FYE 2016 BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division Staff

September 29, 2016

LFD
MONTANA LEGISLATIVE FISCAL DIVISION

GENERAL FUND BALANCE SHEET

Actual revenues in FY 2016 were $142 million less than anticipated in HJ 2. Actual expenditures were $41 million lower than anticipated and prior year adjustments netted a positive impact to ending fund balance of $2 million. The FY 2016 ending fund balance was $255 million or $99 million less than anticipated. The Legislative Fiscal Division's June 2016 [2019 Biennium Outlook Report] baseline revenue estimates projected an ending fund balance of $153 million for FY 2017. Current revenue trends based on FY 2016 collections, new IHS economic forecasts, and new oil production data project FY 2017 general fund collections at $2,243 million. Using current revenue trends and standard expenditure assumptions, the projected ending general fund balance would be $109 million in FY 2017. Other fiscal factors may increase the ending fund balance to $119 million and are discussed below.

SUMMARY OF FISCAL FACTORS

Updated Revenue Trends

Lower revenue trends are expected to continue into FY 2017. The LFD updated trend for FY 2017 estimates that revenue collections in FY 2017 will be $112 million less than HJ 2. The updated trends for FY 2017 have similarly lower revenues in the areas of individual income tax, and natural resources taxes. Improving on FY 2016, corporation income taxes are anticipated to be only $15 million lower than HJ 2. TCA earnings are anticipated to miss the mark by more than the lower collections in FY 2016, with FY 2017 anticipated to be nearly $17 million lower than HJ 2 forecast.

Summary of Revenue Changes from HJ 2
($ Millions)

	HJ 2		Actual/Updated		$ Difference		% Difference	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Individual Income Tax	$1,229.6	$1,307.4	$1,184.8	$1,262.6	($44.8)	($44.7)	-3.6%	-3.4%
Corporation Tax	179.9	156.8	118.4	141.4	(61.5)	(15.3)	-34.2%	-9.8%
Oil & Natural Gas Taxes	59.3	68.6	39.1	45.1	(20.2)	(23.5)	-34.0%	-34.2%
Metal Mines Tax	8.3	6.5	4.2	4.1	(4.1)	(2.5)	-49.2%	-37.6%
U.S. Mineral Royalties	24.1	24.7	16.8	20.3	(7.3)	(4.4)	-30.4%	-17.7%
TCA Interest Earnings	8.5	20.8	4.0	4.0	(4.6)	(16.8)	-53.5%	-80.7%
Remaining Sources	753.1	770.4	754.0	765.1	0.9	(5.2)	0.1%	-0.7%
General Fund Total	$2,262.8	$2,355.0	$2,121.3	$2,242.7	($141.5)	($112.3)	-6.3%	-4.8%

Higher General Fund Reversions

If the lower revenue trends continue, the administration may find additional ways to alleviate pressure. For example, general fund reversions (unspent appropriation authority) could be at the same level in FY 2017 as they were in FY 2016. This would result in reversions of $17.0 million, or $9.7 million greater than anticipated, increasing the ending fund balance.

General Fund Supplemental Appropriations

While higher than anticipated reversions provide an increase to the ending fund balance, general fund supplemental appropriations may be requested for FY 2017. This would lower ending fund balance. LFD analysts tracked agency expenditures during FY 2016 and identified four agencies that may need to request general fund supplemental appropriations for FY 2017. The balance sheet below projected the supplemental amount for the Office of Public Instruction as $7.5 million. Any shortfall for K-12 funding is alleviated by the state general fund and therefore the anticipated amount is included in the projected ending fund balance. Additional supplemental appropriations may be requested by the Department of Corrections, the Office of Public Defender, and the Department of Justice, but are not included on the balance sheet at this time.

- The Department of Corrections expended 98.9% of appropriations. These appropriations included a $2.0 million transfer of FY 2017 general fund authority to FY 2016 as well as $70,000 from contingency base to fund higher costs for the number of inmates held in county jails and outside medical costs. If savings are not found in FY 2017 a supplemental appropriation could be necessary to replenish the $2.0 million transfer in the Department of Corrections budget, plus any additional higher cost trends in FY 2017
- The Office of Public Defender expended 99.4% of appropriations. The Office of Public Defender transferred $600,000 general fund from FY 2017 to cover shortfalls in operating expenses due to higher than anticipated caseloads. If savings are not found in FY 2017, a supplemental could be necessary to replenish the $0.6 million transfer in the budget, plus any additional higher cost trends in FY 2017
- The Department of Justice expended 94.2% of budget. As a result of the turnover of staff in the medical examiner function, Justice transferred $200,000 from FY 2017 to FY 2016. In addition, the department used FY 2015 carryforward authority and transferred unexpended funding from various programs to cover budget pressures. If savings are not found in FY 2017, a supplemental appropriation could be necessary to replenish the $0.2 million transfer in the Department of Justice's budget, plus any additional higher cost trends in FY 2017

Any request for additional supplemental appropriation authority in FY 2017 would decrease ending fund balance.

General Fund September 2016
($ Millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Projected FY 2017
Beginning Fund Balance	$537.600	$424.451	$455.436	$255.110
Revenue	2,077.044	2,199.653	2,121.288	2,242.719
Prior Year Adjustments			(3.667)	
Total Funds Available	2,614.644	2,624.104	2,573.057	2,497.830
Disbursements				
Ongoing				
HB 2, pay plan, pension bills, lang. approps, bills with base funding lang.	1,763.500	1,822.770	1,908.415	1,985.305
HB 2 supplemental		21.168		
Statutory	254.621	261.240	265.168	295.688
Transfers	14.761	26.527	29.254	20.263
Other appropriation bills (includes 2015 bi remaining HB1 authority)	1.518	8.401	5.025	7.575
Assumed FY 2017 Appropriations (HB 1 & SB 260)				7.600
Reversions				(7.300)
OTO				
HB 2	20.600	21.923	64.519	49.330
Transfers - includes fire transfers	135.500	13.308	50.310	11.422
Transfers - other (HB 10, HB 403)				
Contingent Fund Transfer (Sage Grouse)				10.000
Supplementals: K-12 only				7.497
Other (includes: carry forward)		2.564	1.147	1.562
Total Disbursements	2,190.500	2,177.901	2,323.836	2,388.942
Adjustments - includes Comprehensive Annual Financial Report adjustments	0.307	9.233	5.889	
Ending Fund Balance (Unassigned)	$424.451	$455.436	$255.110	$108.888
Other Fiscal Factors				
If higher reversions continue at FY 2016 level				$9.700
Other savings or supplemental pressure as calculated by the executive administration				unknown
Ending Fund Balance After Other Fiscal Factors				$118.588

Wildfire Suppression Fund Transfer and Balance

The administration transferred $11.4 million in FY 2017 to the wildfire suppression fund. The traditional manner of calculating this transfer is based on unspent general fund reversions and the corresponding FY 2016 appropriations. Following this methodology, the transfer amount would have been $21.2 million; statute allows the administration to not transfer funds to the wildfire suppression fund if the administration believes that the transfers would cause the ending fund balance to meet the threshold outlined in 17-7-140, MCA. Although Montana experienced wildfires in FY 2016, the cost to the state was relatively low, as the majority of fires were on non-state land. The wildfire suppression fund balance at FYE 2016 was $73.7 million.

Summary of General Fund Balance Sheet

The expected general fund balance at the end of FY 2017 is near the ending fund balance trigger in the statutory provisions of 17-7-140 (3) which require reduction of expenditures. In that statute, if the Administration estimates the ending fund balance to be less than the trigger amount, the Administration engages Revenue and Transportation Interim Committee and the Legislative Finance Committee in a process to reduce expenditures. The trigger level in this biennium is $118 million through October 1, 2016 and drops significantly after that date, on the assumption that needed reductions will occur during session.

