing its operational readiness to assume both state and federal active duty missions. Scholarships also reward guard members for their service to the state by helping defray their educational costs at Montana post-secondary institutions.

Program Highlights

Scholarship Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive proposes to fund the 2015 biennium budget at the FY 2012 base budget level with no adjustments

Program Discussion

The 1999 Legislature first provided \$250,000 in general fund to provide scholarships of up to \$500 per semester to enlisted Montana National Guard personnel enrolled as full-time undergraduate students in colleges, universities, or training programs. The funding was to provide \$500 scholarships for 500 student-semesters; which is equivalent to 125 students attending two semesters in each of the two years of the biennium.

In FY 2012, 287 students were awarded scholarships of up to \$1,800 a year for college, universities, or other training programs. Funding for the program remains static for the 2015 biennium.

LFD COMMENT	The Montana Board of Regents of Higher Education provides tuition waivers for honorably discharged veterans who have served during the Vietnam War or were awarded various medals for service since, including serving in Afghanistan or Iraq. The policy outlines the conditions that must be met for the veteran to qualify for the waiver, including exhausting education benefits offered through federal resources. Many of the members of the National Guard qualify for these waivers due to their service in Operation Enduring Freedom and Operation Iraqi Freedom.
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Scholarship Program							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$418,818	\$0	\$0	\$418,818	100.0%		
Total All Funds	\$418,818	\$0	\$0	\$418,818	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

This program is funded entirely from the general fund.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	209,409	209,409	418,818	100.00%	209,409	209,409	418,818	100.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$209,409	\$209,409	\$418,818		\$209,409	\$209,409	\$418,818	

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	2.00	2.00	3.00	3.00	2.00	3.00	1.00	50.00%
Personal Services	107,355	136,429	250,129	249,743	243,784	499,872	256,088	105.05%
Operating Expenses	206,376	179,717	408,189	406,992	386,093	815,181	429,088	111.14%
Total Costs	\$313,731	\$316,146	\$658,318	\$656,735	\$629,877	\$1,315,053	\$685,176	108.78%
Federal Special	313,731	316,146	658,318	656,735	629,877	1,315,053	685,176	108.78%
Total Funds	\$313,731	\$316,146	\$658,318	\$656,735	\$629,877	\$1,315,053	\$685,176	108.78%

Program Description

The Montana STARBASE “Big Sky” Program is a program for elementary school aged children to raise the interest and improve the knowledge and skills of at-risk youth in math, science, and technology. It does this by exposing them and their teachers to real world applications of math and science through experimental learning, simulations, experiments in aviation and space-related fields as it deals with a technological environment and by utilizing the positive role models found on military bases and installations. The program also addresses drug use prevention, health, self-esteem, and life skills with a math and science based program.

Program Highlights

STARBASE	
Major Budget Highlights	
◆	The Governor proposes continuing a second site for the Montana STARBASE “Big Sky” Program at the Malmstrom Air Force Base in Great Falls. The site was added in FY 2012 through a budget amendment
◆	The proposal includes funding to support an additional 1.00 FTE and related operations

Program Discussion

In FY 2012, the Air National Guard received a second federal grant for a STARBASE program associated with the Malmstrom Air Force Base in Great Falls. The first STARBASE is located at Fort Harrison in Helena. The executive is requesting authority for the second STARBASE program, which increases personal services by \$0.2 million and operating costs by \$0.4 million over the biennium.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Starbase							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
Federal Special Total	\$1,315,053	\$0	\$0	\$1,315,053	100.0%		
03453 Air National Guard	\$1,315,053	\$0	\$0	\$1,315,053	100.0%		
Total All Funds	\$1,315,053	\$0	\$0	\$1,315,053	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

This program is funded entirely with federal special revenues from the Air National Guard.

LFD COMMENT As discussed in the Agency Narrative, the federal funding that supports the Air National Guard is proposed as part of the BCA sequester for defense funding. While the administration has indicated it will exempt military personnel costs, including the federal funds that support the Air National Guard, other funds may be subject to a 9.4% reduction in funding beginning as early as January 2, 2013. The legislature may wish to discuss the impact of Congressional deliberations on this program as Congress moves through the process of determining the level of the reductions and the programs impacted.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	313,731	313,731	627,462	47.71%
Statewide PL Adjustments	0	0	0	0.00%	44,549	42,966	87,515	6.65%
Other PL Adjustments	0	0	0	0.00%	300,000	300,000	600,000	45.63%
New Proposals	0	0	0	0.00%	38	38	76	0.01%
Total Budget	\$0	\$0	\$0		\$658,318	\$656,735	\$1,315,053	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					47,534					47,298
Vacancy Savings					(6,196)					(6,186)
Inflation/Deflation					11					22
Fixed Costs					3,200					1,832
Total Statewide Present Law Adjustments		\$0	\$0	\$44,549	\$44,549		\$0	\$0	\$42,966	\$42,966
DP 401 - Funding for STARBASE Great Falls	1.00	0	0	300,000	300,000	1.00	0	0	300,000	300,000
Total Other Present Law Adjustments	1.00	\$0	\$0	\$300,000	\$300,000	1.00	\$0	\$0	\$300,000	\$300,000
Grand Total All Present Law Adjustments	1.00	\$0	\$0	\$344,549	\$344,549	1.00	\$0	\$0	\$342,966	\$342,966

DP 401 - Funding for STARBASE Great Falls - The STARBASE (Science, Technology, Academy, Reinforcing, Basic, Aviation, and Space Exploration) program in Great Falls was started in FY 2012. The executive requests federal funds to continue the program in Great Falls. The program provides the students of Great Falls the opportunity to attend a high technology classroom that provides math and science education in a different atmosphere.

LFD COMMENT	This decision package is a new proposal, not a present law adjustment. The program was funded via a budget amendment approved by the Office of Budget and Program Planning in September 2011. It was not part of the funding decisions for the STARBASE program in the 2013 biennium. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.
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New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	04	0.00	0	0	38	38	0.00	0	0	38	38
Total		0.00	\$0	\$0	\$38	\$38	0.00	\$0	\$0	\$38	\$38

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	42.30	42.30	45.30	45.30	42.30	45.30	3.00	7.09%
Personal Services	2,704,807	2,610,140	2,882,999	2,885,500	5,314,947	5,768,499	453,552	8.53%
Operating Expenses	10,855,098	11,185,278	10,942,062	10,958,131	22,040,376	21,900,193	(140,183)	(0.64%)
Equipment & Intangible Assets	552,065	357,423	552,065	552,065	909,488	1,104,130	194,642	21.40%
Total Costs	\$14,111,970	\$14,152,841	\$14,377,126	\$14,395,696	\$28,264,811	\$28,772,822	\$508,011	1.80%
General Fund	1,621,054	1,639,409	1,639,175	1,643,699	3,260,463	3,282,874	22,411	0.69%
State Special	0	0	2,000	2,000	0	4,000	4,000	n/a
Federal Special	12,490,916	12,513,432	12,735,951	12,749,997	25,004,348	25,485,948	481,600	1.93%
Total Funds	\$14,111,970	\$14,152,841	\$14,377,126	\$14,395,696	\$28,264,811	\$28,772,822	\$508,011	1.80%

Program Description

The Army National Guard (ARNG), until federalized, is a state military organization that provides trained and equipped military units for use in the event of a state or national emergency. The federal/state cooperative agreement provides funding for facilities management, environmental, and communications support to the organization by: 1) providing professional and skilled personnel for the administration, planning, and execution of statewide repair and maintenance functions on facilities and training areas; 2) planning, programming, and contracting for construction; 3) ensuring all activities and facilities comply with environmental regulations; and 4) providing statewide communication services, security contracts, and leases for buildings and land used by the Army National Guard. The program is mandated by the U.S. and Montana Constitutions and Title 10, Chapters 1-3, MCA.

Program Highlights

Army National Guard Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The proposed budget for the division increases from the previous biennia mainly due to proposals to: <ul style="list-style-type: none"> • Increase support for an additional 3.0 FTE to support various functions related to the mission of the Army National Guard • Provide operations and maintenance costs for two facilities which will be completed in the 2015 biennium

Program Discussion

The executive is requesting 3.00 FTE to provide support for various functions related to the mission of the Army National Guard. The request increases personal services costs by \$0.3 million in the 2015 biennium. Personal services also increase due to:

- Broadband pay increases granted in FY 2012 that are annualized in the 2015 biennium
- A vacancy rate of 5.7% in FY 2012 compared to the legislatively established 4%

Operating costs increase due to:

- Statewide present law adjustments for insurance and bonds, State Information Technology Services Division charges, and electricity

- o A proposal to increase operations and maintenance costs for two facilities which will be completed in the 2015 biennium

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Army National Guard Pgm							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$3,282,874	\$0	\$0	\$3,282,874	11.4%		
State Special Total	\$4,000	\$0	\$0	\$4,000	0.0%		
02343 Armory Rental Funds	\$4,000	\$0	\$0	\$4,000	0.0%		
Federal Special Total	\$25,485,948	\$0	\$0	\$25,485,948	88.6%		
03132 National Guard	\$25,485,948	\$0	\$0	\$25,485,948	88.6%		
Total All Funds	\$28,772,822	\$0	\$0	\$28,772,822	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Army National Guard program is funded with a combination of general fund and federal funds. General fund accounts for about 11.5% of total funding. The funding ratio between general fund and federal funds depends on the nature of the activity, the use or location of the facility, and the goals of the operation. Possible scenarios include funding:

- o Entirely with state funds
- o Entirely with federal funds
- o As a shared responsibility, with federal funds at 75% and general fund at 25% or 50% federal and 50% general fund

When a facility is owned by the state and located on state land, maintenance and utility costs are split evenly with the federal government. When a facility is state owned, but located on federal land, the maintenance and utility costs are funded 75% federal and 25% state general fund. When a facility is classified as a logistics facility, the funding is 100% federal funds for the entire facility. Federally owned facilities located on federal land and those that serve training missions are predominantly funded with 100% federal funds, except when the building is used as an armory. Armories constructed with federal funds and located on federal land are funded 75/25 federal/general fund for maintenance and utility costs. When armories are rented to groups, the state special revenue funds generated from rental fees are used to augment general fund support of the facilities.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,621,054	1,621,054	3,242,108	98.76%	14,111,970	14,111,970	28,223,940	98.09%
Statewide PL Adjustments	18,061	18,060	36,121	1.10%	97,503	107,223	204,726	0.71%
Other PL Adjustments	0	4,525	4,525	0.14%	167,095	175,945	343,040	1.19%
New Proposals	60	60	120	0.00%	558	558	1,116	0.00%
Total Budget	\$1,639,175	\$1,643,699	\$3,282,874		\$14,377,126	\$14,395,696	\$28,772,822	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					149,778					152,591
Vacancy Savings					(114,183)					(114,295)
Inflation/Deflation					27,028					58,068
Fixed Costs					34,880					10,859
Total Statewide Present Law Adjustments		\$18,061	\$2,000	\$77,442	\$97,503		\$18,060	\$2,000	\$87,163	\$107,223
DP 1201 - Army National Guard Mission Support	3.00	0	0	142,597	142,597	3.00	0	0	142,397	142,397
DP 1202 - Army National Guard Operations & Maintenance	0.00	0	0	24,498	24,498	0.00	4,525	0	29,023	33,548
Total Other Present Law Adjustments	3.00	\$0	\$0	\$167,095	\$167,095	3.00	\$4,525	\$0	\$171,420	\$175,945
Grand Total All Present Law Adjustments	3.00	\$18,061	\$2,000	\$244,537	\$264,598	3.00	\$22,585	\$2,000	\$258,583	\$283,168

DP 1201 - Army National Guard Mission Support – The executive requests 3.00 additional FTE to support the Army National Guard mission. The first 1.00 FTE would provide support for the Installations Status Report (ISR) requirements of the ARNG. Each state is mandated by the federal government to document, establish, implement, update, and maintain data collected for ISR requirements. The second 1.00 FTE would provide purchasing support to the Construction and Facilities Management Office of the ARNG in the administration and management of approximately 150 on-going contracts. The third 1.00 FTE would assist with administrative and financial duties within the ARNG that have increasing requirements for federal budgets.

Figure 3

DP 1202 - Army National Guard Operations & Maintenance - The executive requests funding for the Miles City Readiness Center and the Great Falls Armed Forces Reserve Center, two facilities that were completed after the base year and thus are not supported in the 2015 biennium budget. Figure 1 shows the support by facility for the 2015 biennium.