After considering updated revenue trends, the updated ending fund balance would be $109 million. If the reversions for FY 2017 are like those of FY 2016 and no supplemental pressures or additional reversions occur, the ending fund balance would be $119 million or $1 million greater than the trigger level.

GENERAL FUND REVENUE

Actual FY 2016 general fund revenues were $141.5 million or 6.3% below the HJ 2 estimate. Most of the difference can be attributed to lower-than-expected growth in individual income tax, and declines in corporation income tax and oil & natural gas taxes. Lower collections in metal mines tax, U.S. mineral royalties and treasury cash account interest earnings make up most of the remaining difference.

Summary of FY 2016 Revenue Changes from HJ 2
($ Millions)

	HJ 2	Actual	$ Difference	% Difference
Individual Income Tax	$1,229.6	$1,184.8	($44.8)	-3.6%
Corporation Tax	179.9	118.4	(61.5)	-34.2%
Oil & Natural Gas Taxes	59.3	39.1	(20.2)	-34.0%
Metal Mines Tax	8.3	4.2	(4.1)	-49.2%
U.S. Mineral Royalties	24.1	16.8	(7.3)	-30.4%
TCA Interest Earnings	8.5	4.0	(4.6)	-53.5%
Remaining Sources	753.1	754.0	0.9	0.1%
General Fund Total	$2,262.8	$2,121.3	($141.5)	-6.3%

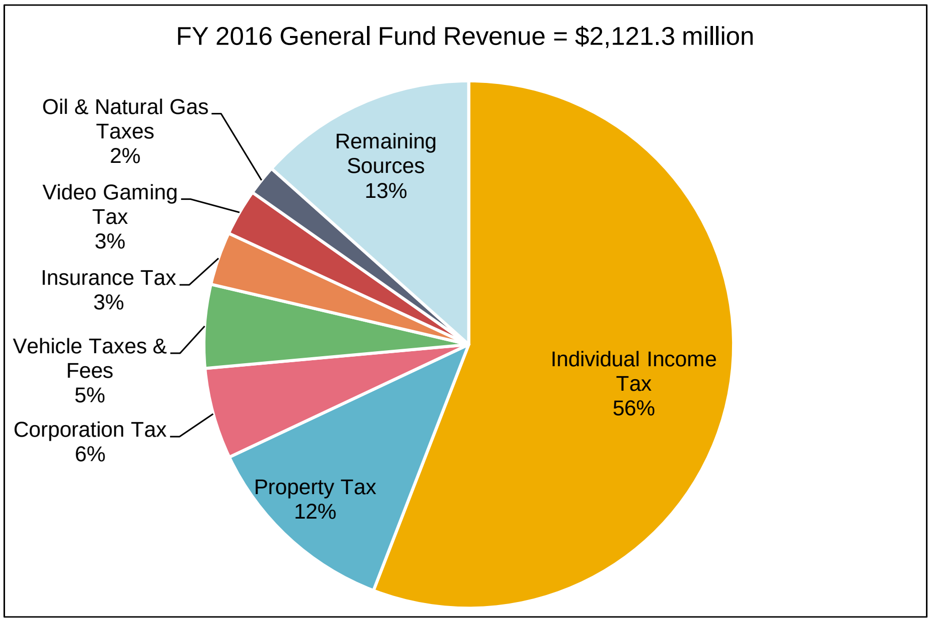
The table on the following page shows actual FY 2015 revenues in the first numerical column, followed by estimated and actual FY 2016 revenues. The next two columns show the estimated and actual growth in FY 2016 from FY 2015. The last two columns compare the actual FY 2016 revenue to the estimate in HJ 2, showing the difference as an amount and as a percentage. Summaries of each of the revenue sources and differences from the estimate are organized in the remainder of this document in order of the revenue list on the table.

General Fund Revenue--FY 2016 Actuals Compared to HJ 2 Estimate ($ Millions)							
Revenue Source	Actual FY 2015	HJ 2* FY 2016	Actual FY 2016	HJ 2 % Change	Actual % Change	Act.-HJ 2 $ Diff.	Act./HJ 2 % Diff.
Largest Seven Sources							
Individual Income Tax	$1,175.745	$1,229.616	$1,184.828	4.6%	0.8%	($44.789)	-3.6%
Property Tax	247.881	253.799	257.100	2.4%	3.7%	3.302	1.3%
Corporation Tax	172.729	179.898	118.387	4.2%	-31.5%	(61.511)	-34.2%
Vehicle Taxes & Fees	106.382	106.199	108.480	-0.2%	2.0%	2.281	2.1%
Oil & Natural Gas Taxes	73.184	59.250	39.083	-19.0%	-46.6%	(20.167)	-34.0%
Insurance Tax	66.582	72.279	69.255	8.6%	4.0%	(3.025)	-4.2%
Video Gaming Tax	59.799	62.007	60.554	3.7%	1.3%	(1.454)	-2.3%
Other Business Taxes							
Drivers License Fee	4.811	4.081	4.345	-15.2%	-9.7%	0.263	6.4%
Investment Licenses	6.773	7.412	7.212	9.4%	6.5%	(0.200)	-2.7%
Lodging Facilities Sales Tax	19.697	21.872	21.493	11.0%	9.1%	(0.379)	-1.7%
Public Contractor's Tax	3.257	3.560	2.397	9.3%	-26.4%	(1.162)	-32.7%
Railroad Car Tax	3.706	3.741	3.594	0.9%	-3.0%	(0.146)	-3.9%
Rental Car Sales Tax	3.907	3.331	3.878	-14.7%	-0.7%	0.547	16.4%
Retail Telecom Excise Tax	18.257	18.999	16.775	4.1%	-8.1%	(2.224)	-11.7%
Other Natural Resource Taxes							
Coal Severance Tax	16.063	14.434	14.236	-10.1%	-11.4%	(0.198)	-1.4%
Electrical Energy Tax	5.133	4.580	4.536	-10.8%	-11.6%	(0.043)	-0.9%
Metal Mines Tax	8.320	8.311	4.221	-0.1%	-49.3%	(4.089)	-49.2%
U.S. Mineral Royalties	26.960	24.069	16.759	-10.7%	-37.8%	(7.310)	-30.4%
Wholesale Energy Trans Tax	3.795	3.595	3.516	-5.3%	-7.4%	(0.079)	-2.2%
Other Interest Earnings							
Coal Trust Interest Earnings	21.168	19.805	20.722	-6.4%	-2.1%	0.918	4.6%
TCA Interest Earnings	2.164	8.527	3.961	294.0%	83.0%	(4.566)	-53.5%
Other Consumption Taxes							
Beer Tax	3.034	3.129	3.027	3.1%	-0.2%	(0.102)	-3.3%
Cigarette Tax	29.604	31.036	31.103	4.8%	5.1%	0.067	0.2%
Liquor Excise Tax	19.257	19.521	19.776	1.4%	2.7%	0.254	1.3%
Liquor Profits	11.000	11.021	11.000	0.2%	0.0%	(0.021)	-0.2%
Lottery Profits	12.363	11.031	11.963	-10.8%	-3.2%	0.932	8.4%
Tobacco Tax	6.056	6.396	6.184	5.6%	2.1%	(0.212)	-3.3%
Wine Tax	2.307	2.363	2.373	2.4%	2.9%	0.011	0.5%
Other Sources							
All Other Revenue	40.822	40.060	41.443	-1.9%	1.5%	1.383	3.5%
Highway Patrol Fines	4.042	4.349	4.040	7.6%	-0.1%	(0.309)	-7.1%
Nursing Facilities Fee	4.810	4.756	4.764	-1.1%	-1.0%	0.008	0.2%
Public Institution Reimb.	16.819	16.606	16.910	-1.3%	0.5%	0.304	1.8%
Tobacco Settlement	3.225	3.145	3.371	-2.5%	4.5%	0.226	7.2%
Largest Seven Subtotal	1,902.301	1,963.049	1,837.687	3.2%	-3.4%	(125.362)	-6.4%
Remaining Sources Subtotal	297.352	299.728	283.601	0.8%	-4.6%	(16.127)	-5.4%
Grand Total	$2,199.653	$2,262.777	$2,121.288	2.9%	-3.6%	($141.489)	-6.3%

*HJ 2, Adjusted for Legislative Impacts

Large Revenue Sources

In FY 2016, the largest seven revenue sources accounted for 87% of total general fund revenue. This section will highlight the differences between actual and anticipated revenue collections for each source and go into further detail if applicable.



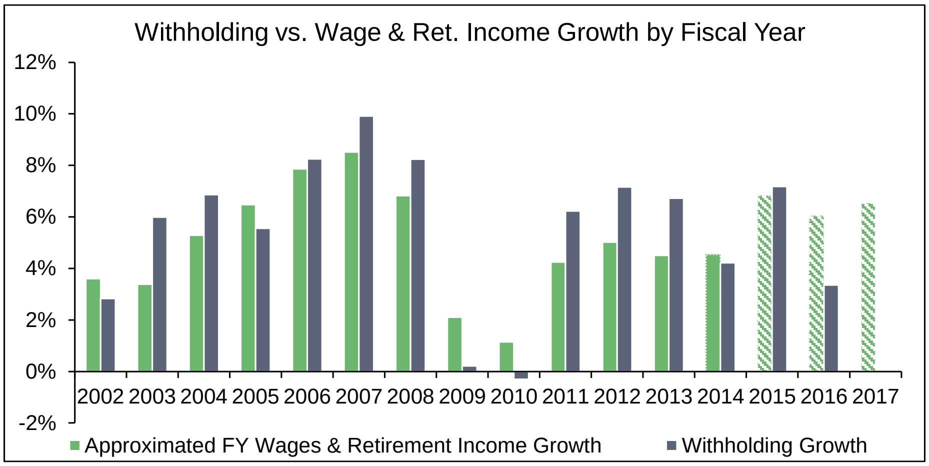
Individual Income Tax: ($44.8 million)

Individual income tax collections were $44.8 million or 3.6% below the estimate contained in HJ 2. The difference was primarily driven by tepid withholding growth—a proxy for wage and retirement income—coupled with lower estimated and current year payments—a proxy for all other non-wage income. These two areas, as well as audit, penalty and interest, and amended return income, are discussed in more detail in the sections following the fiscal-year accounting level detail shown below.

Individual Income Tax ($ Millions)				
	FYE 2016	FYE 2015	$ Difference	% Difference
Withholding	$904.7	$875.3	$29.3	3.4%
Estimated Payments	278.5	271.2	7.3	2.7%
Current Year Payments	196.4	208.6	(12.2)	-5.9%
Audit, P&I, Amended	51.7	43.5	8.2	19.0%
Refunds	(278.3)	(263.6)	(14.7)	5.6%
Partnership Income Tax	22.1	23.0	(0.9)	-3.7%
Mineral Royalties	9.8	17.9	(8.1)	-45.2%
Total	$1,184.8	$1,175.7	$9.1	0.8%

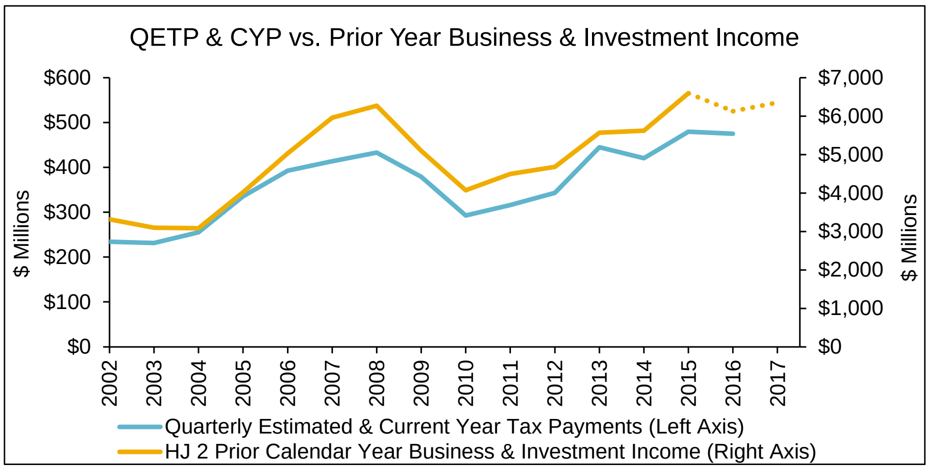
Wage Income

There is a correlation between withholding growth and wage and retirement income growth; however, the correlation is not particularly strong, as shown in the graph on the following page. Preliminary wage data from the quarterly census of employment and wages (QCEW) for CY 2015 is now available; it suggests that CY 2015 wage growth was 5.0%, which is close to the 5.2% estimate in HJ 2.



Non-Wage Income

Estimated and current year payments are a proxy for non-wage income. FY 2016 quarterly estimated and current year payments declined 1.0% from FY 2015, a smaller decline than the combined CY 2015 business and investment income growth of -7.0% contained in HJ 2. The adjacent figure shows estimated and current year tax payments with the prior calendar year's business and investment income.



Audit, Penalty & Interest, and Amended: $6.8 million

Audit, penalty and interest, and amended collections are forecast explicitly in HJ 2; combined collections in FY 2016 were higher than expected by $6.8 million.

Property Tax: $3.3 million

General fund property tax revenue was 1.3% or $3.3 million above the HJ 2 estimate, primarily due to growth in class 9 pipelines.

Corporation Tax: ($61.5 million)

Corporation income tax collections were $61.5 million or 34.2% below HJ 2. The table below shows the accounting level detail for FY 2016 compared to FY 2015. Compared to FY 2015, FY 2016 collections decreased by $54.3 million or 31.5%. The year-over-year decrease was driven by low estimated payments in April and June, as well as a record level of refunds in April. A large, one-time audit in FY 2015 also contributed to the year-over-year decrease.

Corporation Income Tax
($ Millions)

Account	FY 2016	FY 2015	$ Difference	% Difference
Corporation Tax	$27.9	$32.0	($4.1)	-12.7%
Estimated Payments	108.5	129.9	(21.4)	-16.4%
Refunds	(31.4)	(18.0)	(13.4)	74.4%
Audit, P&I, Amended	13.3	28.8	(15.5)	-53.8%
Total	$118.4	$172.7	($54.3)	-31.5%

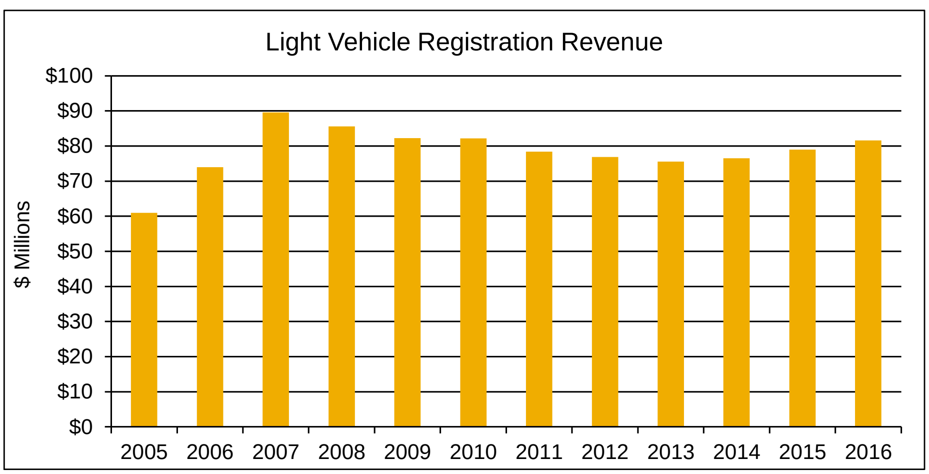
The year-over-year decline in estimated payments was primarily driven by the nondurable manufacturing and transportation sectors, which may reflect decreases in both commodity production and prices. FY 2016 audit collections and tax liability were lower than those projected in HJ 2. Furthermore, refunds in FY 2016 were higher than anticipated.