Department of Military Affairs Army National Guard Facilities Additional Operations and Maintenance Costs			
Facility	General Fund	Federal Funds	Total
Miles City readiness center	\$4,525	\$4,525	\$9,050
Great Falls Armed Forces Reserve Center	0	24,498	24,498
Total	\$4,525	\$29,023	\$33,548

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	12	0.00	60	0	498	558	0.00	60	0	498	558
Total	0.00	\$60	\$0	\$498	\$558	0.00	\$60	\$0	\$498	\$558	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	40.00	40.00	40.00	40.00	40.00	40.00	0.00	0.00%
Personal Services	2,620,408	2,668,452	2,682,129	2,687,730	5,288,860	5,369,859	80,999	1.53%
Operating Expenses	1,732,490	1,755,665	1,836,116	1,845,371	3,488,155	3,681,487	193,332	5.54%
Total Costs	\$4,352,898	\$4,424,117	\$4,518,245	\$4,533,101	\$8,777,015	\$9,051,346	\$274,331	3.13%
General Fund	374,869	382,588	396,692	399,488	757,457	796,180	38,723	5.11%
Federal Special	3,978,029	4,041,529	4,121,553	4,133,613	8,019,558	8,255,166	235,608	2.94%
Total Funds	\$4,352,898	\$4,424,117	\$4,518,245	\$4,533,101	\$8,777,015	\$9,051,346	\$274,331	3.13%

Program Description

The Air National Guard, until federalized, is a state military organization that provides trained and equipped military units for use in the event of a state or national emergency. The federal/state cooperative agreement provides for administrative, facilities maintenance, security, and fire protection support to the Air National Guard base at Gore Hill near Great Falls. The Air National Guard program operates under both federal and state mandates in accordance with its dual missions and is mandated by the United States and Montana Constitutions and Title 10, Chapter 1-3, MCA.

Program Highlights

Air National Guard Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The proposed budget increases mainly due to re-establishment of federal funding authority to provide for fire fighter overtime ◆ Statewide present law adjustments include changes for longevity and broadband pay adjustments ◆ Other proposals include requests for additional federal funding to support: <ul style="list-style-type: none"> ● Required firefighting training ● Natural gas distribution lines maintenance ● Security contract personal services increases

Program Discussion

Personal services costs increase due to:

- Statutorily required longevity increases
- A proposal to reinstate firefighter overtime at the Malmstrom Air Force Base in Great Falls
- Broadband pay adjustments that are mainly awarded for proficiency agreements and are annualized in the 2015 biennium

Operating expenses increases are mainly due to requests for additional federal funding to support:

- Firefighter training costs related to live fire training for aircraft
- Natural gas distribution lines maintenance
- Security contract personal service increases

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Air National Guard Pgm							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$796,180	\$0	\$0	\$796,180	8.8%		
Federal Special Total	\$8,255,166	\$0	\$0	\$8,255,166	91.2%		
03453 Air National Guard	\$8,255,166	\$0	\$0	\$8,255,166	91.2%		
Total All Funds	\$9,051,346	\$0	\$0	\$9,051,346	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Montana Air National Guard is predominately funded through federal funds. General fund, comprising less than 9% of the total funding for the program, supports some building and grounds maintenance activities, a portion of administrative expenses, and a portion of the personal service costs for a quarter of the FTE.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	374,869	374,869	749,738	94.17%	4,352,898	4,352,898	8,705,796	96.18%
Statewide PL Adjustments	21,795	24,591	46,386	5.83%	(317,143)	(308,382)	(625,525)	(6.91%)
Other PL Adjustments	0	0	0	0.00%	481,980	488,075	970,055	10.72%
New Proposals	28	28	56	0.01%	510	510	1,020	0.01%
Total Budget	\$396,692	\$399,488	\$796,180		\$4,518,245	\$4,533,101	\$9,051,346	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(261,867)					(262,381)
Vacancy Savings					(94,342)					(94,322)
Inflation/Deflation					17,017					32,387
Fixed Costs					22,049					15,934
Total Statewide Present Law Adjustments		\$21,795	\$0	(\$338,938)	(\$317,143)		\$24,591	\$0	(\$332,973)	(\$308,382)
DP 1301 - Federal Authority for Firefighter Overtime	0.00	0	0	417,930	417,930	0.00	0	0	424,025	424,025
DP 1302 - Federal Authority for Firefighter Training	0.00	0	0	20,250	20,250	0.00	0	0	20,250	20,250
DP 1303 - Federal Authority for Natural Gas	0.00	0	0	22,000	22,000	0.00	0	0	22,000	22,000
DP 1306 - Federal Authority for Security Contract Increase	0.00	0	0	21,800	21,800	0.00	0	0	21,800	21,800
Total Other Present Law Adjustments	0.00	\$0	\$0	\$481,980	\$481,980	0.00	\$0	\$0	\$488,075	\$488,075
Grand Total All Present Law Adjustments	0.00	\$21,795	\$0	\$143,042	\$164,837	0.00	\$24,591	\$0	\$155,102	\$179,693

Statewide present law adjustments include reductions in personal service costs due to the elimination of overtime from the salary costs used to calculate the amount of the adjustment. This adjustment drives the personal service costs negative in both fiscal years of the biennium.

DP 1301 - Federal Authority for Firefighter Overtime - This request provides 100% federal spending authority for the overtime salary and benefit costs incurred by the Air National Guard firefighters in Great Falls. Overtime costs are zero based and are not captured in the personnel services snapshot used for the initial budget preparation.

There are 30 Air Guard firefighters in Great Falls. These firefighters work between 182 and 416 regular extra hours per year. The requirement for additional hours is due to the 24 hour a day, 7 day a week crash/fire coverage necessary to support and maintain the Air National Guard mission and joint use requirements with the Great Falls International Airport. These scheduling requirements and holiday hours result in an additional 13,188 paid hours each year. FLSA overtime must also be paid for all firefighter hours worked exceeding 212 in a two-pay period month, resulting in an additional 3,168 paid overtime hours each year.

DP 1302 - Federal Authority for Firefighter Training – The executive requests federal spending authority for aircraft live fire training for 30 firefighters at the Air National Guard in Great Falls at a cost of \$675.00 per employee. This is annual mandatory training required per federal regulations for all firefighters working in a 24/7 aircraft crash/fire environment. The aircraft live fire training is conducted at the Helena Regional Airport on specialized aircraft and spill trainers for three days.