Corporation Income Tax--FY 2016 Actuals versus HJ 2 ($ Millions)			
	HJ 2	Actual	Difference
Tax Liability & Adjustments	$183.2	$136.9	($46.3)
Refunds	(25.1)	(31.4)	(6.3)
Audit, Penalty & Interest	21.8	12.9	(8.8)
Total	$179.9	$118.4	($61.5)

The graph below illustrates the variable collections of audit, penalty & interest revenue since FY 2002.

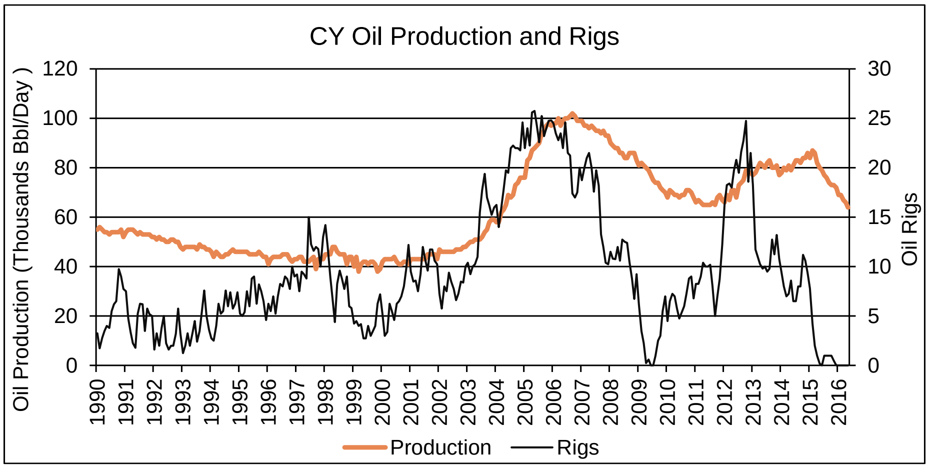
Vehicle Taxes & Fees: $2.3 million

Revenue collections from vehicle taxes and fees were 2.1% or $2.3 million more than anticipated in HJ 2. The year-over-year increase was driven by continued growth in light vehicle registrations.

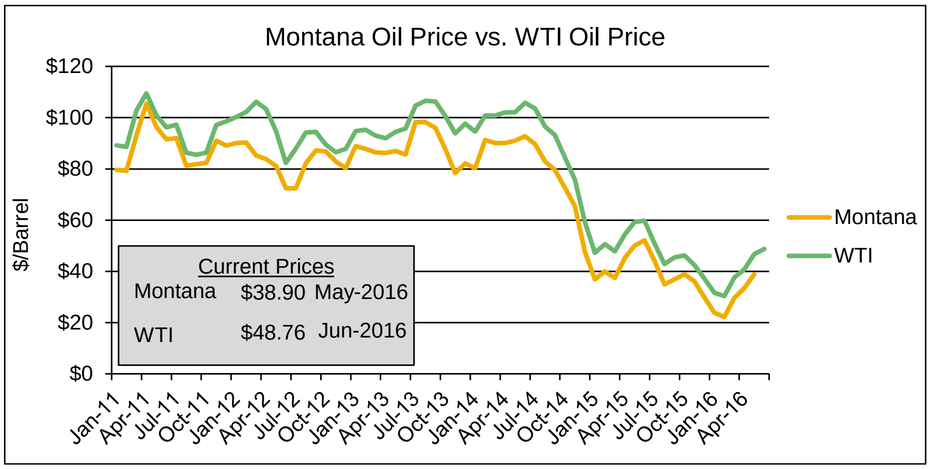


Oil & Natural Gas Taxes: ($20.2 million)

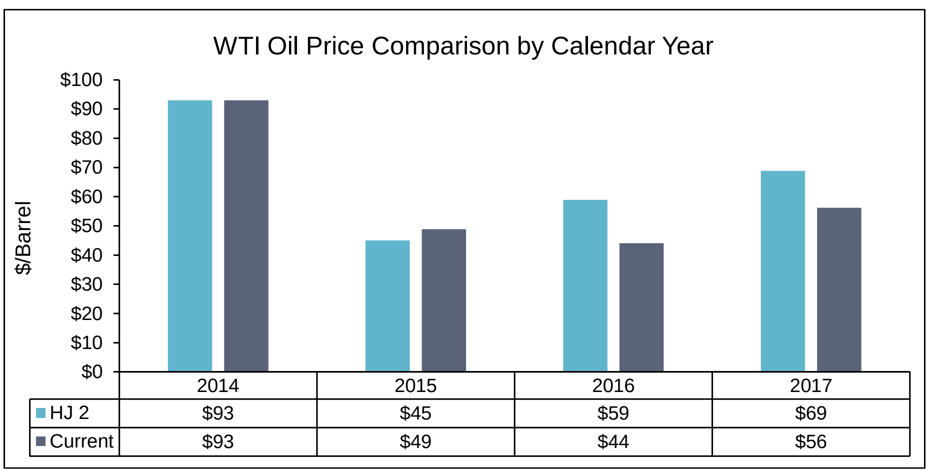
Oil and natural gas collections continued their decline from FY 2015 levels and were below the estimate contained in HJ 2. Collections were $20.2 million or 34.0% below HJ 2 and $34.1 million below FY 2015 collections. Both the total decline and the overestimate of revenue are due to drops in both price and production. The drop in production can be seen in the following chart.



As the graph above shows, there has been at most one rig in Montana since early 2015 and production has been declining for approximately 18 months. Production in February 2015 was 87,000 barrels per day and was down to 64,000 barrels per day in May 2016. In HJ 2, Montana's oil price was assumed to be $46.78 per barrel in FY 2016. Through May of FY 2016, Montana's oil price had averaged $33.53 per barrel. Historical West Texas Intermediate (WTI) and Montana oil prices are shown in the adjacent graph.



The following chart shows the current WTI oil forecast compared to what was projected in HJ 2.



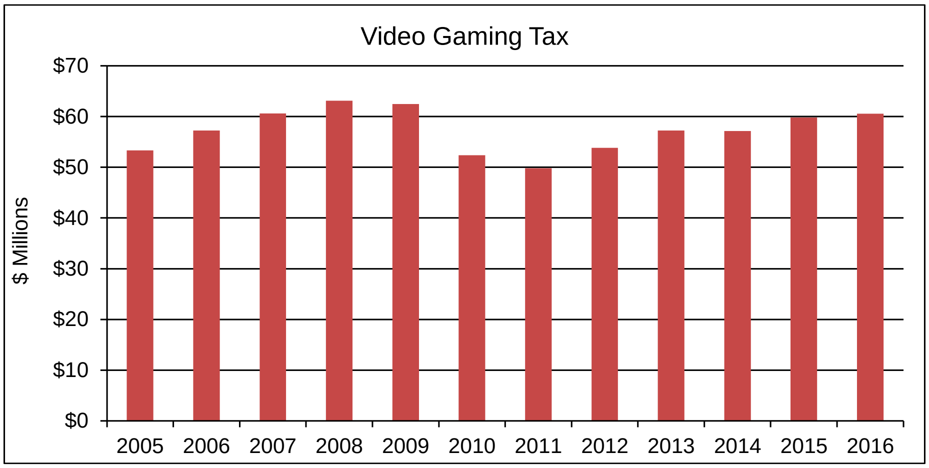
	2014	2015	2016	2017
HJ 2	$93	$45	$59	$69
Current	$93	$49	$44	$56

Insurance Tax: ($3.0 million)

FY 2016 insurance tax came in $3.0 million or 4.2% below the final HJ 2 revenue estimate. At the time of the estimate some factors regarding the policy purchases on the 2015 exchange were unclear: how many of the policies purchased on the exchange were new vs. renewed, and what was the average cost of purchased policies from taxable companies. As new data from the exchanges becomes available from the State Auditor's Office, modeling for this source will be revised to account for the changes.

Video Gaming Tax: ($1.5 million)

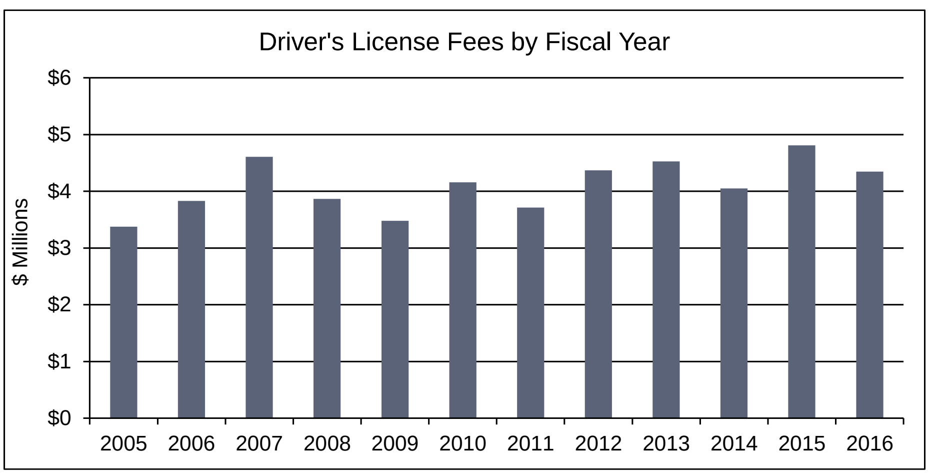
Video gaming revenue in FY 2016 was $1.5 million or 2.3% less than what was anticipated in HJ 2. This model appears to be working well, and is driven entirely by Montana personal income. Montana personal income was slightly lower than what was anticipated in HJ 2, likely explaining part of the discrepancy between the HJ 2 and actual collections.



Other Business Taxes

Driver's License Fee: $0.3 million

Total driver's license revenue was $0.3 million or 6.4% more than anticipated in HJ 2. Since fees are fixed, this increase in revenue was driven by larger-than-expected Class D (standard) driver's license purchases and larger-than-expected Type 1 Commercial Driver's Licenses (CDL). The HJ 2 estimate was based on forecast population data and historical ratios between licenses and actual populations. Actual ratios from the most recent fiscal years are applied accordingly to forecast years.



Investment License Fee: ($0.2 million)

Investment license fee collections were $0.2 million, or 2.7% below the estimate contained in HJ 2. In HJ 2, this source was modeled on the number of individual, firm and dual registrations, as well as S&P 500 and CPI, with estimated values were equal to the values generated by the model. A better approach, and one that would have been more accurate in FY 2015 and FY 2016, is to apply the model-generated growth rates to the last known actual collections. Revised modeling is based on the personal consumption expenditure series for finance & insurance from IHS; modeled growth rates are now applied to the last known collections.

Lodging Facilities Sales Tax: ($0.4 million)

Lodging facilities sales tax collections were $0.4 million or 1.7% below the estimate contained in HJ 2. The HJ 2 estimate contained an alternative assumption based on the recommendation of the Joint Tax Subcommittee that added $0.9 million to the estimated FY 2016 collections. FY 2016 collections were augmented by payments of $1.1 million from online travel companies as a result of litigation by DOR. Moving forward, the additional revenues due to online travel companies are anticipated to be about $0.3 million per year.

This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. The IHS outlook for U.S. consumer spending on accommodations in FY 2016 has declined by 4% since the March 2015 forecast that was used as the basis for the HJ 2. Future forecasts for lodging taxes may need to adjust for the increasing popularity of online marketplaces, for which the tax compliance rates are unknown.

Public Contractors' Gross Receipts Tax: ($1.2 million)

Public contractors' gross receipts tax collections were $1.2 million or 32.7% below the estimate contained in HJ 2. This source was estimated in HJ 2 based on a time trend of highway spending and a higher level of all other construction than in recent years. Highway construction came in 4% below FY 2015 projections and 18% below FY 2016 projects. All other construction came in at about half of the level anticipated in HJ 2, and was the primary driver in reduced public contractors' tax collections.

Railroad Car Tax: ($0.1 million)

Railroad car tax revenue was $0.1 million, or 3.9% below the HJ 2 estimate. It is likely that slowdowns in the natural resource sector are starting and will continue to have an effect on railroad car tax revenue.

Rental Car Sales Tax: $0.5 million

Rental car sales tax collections were $0.5 million or 16.4% above the estimate contained in HJ 2. FY 2016 collections were augmented by payments of $0.3 million from online travel companies as a result of litigation by DOR. Moving forward, the additional revenues due to online travel companies are anticipated to be about $0.1 million per year. Rental car sales tax was forecast in HJ 2 based on Montana retail sales. Modeling has been revised to replace retail sales with the personal consumption expenditure series for transportation.

Retail Telecommunications Excise Tax: ($2.2 million)

Retail telecommunications excise tax collections were $2.2 million or 11.7% below the estimate contained in HJ 2. The estimate was based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS forecast of Montana population growth. An increased rate of transition to pre-paid smartphones, which are non-taxable, may be the reason for the stronger-than-expected decline in collections.

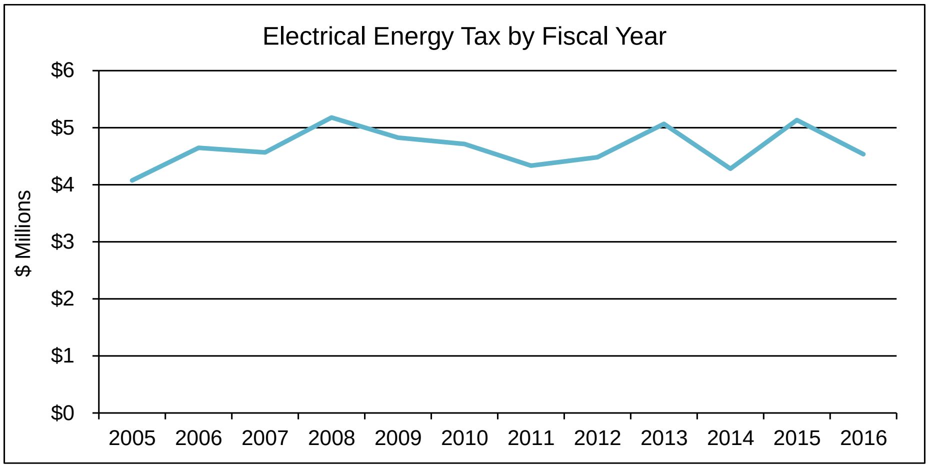
Other Natural Resource Taxes

Coal Severance Tax: ($0.2 million)

Coal severance tax collections were below the HJ 2 estimate by $0.2 million or 1.4%. Final collections were boosted by a large one-time audit at the end of FY 2016. Without the audit, general fund coal collections would have been approximately $1.5 million lower, as coal production in FY 2016 was approximately 9% lower than what was anticipated in HJ 2. FY 2016 coal production declined by 23% compared to FY 2015.