LFD COMMENT	This live pit fire training has been an annual federal training requirement for many years. Until now, the cost was borne by the Great Falls Airport Authority (authority). The authority paid for the training as a courtesy. However, the joint use agreement is clear that the responsibility for the training costs is the Air National Guards.
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LFD COMMENT This decision package is a new proposal, not a present law adjustment. The costs were not included in the 2013 biennium budget approved by the legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.

DP 1303 - Federal Authority for Natural Gas – The executive proposes federal funding for yearly additional natural gas distribution lines maintenance costs. The recurring utility maintenance costs are a new cost for MANG, and will be 100% federally reimbursed to the State of Montana through the Master Cooperative Agreement. The costs are estimated at approximately \$22,000 per year, based on recent tariff rates approved by the Public Service Commission.

LFD COMMENT This decision package is a new proposal, not a present law adjustment. The costs were not included in the 2013 biennium budget approved by the legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.

DP 1306 - Federal Authority for Security Contract Increase – The executive requests federal funding for an existing security protection services contract at the Montana Air National Guard base in Great Falls. The contract for security protection exceeds \$500,000, and the contract price did not increase in 2011 or 2012. In FY 2013 the costs increased by \$21,800, largely due to wage and benefit increases for the contracted security personnel over the past two years.

New Proposals

Program	FTE	Fiscal 2014				Fiscal 2015					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation	13	0.00	28	0	482	510	0.00	28	0	482	510
Total	0.00	\$28	\$0	\$482	\$510	0.00	\$28	\$0	\$482	\$510	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	23.00	23.00	24.00	24.00	23.00	24.00	1.00	4.35%
Personal Services	1,434,854	1,517,195	1,513,683	1,516,977	2,952,049	3,030,660	78,611	2.66%
Operating Expenses	602,199	353,842	712,827	700,413	956,041	1,413,240	457,199	47.82%
Grants	3,767,443	5,101,505	13,335,443	11,735,443	8,868,948	25,070,886	16,201,938	182.68%
Transfers	570,674	707,549	2,932,674	2,532,674	1,278,223	5,465,348	4,187,125	327.57%
Total Costs	\$6,375,170	\$7,680,091	\$18,494,627	\$16,485,507	\$14,055,261	\$34,980,134	\$20,924,873	148.88%
General Fund	1,044,104	1,065,244	1,192,499	1,189,141	2,109,348	2,381,640	272,292	12.91%
State Special	216,020	350,200	247,750	250,750	566,220	498,500	(67,720)	(11.96%)
Federal Special	5,115,046	6,264,647	17,054,378	15,045,616	11,379,693	32,099,994	20,720,301	182.08%
Total Funds	\$6,375,170	\$7,680,091	\$18,494,627	\$16,485,507	\$14,055,261	\$34,980,134	\$20,924,873	148.88%

Program Description

The Disaster and Emergency Services Division (DES) duties and responsibilities are provided for under Title 10, Chapter 3, MCA. The division is responsible for the coordination, development and implementation of emergency management planning, mitigation, response, and recovery statewide. This responsibility includes the administration and disbursement of federal Homeland Security and Emergency Management funds to eligible political subdivisions and tribal nations across the state. The division maintains a 24 hour a day point of contact to coordinate the volunteer, state, and federal response for assistance to political subdivisions and tribal nations in the event of an incident, emergency, or disaster.

Program Highlights

Disaster & Emergency Services Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Governor’s proposed budget for the division increases by 149% due almost entirely to a change in the requested level of funding for Homeland Security Program Grants. At least 80% must be passed through to local and tribal applicants. The proposal includes increases in operating expenses, grants, and transfers ◆ Other proposals include general fund and federal funding for: <ul style="list-style-type: none"> • 1.00 FTE and support for the Homeland Security Exercise and Evaluation Program • Contracts costs and training related to the State Emergency Coordination Center (SECC) • Re-establishment of overtime for disaster and emergency services personnel
Major LFD Issues
<ul style="list-style-type: none"> ◆ The FY 2012 base budget includes funding for contract costs related to the SECC that are also proposed for additional funding. The legislature could reduce support for the costs already funded in the budget and save \$20,000 in general fund

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Disaster & Emergency Services							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$2,381,640	\$0	\$0	\$2,381,640	6.8%		
State Special Total	\$498,500	\$0	\$0	\$498,500	1.4%		
02156 Sar Des Dfwp Fees	\$107,000	\$0	\$0	\$107,000	0.3%		
02170 Sar Des Off Road Vehicles	\$341,500	\$0	\$0	\$341,500	1.0%		
02180 Emergency Preparedness Summit	\$20,000	\$0	\$0	\$20,000	0.1%		
Federal Special Total	\$32,099,994	\$0	\$0	\$32,099,994	91.8%		
Total All Funds	\$34,980,134	\$0	\$0	\$34,980,134	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

Funding for the Disaster and Emergency Services Division is broken down roughly into three functional areas:

- o Administration and coordination
- o Search and rescue
- o Grant programs

Administrative and coordination functions are funded primarily through a 50/50 partnership between state general fund and federal revenues. Disaster coordination functions are usually funded 100% with federal funds.

Search and rescue activities are funded through state special revenue funds derived from surcharges on conservation licenses and off-road vehicle licenses.

Grant activities are dominated by federal funding. The amount of this funding budgeted in HB 2 varies greatly depending on the federal source and available amounts known at the time of the budget submission. This is reflected in the reduction in federal funding for the upcoming biennium from the current biennium.

The Governor is also provided a number of statutory appropriations in the event of a declared emergency or disaster. The most notable of these is the authority to authorize up to \$16 million for disaster relief. These expenditures are authorized through executive orders. In FY 2012, the Governor authorized disaster relief expenditures from the general fund totaling \$7,631 used by DES..

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	1,044,104	1,044,104	2,088,208	87.68%	6,375,170	6,375,170	12,750,340	36.45%
Statewide PL Adjustments	86,477	83,159	169,636	7.12%	(4,465)	(13,505)	(17,970)	(0.05%)
Other PL Adjustments	61,818	61,778	123,596	5.19%	12,123,636	10,123,556	22,247,192	63.60%
New Proposals	100	100	200	0.01%	286	286	572	0.00%
Total Budget	\$1,192,499	\$1,189,141	\$2,381,640		\$18,494,627	\$16,485,507	\$34,980,134	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					44,359					47,879
Vacancy Savings					(59,166)					(59,312)
Inflation/Deflation					(101)					(6)
Fixed Costs					10,443					(2,066)
Total Statewide Present Law Adjustments		\$86,477	\$31,730	(\$122,672)	(\$4,465)		\$83,159	\$34,730	(\$131,394)	(\$13,505)
DP 2101 - Federal Homeland Security Exercise & Evaluation	1.00	27,330	0	27,330	54,660	1.00	27,290	0	27,290	54,580
DP 2102 - Systems for State Emergency Coordination Center	0.00	15,000	0	15,000	30,000	0.00	15,000	0	15,000	30,000
DP 2103 - Spending Authority for Homeland Security Program	0.00	0	0	12,000,000	12,000,000	0.00	0	0	10,000,000	10,000,000
DP 2104 - DES Overtime	0.00	19,488	0	19,488	38,976	0.00	19,488	0	19,488	38,976
Total Other Present Law Adjustments	1.00	\$61,818	\$0	\$12,061,818	\$12,123,636	1.00	\$61,778	\$0	\$10,061,778	\$10,123,556
Grand Total All Present Law Adjustments	1.00	\$148,295	\$31,730	\$11,939,146	\$12,119,171	1.00	\$144,937	\$34,730	\$9,930,384	\$10,110,051

DP 2101 - Federal Homeland Security Exercise & Evaluation - The executive proposes to provide the Homeland Security Exercise & Evaluation Program (HSEEP) with an additional 1.00 FTE. HSEEP is an initiative directed by the Department of Homeland Security (DHS) to make all emergency management exercises uniform in nature. To continue to receive Emergency Management Assistance Grants (EMPG), HSEEP exercise guidelines must be followed. The executive proposes to use this position to help insure guidelines are met.

LFD COMMENT	This decision package is a new proposal, not a present law adjustment. The costs were not included in the 2013 biennium budget approved by the legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.
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DP 2102 - Systems for State Emergency Coordination Center – The executive requests funding for the State Emergency Coordination Center (SECC) to maintain the crisis management system that tracks and records all activities. The annual maintenance costs are \$13,000 per year which covers upgrades and end user support. There is a \$7,000 per year cost for hosting the system. In addition, funds would be used for continued outreach and training with local, tribal, and state end users at an estimated \$10,000 per year.

LFD ISSUE	<u>Contract Costs Included in the FY 2012 Base</u> The FY 2012 base budget includes \$24,000 for the annual maintenance cost and hosting services. In FY 2012 the division conducted its first training exercise, which included only one district and eight local jurisdictions at a cost of \$200. The division is requesting a total of \$30,000 in increased authority for a combination of contracted costs related to the SECC and training.
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LFD ISSUE CONT. Legislative Option
 As the contract costs are already included in the base budget the legislature may wish to consider reducing the requested funding by \$20,000 each year of the biennium. This would result in general fund savings of \$20,000 in the 2015 biennium.

DP 2103 - Spending Authority for Homeland Security Program - The Homeland Security Grant Program manages US Department of Homeland Security (DHS) anti-terrorism grant funds to pay for local, tribal, and state projects to strengthen the state's ability to prevent and respond to any hazard events. Focus for the grants is on interoperable communications, fusion center operations, explosive ordinance disposal and many other areas. Of the funds received through this grant program, at least 80% must be passed through to local and tribal applicants.

LFD COMMENT The DES has received significant federal funding from the Homeland Security Grant Program. Figure 3 shows the grant amounts expended, the grant funding available, and the total between FY 2009 and FY 2012.

As shown in the figure, the division has expended about 69% of the federal funds available between FY 2009 and FY 2012. However, the amount of unexpended funding authority available is still significant. Of this amount about \$19.9 million of the funding still available must be granted to local and tribal applicants under the program requirements. The legislature may wish to discuss the anticipated uses of the federal funds in the 2015 biennium.

Figure 3

Department of Military Affairs Disaster and Emergency Services Division Homeland Security Grants			
Fiscal Year	Expended	Available	Total
FY 2009	\$16,667,280	\$6,661,158	\$23,328,438
FY 2010	13,486,993	8,185,644	21,672,637
FY 2011	18,791,351	6,441,903	25,233,254
FY 2012	<u>5,968,967</u>	<u>3,595,748</u>	<u>9,564,715</u>
Total	<u>\$54,914,591</u>	<u>\$24,884,453</u>	<u>\$79,799,044</u>

In addition, the Budget Control Act includes automatic spending reductions, called sequesters, that are currently scheduled to take effect January 2, 2013. For discretionary spending the estimated amount of the reduction is 8.2%. The Homeland Security Grant Program is included in the programs that are covered by the BCA required reductions. As a result, funding for the program may be reduced beyond what is shown in the executive's proposed budget. The legislature may wish to discuss the impact of Congressional deliberations on the funding for this program.

DP 2104 - DES Overtime - This is a request to provide funding for the overtime salary and benefits costs incurred by the DES duty officers to provide 24 hour, 7 day a week disaster and emergency response. Overtime costs are zero based and not captured in the personnel services snapshot used for the initial budget preparation.

New Proposals

Program	FTE	Fiscal 2014				Fiscal 2015					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation	21	0.00	100	0	186	286	0.00	100	0	186	286
Total	0.00	\$100	\$0	\$186	\$286	0.00	\$100	\$0	\$186	\$286	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE

counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	29.00	29.00	24.00	24.00	29.00	24.00	(5.00)	(17.24%)
Personal Services	1,461,475	1,478,435	1,189,114	1,190,808	2,939,910	2,379,922	(559,988)	(19.05%)
Operating Expenses	278,465	347,920	387,347	284,667	626,385	672,014	45,629	7.28%
Total Costs	\$1,739,940	\$1,826,355	\$1,576,461	\$1,475,475	\$3,566,295	\$3,051,936	(\$514,359)	(14.42%)
General Fund	884,803	884,510	885,662	885,664	1,769,313	1,771,326	2,013	0.11%
State Special	855,137	941,845	690,799	589,811	1,796,982	1,280,610	(516,372)	(28.74%)
Total Funds	\$1,739,940	\$1,826,355	\$1,576,461	\$1,475,475	\$3,566,295	\$3,051,936	(\$514,359)	(14.42%)

Program Description

The Veterans Affairs Division assists discharged veterans and their families, cooperates with state and federal agencies, promotes the general welfare of veterans, and provides information on veterans' benefits. The program also administers the veterans' cemeteries located at Miles City, Fort Harrison in Helena, and Missoula. The Board of Veterans' Affairs is administratively attached to the Department of Military Affairs, and operates under a state mandate provided in Title 10, Chapter 2, MCA.