Electrical Energy Tax: ($0.0 million)

Taxable energy production was below the forecast by $0.0 million, or 0.9%. Tax collections are a flat rate imposed against production, which has been inconsistent lately, as implied by the chart below. This source is forecast by using a trend line on the five most recent years.



Metalliferous Mines Tax: ($4.1 million)

Metal mines tax collections were $4.1 million or 49.2% below the estimate contained in HJ 2. The decline is primarily attributable to lower metal prices in CY 2015 than anticipated in HJ 2, although gold production was considerably lower than anticipated in HJ 2. Metal prices for CY 2016 are currently lower than the estimates contained in HJ 2.

U.S. Mineral Royalties: ($7.3 million)

Revenue from U.S. mineral leases in the state was $7.3 million or 30.4% below the HJ 2 estimate. It was estimated in HJ 2 that U.S. mineral royalties would decline from $27.0 million in FY 2015 to $24.1 million in FY 2016 due to decreased coal and oil production. However, the actual decrease was greater than expected. Detailed federal FY 2016 information is not yet available but it is likely that both coal and oil production were below what was anticipated in HJ 2.

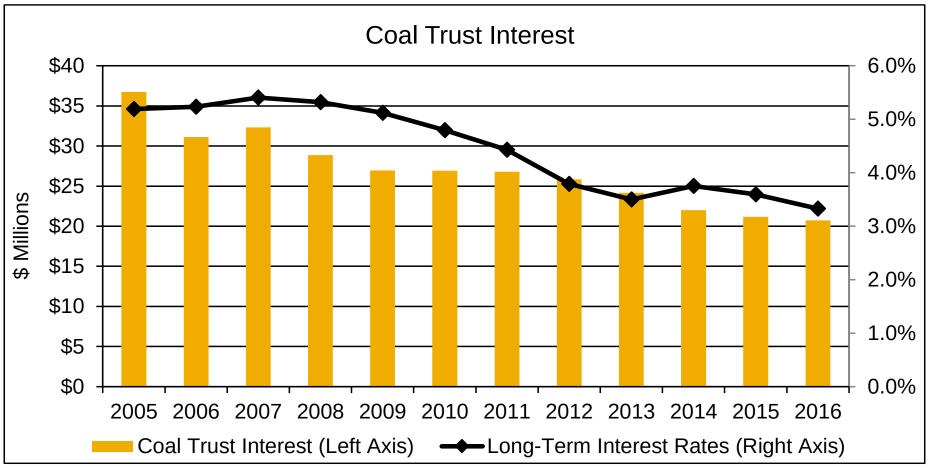
Wholesale Energy Transaction Tax: ($0.1)

Wholesale energy transaction tax was $0.1 million or 2.2% below the estimate contained in HJ 2. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

Other Interest Earnings

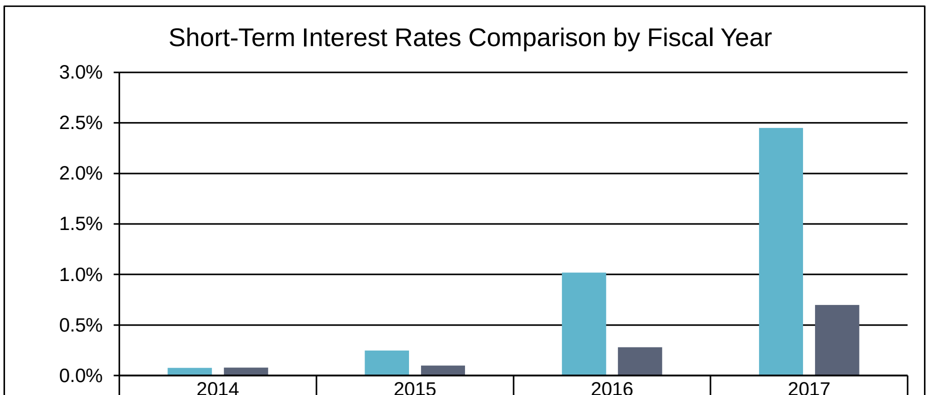
Coal Trust Interest Earnings: $0.9 million

Coal trust interest earnings were above the revenue estimate in HJ 2 by 4.6% or $0.9 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates are have averaged approximately 4% in recent years, and are projected to be near this level in the coming years. The slight increase compared to HJ 2 was due to a slightly larger-than-expected rate of return from the Trust Funds Investment Pool (TFIP).



Treasury Cash Account Interest Earnings: ($4.6 million)

Based on year-end data for FY 2016, the TCA interest earnings were 53.5% or $4.6 million below the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates. Short-term interest rates were below the anticipated rates in HJ 2, though collections did increase by 83% from FY 2015. The adjacent chart shows the current short-term interest rate forecast compared to what was contained in HJ 2.



	2014	2015	2016	2017
HJ 2	0.08%	0.25%	1.02%	2.45%
Current	0.08%	0.10%	0.28%	0.70%

Other Consumption Taxes

Beer Tax: ($0.1 million)

Beer tax revenue came in at 3.3% or $0.1 million below the official projection in FY 2016. The HJ 2 estimate was based on several Montana-specific indicators from IHS: retail sales, population over age 21, and per capita income. Modeling has been revised to replace retail sales with CPI.

Cigarette Tax: $0.1 million

Cigarette tax collections came in above the HJ 2 revenue estimates by 0.2% or $0.1 million. The forecast for this source was based on the IHS series for consumer price index for tobacco and consumer spending on tobacco products. Updated modeling also includes the population over age 18.

Liquor Excise & License Tax: $0.3 million

Liquor excise tax actuals came in 1.3% or $0.3 million above the official projection. The IHS forecast for the growth of CPI was used as an input for this source in HJ 2; modeling has been changed to incorporate the Montana personal consumption series for food.

Liquor Profits: ($0.0 million)

Liquor profits came in $0.0 million or 0.2% below the estimate contained in HJ 2 for FY 2016. The estimate in HJ 2 did not account for the rounding that is made prior to the transfer to the general fund. Current modeling attempts to capture the rounding.

Lottery Profits: $0.9 million

Lottery profits in FY 2016 were 8.4% or $0.9 million over the HJ 2 revenue estimate, primarily due to higher ticket sales than anticipated in HJ 2. In HJ 2, the IHS forecast short-term interest rates and Montana retail sales were used as inputs for this source; modeling has been adjusted to replace retail sales with the population over age 18.

Tobacco Tax: ($0.2 million)

Tobacco tax revenue came in 3.3% or $0.2 million below the official projection. The HJ 2 estimate was based on IHS forecasts of Montana retail sales and Montana population over age 18. Modeling has been revised to replace Montana retail sales with Montana personal consumption expenditures.

Wine Tax: $0.0 million

Wine tax revenue came in at 0.5% or $0.0 million above the official projection in FY 2016. The HJ 2 estimate was based on the IHS forecast of Montana population over age 21; modeling for this source has not changed.

Other Sources

All Other Revenue: $1.4 million

All other revenue collections were 3.5% or $1.4 million above the estimate contained in HJ 2. The difference is primarily attributable to higher-than-expected investment license fee transfers.