Program Highlights

Veterans' Affairs Major Budget Highlights
<ul style="list-style-type: none"> ◆ The majority of the changes proposed for the program's budget are based on changes discussed with the Legislative Finance Committee (LFC); the LFC recommended the program reduce HB 2 appropriations that were also considered statutory appropriations
Major LFD Issues
<ul style="list-style-type: none"> ◆ The executive proposal to eliminate statutory authority from HB 2 increases the base budget for the program by \$42,400 by removing less program costs than indicated

Program Discussion

The Legislative Finance Committee (LFC) reviewed statutory appropriations for the various state agencies during the 2013 interim period. As a part of the review the LFC determined that the money for the veterans' cemeteries program is appropriated twice, once in HB 2 and again in statute. The LFC recommended that the funding included in HB 2 be eliminated, allowing the statutory appropriation for the program to continue to provide support. As a result of the recommendation, the program has eliminated statutorily appropriated funds from the program for the 2015 biennium. For a further discussion please see the issue under DP 3101 below.

In addition, the committee determined that the statutory appropriation should be assigned to the Department of Military Affairs. The LFC requested a committee bill to address this issue.

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Military Affairs Funding by Source of Authority 2015 Biennium Budget - Veterans Affairs Program							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$1,771,326	\$0	\$0	\$1,771,326	49.4%		
State Special Total	\$1,280,610	\$0	\$533,623	\$1,814,233	50.6%		
02214 Veterans Affairs Cemeteries	(\$47,224)	\$0	\$533,623	\$486,399	13.6%	10-2-603	Direct
02222 Patriotic License Plate Fees	\$100,416	\$0	\$0	\$100,416	2.8%		
02548 Veterans Affairs SB 401	\$1,227,418	\$0	\$0	\$1,227,418	34.2%		
Total All Funds	\$3,051,936	\$0	\$533,623	\$3,585,559	100.0%		
Percent - Total All Sources	85.1%	0.0%	14.9%				

The Veterans’ Affairs program is funded with both general fund and state special revenue. General fund is used to support functions throughout the program.

State special revenue is the largest funding source for the program. The primary state special revenue account was created by the legislature during the 2003 regular session in SB 401, which allocates proceeds from the sale of veterans’ specialty license plates. In addition to the revenue received from the sale of some specialty license plates, this account and the Veterans’ Affairs Cemeteries receive a portion of all of the motor vehicle registration revenue that is deposited in the general fund each year. The State Veterans’ Cemeteries Program statutory funding includes revenue derived primarily from cemetery donations and plot allowances. Finally, the Patriotic License Plate Account receives revenue from a \$15 surcharge on original and renewal patriotic license plates issued in Montana. For a further discussion please see the issue under DP 3101 below.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	884,803	884,803	1,769,606	99.90%	1,739,940	1,739,940	3,479,880	114.02%
Statewide PL Adjustments	859	861	1,720	0.10%	48,877	47,126	96,003	3.15%
Other PL Adjustments	0	0	0	0.00%	(212,716)	(311,951)	(524,667)	(17.19%)
New Proposals	0	0	0	0.00%	360	360	720	0.02%
Total Budget	\$885,662	\$885,664	\$1,771,326		\$1,576,461	\$1,475,475	\$3,051,936	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					102,934					103,898
Vacancy Savings					(62,579)					(62,614)
Inflation/Deflation					(2,930)					(1,664)
Fixed Costs					11,452					7,506
Total Statewide Present Law Adjustments		\$859	\$48,018	\$0	\$48,877		\$861	\$46,265	\$0	\$47,126
DP 3101 - Move Cemetery Positions and Expenses to SA	(5.00)	0	(312,716)	0	(312,716)	(5.00)	0	(311,951)	0	(311,951)
DP 3102 - Spending Authority for Patriotic Plates	0.00	0	100,000	0	100,000	0.00	0	0	0	0
Total Other Present Law Adjustments	(5.00)	\$0	(\$212,716)	\$0	(\$212,716)	(5.00)	\$0	(\$311,951)	\$0	(\$311,951)
Grand Total All Present Law Adjustments	(5.00)	\$859	(\$164,698)	\$0	(\$163,839)	(5.00)	\$861	(\$265,686)	\$0	(\$264,825)

DP 3101 - Move Cemetery Positions and Expenses to SA - This request moves the State Veterans' Cemetery Program from HB 2 to a statutory appropriation, as recommended by the Legislative Finance Committee. This adjustment removes the personal services budget for 5.0 FTE and related expenses of the program.

**LFD
ISSUE**

Adjustment Increases HB 2 Authority By Expanding Base

The costs associated with the funding provided by the State Veterans' Cemetery Program in FY 2012 is shown in Figure 4. The costs for personal services and operating expenses included in the FY 2012 base budget do not align with the reductions proposed by the executive for the State Veterans' Cemetery Program. Figure 4 also shows the estimated costs of the services in FY 2014 and FY 2015 and the effects of the executive's proposed adjustment.

Figure 4

Department of Military Affairs Veterans' Affairs Program							
	FY 2012	FY 2014	FY 2015	FY 2014	FY 2015		
Expenditures	Base	Budgeted Costs	Budgeted Costs	Proposed Adjustment	Difference	Proposed Adjustment	Difference
Personal Services	\$239,185	\$279,773	\$280,029	(\$353,304)	(\$73,531)	(\$352,795)	(\$72,766)
Operating Expenses	94,350	98,674	98,221	(4,324)	94,350	(3,871)	94,350
Total	\$333,535	\$378,447	\$378,250	(\$357,628)	\$20,819	(\$356,666)	\$21,584

The total costs that should have been adjusted in FY 2014 are \$378,447 and in FY 2015 \$378,250. Instead the executive proposes to reduce the program costs by about \$21,000 less than indicated for the costs associated with using statutory authority for the program instead of HB 2 appropriations. The overall impact of the proposal is to expand HB 2 base authority by \$42,400 in the 2015 biennium.