Highway Patrol Fines: ($0.3 million)

Total revenue generated from highway patrol fines in FY 2016 was 7.1% or $0.3 million less than the HJ 2 estimate. This revenue source is modeled on a time series, which tends to capture the underlying trend, but is not exact.

Nursing Facilities Fees: $0.0 million

Nursing facilities fees came in 0.2% or $0.0 million over the HJ 2 revenue estimate. This source has declined most years since inception; FY 2016 continued this trend with a 1% decline from FY 2015. It is forecast primarily based on a time series of proxy bed days.

Public Institution Reimbursements: $0.3 million

Public institution reimbursements were 1.8% or $0.3 million more than HJ 2 revenue estimate. Note that this source has a history of fluctuating collections primarily due to timing of federal payments. Modeling for this source has been simplified since the estimate contained in HJ 2, and now relies primarily on a time trend of nursing facility residents.

Tobacco Settlement: $0.2 million

Tobacco settlement revenue was above the HJ 2 estimate by 7.2% or $0.2 million. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies, and the states that delay or mildly adjust the amount of the settlement. These changes are not captured in the revenue model and continue to contribute to discrepancies between estimates and actuals.

BUDGET AND EXPENDITURES

FYE 2016 APPROPRIATIONS AND EXPENDITURES

This portion of the report discusses the FYE 2016 appropriations and related expenditures by budget section including:

- Modifications to FY 2016 appropriations that have been made to the HB 2 FY 2016 budget between from June 1, 2016 through FYE 2016. For changes occurring prior to this, please refer to the 2017 Budget Status Update Report, provided to each Legislative Finance Committee (LFC) meeting from September 2015 onward.
- Expenditure and spending patterns relative to FYE 2016
- Non-budgeted proprietary funds
- Statutory appropriations
- Budget amendments
- Carry forward authority
- Other appropriations authority granted to state agencies

As used in the report the following definitions apply:

- Allocated budget - HB 2 appropriations provided by the legislature including allocations of appropriation authority between state agencies made by the executive in accordance with legislative intent as directed in HB 2 and companion legislation. Allocated budgets include pay plan distributions and transfers of contingency funds to various state agencies. Changes that do not modify the legislative budget by first level expenditure or funding category are also included
- Modified budget – HB 2 allocated budget as modified by the Executive, Legislative, or Judicial Branch for transfer of authority between programs, changes between expenditure categories, or transfer of appropriation authority and FTE to restructure agency functions. Statute provides for the Executive, Legislative, and Judicial Branches to make these types of budget modifications when the legislature is not in session

The LFD has developed a guide to the transactions included in each budget type.

As illustrated in Appendix A, Budget Changes by Program, the June 2016 Budget Status Report's allocated and modified budgets are used as the beginning point. Any contingency fund base allocations are discussed in the allocated budget portion for impacted agencies. Modifications for reorganizations, program transfers, and operating plan changes that occurred between the June and FYE reports are included. These modifications establish the modified budget used to compare budgeted appropriations to actual fiscal year end expenditures and to determine the remaining, unspent budget authority. Note that for the purposes of this report appropriations provided as one-time-only are included as part of total appropriations and expenditure.

To provide a more complete picture of agency resources, the following narrative includes appropriation authority beyond HB 2 provided through non-budgeted proprietary funds, statutory appropriations, budget amendments, and carry forward authority. These additional appropriations are included in the summary chart of state resources in Appendix B, State Resource Summary of FY

2016 Budgeted Authority and Actual Expenditures. It should be noted that budget amendments and carry forward authority that have been "continued" from a previous fiscal year are included along with Long-Range Building and Information Technology Program projects approved by previous legislatures under continuing appropriations. Those that were added to the budget in FY 2016 are reflected in the appropriate columns.

Required Report and Budget Amendments

The LFC receives a number of reports from various state agencies including:

- Budget amendments increasing agency appropriations for state or federal special revenues or proprietary funds between June 1 and August 31, 2016. Details by budget amendment and a summary of changes are provided in Appendix C
- Operating plan changes and program transfers meeting requirements for LFC review received June 1 – August 31, 2016. Any memos received from the Office of Budget and Program Planning outlining these proposed changes are included in Appendix D
- Other agency reports statutorily required to be provided to the LFC. Included in the required reports section of the meeting materials on the LFC webpage

LFC Review

Staff reviewed budget amendments, operating plan changes, and program transfers and have raised no concerns with transactions meeting statutory criteria. The LFC may wish to comment on the transactions during its review and discussion of the FYE 2016 Budget Status Update.

HB 2 GENERAL FUND BY AGENCY

The following table illustrates the budgeted and actual expenditures of general fund for HB 2 through FYE 2016. The budgeted number reflects the June modified budget, as previously discussed. A summary of budgetary changes by section, agency, and program can be found in [Appendix A](#).

Comparison of Modified Budget to Year to Date Expenditures
FY 2016
HB 2 - General Fund Only

	FY 2016			
	Modified Budget	Actual and Accruals	Budget Remaining	% Expended
Section A - General Government				
Legislative Branch	$12,794,317	$11,918,317	$876,000	93.2 %
Consumer Counsel	0	0	0	0.0 %
Governor's Office	7,230,278	6,455,277	775,001	89.3 %
Secretary of State's Office	0	0	0	0.0 %
Commissioner of Political Practices	681,125	676,506	4,619	99.3 %
State Auditor's Office	4,500,000	3,668,565	831,435	81.5 %
Department of Revenue	54,314,344	52,867,934	1,446,410	97.3 %
Department of Administration	7,685,762	6,834,974	850,788	88.9 %
Department of Commerce	7,324,891	5,633,866	1,691,025	76.9 %
Department of Labor and Industry	1,916,267	1,875,133	41,134	97.9 %
Department of Military Affairs	6,481,572	0	0	0.0 %
Section A - General Government Total	102,928,556	89,930,572	6,516,412	87.4 %
Section B - Health and Human Services				
Department of Public Health and Human Services	505,884,833	488,062,220	17,822,613	96.5 %
Section B - Health and Human Services Total	505,884,833	488,062,220	17,822,613	96.5 %
Section C - Natural Resources and Transportation				
Department of Fish,Wildlife, & Parks	973,158	817,796	155,362	84.0 %
Department of Environmental Quality	5,690,038	5,357,764	332,274	94.2 %
Department of Transportation	0	0	0	0.0 %
Department of Livestock	2,656,816	2,417,195	239,621	91.0 %
Department of Natural Resources and Conservation	29,861,515	28,252,855	0	94.6 %
Department of Agriculture	1,031,141	964,330	66,811	93.5 %
Section C - Natural Resources and Transportation Total	40,212,668	37,809,940	794,068	94.02%
Section D - Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	48,531,678	47,026,038	1,505,640	96.9 %
Crime Control Division	2,480,780	2,312,767	168,013	93.2 %
Department of Justice	34,909,844	34,286,242	223,340	98.2 %
Public Service Regulation	0	0	0	0.0 %
Office of the Public Defender	35,282,575	35,060,933	221,642	99.4 %
Department of Corrections	200,812,191	198,660,896	2,151,295	98.9 %
Section D - Judicial Branch, Law Enforcment, and Justice Total	322,017,068	317,346,877	4,269,929	98.5 %
Section E - Education				
Office of Public Instruction	784,305,388	779,974,579	4,330,809	99.4 %
Board of Public Education	187,428	144,736	42,692	77.2 %
Commissioner of Higher Education	241,740,783	240,573,634	1,167,149	99.5 %
School for the Deaf and Blind	7,044,650	6,602,454	442,196	93.7 %
Montana Arts Council	571,179	520,381	50,798	91.1 %
Montana Library Commission	3,062,738	3,009,471	53,267	98.3 %
Montana Historical Society	3,481,038	3,378,081	102,957	97.0 %
Section E - Education Total	1,040,393,204	1,034,203,336	6,189,868	99.4 %
Grand Total	2,011,436,329	1,967,352,945	35,592,891	97.8 %

As reflected in the figure, HB 2 state agency fiscal year end expenditures supported through general fund are 97.8% expended compared to budgeted authority. The bulk of general fund expenditures are contained in four state agencies:

- Department of Public Health and Human Services
- Department of Corrections
- Office of Public Instruction

- Commissioner of Higher Education

Discussion of general fund expenditures can be found in the section narratives for each agency beginning on page 18.