In addition, the executive proposes to reduce personal service costs an additional \$146,300 above the projected costs of the program. This will require the program to either:

- o Generate additional vacancy savings over the 2015 biennium to provide sufficient funding for the HB 2 positions
- o Transfer operating expense authority to personal services to pay the additional costs

**LFD
ISSUE CONT.**

The proposal also increases operating expense authority in HB 2 for costs that are associated with the statutorily funded program.

Legislative Option

The legislature may wish to correct the adjustment for statutorily appropriated funds to the costs associated with providing the services as established through the budget process to ensure the program does not inadvertently expand its HB 2 base budget.

DP 3102 - Spending Authority for Patriotic Plates - The executive is requesting biennial spending authority of \$100,000 from the patriot license plate state special revenue account. The funding would be used for staff training, operational support, and state veterans service organization projects of mutual support such as homeless veteran stand downs and outreach programs. The authority is requested as a biennial appropriation.

**LFD
ISSUE**

Patriotic License Plate Fees Fund Balance Can Be Used To Reduce General Fund

The executive is proposing to increase patriotic license plate fees in the 2015 biennium to offset costs of operating the program. A review of the fund balance for the state special revenue account shows an increasing fund balance, 135% in the last three years. Revenues have increased 52% in the same period. At the beginning of FY 2013 the fund balance was \$170,400. Revenues in FY 2012 were \$72,300 and costs were \$34,000 resulting in an increase to the fund balance of about \$38,000 or about 37% over FY 2011.

Legislative Option

Given the increasing health of the fund, the legislature may wish to consider offsetting \$25,000 of the general fund costs for the program with fund balance.

New Proposals

Program	FTE	Fiscal 2014				Fiscal 2015					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Professional Development Center Fee Allocation	31	0.00	0	360	0	360	0.00	0	360	0	360
Total	0.00	\$0	\$360	\$0	\$360	0.00	\$0	\$360	\$0	\$360	

DP 6101 - Professional Development Center Fee Allocation - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

Total Department Of Military Affairs Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$11,808,725	\$0	\$0	\$11,808,725	13.5%
State Special Total	\$1,783,110	\$0	\$775,647	\$2,558,757	2.9%
02156 Sar Des Dfwf Fees	\$107,000	\$0	\$0	\$107,000	0.1%
02170 Sar Des Off Road Vehicles	\$341,500	\$0	\$0	\$341,500	0.4%
02180 Emergency Preparedness Summit	\$20,000	\$0	\$0	\$20,000	0.0%
02214 Veterans Affairs Cemeteries	(\$47,224)	\$0	\$533,623	\$486,399	0.6%
02222 Patriotic License Plate Fees	\$100,416	\$0	\$0	\$100,416	0.1%
02304 Military Family Relief Ssr	\$0	\$0	\$242,024	\$242,024	0.3%
02335 Des Training Conference	\$30,000	\$0	\$0	\$30,000	0.0%
02343 Armory Rental Funds	\$4,000	\$0	\$0	\$4,000	0.0%
02548 Veterans Affairs Sb401	\$1,227,418	\$0	\$0	\$1,227,418	1.4%
Federal Special Total	\$73,273,118	\$0	\$0	\$73,273,118	83.6%
03132 National Guard	\$31,380,345	\$0	\$0	\$31,380,345	35.8%
03134 Disaster & Emergency Services	\$32,194,994	\$0	\$0	\$32,194,994	36.7%
03453 Air National Guard	\$9,697,779	\$0	\$0	\$9,697,779	11.1%
Total All Funds	\$86,864,953	\$0	\$775,647	\$87,640,600	100.0%
Percent - Total All Sources	99.1%	0.0%	0.9%		

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

AGENCY CODE & NAME: 67010 Department of Military Affairs

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 279,322	\$ 53,520
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Army National Guard Operations	\$ 80,791	
2	Air National Guard Operations	\$ 18,702	
3	Centralized Services Operations	\$ 31,570	
4	Veterans Affairs Local Support and training	\$ 44,136	\$ 42,719
5	Disaster & Emergency Services Training & Support to Locals	\$ 52,071	\$ 10,801
6	Challenge Operations	\$ 41,582	
7	National Guard Scholarships	\$ 10,470	
8			
9			
10			
11			
TOTAL SAVINGS		\$ 279,322	\$ 53,520
DIFFERENCE			0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

The Army National Guard Program would have to reduce janitorial services; weed control; lawn mowing, snow removal and .5 FTE.

#2 THE SAVINGS THAT ARE EXPECTED:

The ARNG program could save \$80,791 in general fund.

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

National Guard facilities and vehicles will not be maintained at their current level which could result in safety and health issues.

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

Employees would have to provide their own or go without janitorial services, lawn maintenance, snow removal, cell phones.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

The Army National Guard Program would have to reduce janitorial services; weed control; lawn mowing, snow removal and .5 FTE.

#2 THE SAVINGS THAT ARE EXPECTED:

The ARNG program could save \$80,791 in general fund.

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

National Guard facilities and vehicles will not be maintained at their current level which could result in safety and health issues.

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

Employees would have to provide their own or go without janitorial services, lawn maintenance, snow removal, cell phones.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

Centralized Service will reduce .25 FTE and overall operations to reach the 5% budget reduction target..

#2 THE SAVINGS THAT ARE EXPECTED:

A 5% reduction would be an annual general fund savings of \$31,569

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

A large portion of the division's operating budget pays fixed costs to other State Departments. All other costs such as supplies, travel, equipment, and military awards will be reduced or eliminated. Reducing travel to other programs in the state will exacerbate existing personnel management difficulties. Not providing awards and decorations to National Guard Soldiers for recognition of state service will conflict with requirements in military regulations.

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

Unknown at this time,

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

Elimination of statewide veterans services outreach program and elimination of 1.00 veterans service officer FTE.

#2 THE SAVINGS THAT ARE EXPECTED:

Elimination of 1 special revenue funded FTE - \$42,719; and reduction of general fund operations (leased state vehicles turn-in) - \$44,136.

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

Elimination of the division's veterans service outreach program, which currently reaches 46, typically rural, communities and state institutions, statewide (in addition to existing service office locales); and veterans service officer FTE elimination, which will result in fewer veteran/veteran family benefit claim services at losing office location. Eliminations of outreach program and FTE will result in significantly reduced, veterans services - statewide. The negative impacts are significant in scope, to include but not limited to: veteran financial well-being/stability and community economic impact, veteran medical services - as authorized by benefit claim products/processing, veteran emotional stability, and veteran physical well-being (e.g., doing without federal VA financial/medical benefits, necessitated travel to service office location).

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

Cannot be mitigated, personal/on-site/consistent veterans services fundamental to benefits service processes and provision.

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

Yes: MCA 10-2-102 (1) and (1)(c)

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

The Disaster & Emergency Services Division would have to eliminate \$52,071 from the State Hazardous Materials Response Team pass through. The reduction would reduce the pass through amount from \$265,000 to \$219,929. The impact would be felt not only by the 6 regional hazmat teams, but will have a greater impact on the ability of the teams to train and exercise with other jurisdictions.

#2 THE SAVINGS THAT ARE EXPECTED:

A 5% reduction would be a savings of \$52,074 in general fund and state special revenue spending will be reduced \$10,801.

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

The impact would be felt not only by the 6 regional hazmat teams, but will have a greater impact on the ability of the teams to train and exercise with other jurisdictions.

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

The reductions will reduce the ability to keep the response equipment up to date which in turn will reduce the response capability of the 6 Regional Hazardous Materials Response Teams when responding to rural or frontier jurisdictions across the state with very limited or non-existent hazmat capabilities

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

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

The following services would be reduced or eliminated: College Classes, Allowance acct, Field Trips , Clothing, Initial Physicals. The program will reduce 1.50 FTE

#2 THE SAVINGS THAT ARE EXPECTED:

The program will save \$41,582 of general fund.

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

Reduction in educational services would diminish the experience for the students . Reduction of the other services would shift some of the costs of enrollment to the student's families and also might reduce enrollment. Reduction of 1.50 FTE could result in less people available to recruit, thus possibly lower student count.

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

Unknown.

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

No.

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

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

The National Guard Scholarship program would have to reduce the number scholarships awarded each year.

#2 THE SAVINGS THAT ARE EXPECTED:

The program would save \$10,470 each year of the bienium.

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

The elimination of these scholarships could negatively impact recruiting and retention in both the Army and Air National Guard.

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

There is really no way to mitigate the impact as scholarship dollars for guard men and women would not be available to assist with tuition and school costs.

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

#2 THE SAVINGS THAT ARE EXPECTED:

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

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

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

2015 Biennium Goals and Objectives

Sustain a highly trained and ready force that meets wartime operational, logistical, and personnel standards.

- Maintain local armories to conduct training, perform maintenance activities on equipment, and provide storage of United States military property.
 - Utilize local training areas (private, federal and state land) to conduct military training.
 - Maintain state employees to manage the existing buildings and training areas.
-

Provide a highly trained community-based capability that responds rapidly to the needs of civil authorities in natural and man-made disasters.

- Maintain necessary federal equipment in a constant state of readiness for use in local emergencies and disasters.
- Devote a portion of federally funded training towards the accomplishment of state contingency missions.
- Update, review, and exercise State Emergency Operations planning.

Department of Military Affairs
Army National Guard Program
Maintenance Funding by Facility

City	National Guard Facilities	General Fund	Federal Funds
Anaconda	Armoury	50	50
Belgrade	Armoury	50	50
	Facility Maintenance Shop	0	100
Billings	Armoury	50	50
	Facility Maintenance Shop	0	100
Butte	Armoury	50	50
Chinook	Armoury	50	50
	Facility Maintenance Shop	0	100
Culbertson	Armoury	50	50
	Facility Maintenance Shop	0	100
Dillon	Armoury	50	50
Glasgow	Armoury	50	50
Great Falls	Armoury	25	75
	Armed Forces Reserve Center	0	100
Hamilton	Armoury	50	50
Harlowton	Armoury	50	50
Havre	Armoury	50	50
Helena	Fort Harrison*	0	100
	Armed Forces Reserve Center	46.13/15.37(NG75/25)/20.4(R100F)/18.10(100S)	
	Facility Maintenance Shop	0	100
	Aviation	25	75
	Womak	50	50
Kalispell	Armoury	38.04/38.03(NG50/50)/22.53(R100F)/1.40(100S)	
	Facility Maintenance Shop	0	100
Lewistown	Armoury	50	50
Libby	Armoury	50	50
Livingston	Armoury	50	50
Malta	Armoury	50	50
Miles City	Armoury	50	50

Missoula	Armoury	50	50
	Armed Forces Reserve Center		
	Facility Maintenance Shop	0	100
Sidney	Armoury	50	50
MIRFS	Multi-purpose Indoor Range Facilities	0	100

* With some exceptions

Department of Military Affairs
Army National Guard Program
Maintenance Funding by Facility

City	National Guard Facilities	General Fund	Federal Funds
Anaconda	Readiness Center	50.00%	50.00%
Belgrade	Readiness Center	50.00%	50.00%
	Facility Maintenance Shop	0.00%	100.00%
Billings	Armed Forces Reserve Center	30.50%	69.50%
	Facility Maintenance Shop	0.00%	100.00%
Butte	Readiness Center	50.00%	50.00%
Chinook	Readiness Center	50.00%	50.00%
	Facility Maintenance Shop	0.00%	100.00%
Culbertson	Readiness Center	50.00%	50.00%
	Facility Maintenance Shop	0.00%	100.00%
Dillon	Readiness Center	50.00%	50.00%
Glasgow	Readiness Center	50.00%	50.00%
Great Falls	Armed Forces Reserve Center	18.00%	82.00%
Hamilton	Readiness Center	50.00%	50.00%
Harlowton	Readiness Center	50.00%	50.00%
Havre	Readiness Center	50.00%	50.00%
Helena	Fort Harrison*	0.00%	100.00%
	Armed Forces Reserve Center	33.48%	66.52%
	Facility Maintenance Shop	0.00%	100.00%
	Aviation	25.00%	75.00%
	Womak	50.00%	50.00%
Kalispell	Readiness Center	39.44%	60.56%
	Readiness Center	0.00%	100.00%
Lewistown	Readiness Center	50.00%	50.00%
Libby	Readiness Center	50.00%	50.00%
Livingston	Readiness Center	50.00%	50.00%
Malta	Readiness Center	50.00%	50.00%
Miles City	Readiness Center	50.00%	50.00%
Missoula	Armed Forces Reserve Center	30.00%	70.00%
	Facility Maintenance Shop	0.00%	100.00%
Sidney	Armoury	50.00%	50.00%
MIRFS	Multi-purpose Indoor Range Facilities	0.00%	100.00%

* With some exceptions