HB 2 STATE RESOURCES BY AGENCY

The following table illustrates the budgeted and actual FYE 2016 expenditures for all state resources appropriated to state agencies through HB 2. This includes general fund, state and federal special revenue, and budgeted proprietary funds.

Comparison of Modified Budget to Year to Date Expenditures
FY 2016
HB 2 - State Resources

		FY 2016		
	Modified Budget	Actual and Accruals	Budget Remaining	% Expended
Section A - General Government				
Legislative Branch	15,393,379	14,005,243	1,388,136	91.0 %
Consumer Counsel	1,706,559	1,243,641	462,918	72.9 %
Governor's Office	7,958,043	6,455,277	1,502,766	81.1 %
Secretary of State's Office	104,892	99,815	5,077	95.2 %
Commissioner of Political Practices	681,125	676,506	4,619	99.3 %
State Auditor's Office	13,400,734	10,945,463	2,455,271	81.7 %
Department of Revenue	196,868,953	172,319,504	24,549,449	87.5 %
Department of Administration	22,680,738	18,835,420	3,845,318	83.0 %
Department of Commerce	33,303,553	25,495,732	7,807,821	76.6 %
Department of Labor and Industry	84,186,673	74,614,261	9,572,412	88.6 %
Department of Military Affairs	49,235,631	39,606,695	9,628,936	80.4 %
Section A - General Government Total	425,520,280	364,297,556	61,222,724	85.6 %
Section B - Health and Human Services				
Department of Public Health and Human Services	2,087,396,095	2,000,665,894	86,730,201	95.8 %
Section B - Health and Human Services Total	2,087,396,095	2,000,665,894	86,730,201	95.8 %
Section C - Natural Resources and Transportation				
Department of Fish,Wildlife, & Parks	83,839,525	79,673,896	4,165,629	95.0 %
Department of Environmental Quality	66,766,428	54,087,104	12,679,324	81.0 %
Department of Transportation	678,317,950	629,112,093	49,205,857	92.7 %
Department of Livestock	12,604,916	11,506,296	1,098,620	91.3 %
Department of Natural Resources and Conservation	71,701,975	60,336,412	11,365,563	84.1 %
Department of Agriculture	17,899,466	16,573,539	1,325,927	92.6 %
Section C - Natural Resources and Transportation Total	931,130,260	851,289,339	79,840,921	91.43%
Section D - Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	50,483,875	48,647,351	1,836,524	96.4 %
Crime Control Division	13,134,004	8,835,775	4,298,229	67.3 %
Department of Justice	98,824,313	93,077,727	5,746,586	94.2 %
Public Service Regulation	4,133,777	3,698,815	434,962	89.5 %
Office of the Public Defender	35,556,501	35,334,859	221,642	99.4 %
Department of Corrections	205,739,222	203,227,385	2,511,837	98.8 %
Section D - Judicial Branch, Law Enforcment, and Justice Total	407,871,692	392,821,911	15,049,781	96.3 %
Section E - Education				
Office of Public Instruction	961,825,159	749,530,840	212,294,319	77.9 %
Board of Public Education	365,420	308,387	57,033	84.4 %
Commissioner of Higher Education	331,780,370	301,857,640	29,922,730	91.0 %
School for the Deaf and Blind	7,373,045	6,919,781	453,264	93.9 %
Montana Arts Council	1,506,241	1,455,493	50,748	96.6 %
Montana Library Commission	6,483,763	5,556,835	926,928	85.7 %
Montana Historical Society	5,722,055	5,493,351	228,704	96.0 %
Section E - Education Total	1,315,056,053	1,071,122,326	243,933,727	81.5 %
Grand Total	$5,166,974,380	$4,680,197,026	$486,777,354	90.6 %

State Special Revenues

As part of the fiscal year end analysis, LFD staff reviewed state special revenues account expenditures. Some agencies under-expended expenses due to shortfalls in natural resource dependent state special revenue funds. Discussion follows in the section narratives for each agency.

SECTION A – GENERAL GOVERNMENT

Legislative Branch

Executive Summary

The HB 2 budget of $15.4 million for the Legislative Branch was 91.0% expended through the end of FY 2016. Personal services were slightly below anticipated expenditures, primarily due to FTE vacancies. Operating expenses were below anticipated levels, primarily due to information technology and MCA expenditures being lower than anticipated in FY 2016.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

<u>Modified Budget</u>

Program Transfers

There was one program transfer at the Legislative Branch since the last Budget Status Report. The Branch transferred $20,000 in general fund from the Legislative Fiscal Division to the Legislative Services Division. This transfer occurred to address a deficit in personal services at the Legislative Services Division due to increased demand for staff resources to accomplish the mandates set forth by the Legislative Council.

FY 2016 HB 2 Expenditures Summary

The HB 2 budget for the Legislative Branch was 91.0% expended as of the end of FY 2016. Both personal services and operating expenses were slightly below levels anticipated in the budget.

<u>Personal Services</u>

At the end of FY 2016 the Legislative Branch budget for personal services was 91.5% expended. The following chart shows budgeted and actual expenditures for each division.

Personal Services FY 2016				
	Budget	**Expenditures**	**Remaining Budget**	**Percent Expended**
Legislative Services Division	$5,445,408	$5,361,826	$83,582	98.5%
Legislative Committees and Activities	108,309	101,026	7,283	93.3%
Legislative Fiscal Division	1,881,106	1,711,073	170,033	91.0%
Legislative Audit Division	4,097,957	3,378,079	719,878	82.4%
Total	**$11,532,780**	**$10,552,004**	**$980,776**	**91.5%**

The Legislative Branch had 15.40 FTE vacant at the end of FY 2016. There was 1.00 FTE vacant in the Legislative Services Division, 1.50 FTE vacant in the Legislative Fiscal Division, and 12.90 FTE vacant in the Legislative Audit Division.

<u>Operating Expenses</u>

Overall, operating expenses were 88.8% expended as of fiscal year end. Operating expenses in the Legislative Services Divisions (89.7% expended) and Legislative Committees and Activities (82.4% expended) contributed to the lower percentage expended. The Legislative Services Division had information technology expenditures that were slightly lower than anticipated in FY 2016 but are expecting to utilize these funds in FY 2017. Additionally, an expected increase in the cost of the state broadcasting contract did not occur so expenditures were a little less than expected; however, the Division is expecting to use these funds in FY 2017 to purchase equipment. Montana Code Annotated (MCA) Text and Annotation expenditures were also slightly below anticipated expenditures because fewer copies of the MCA are being printed and sold. Legislative Committees and Activities expenditures were lower than budgeted in FY 2016 but will be used in FY 2017.

Other Bills

Other House or Senate Bills were 43.4% expended at the end of FY 2016. Legislative Services is working on a session system replacement project and while expenditures were lower than budgeted in FY 2016, staff expect to use these funds in the upcoming fiscal years. The Legislative Services Feed Bill was 13.1% expended through FY 2016, but these funds will primarily be used in November and December for printing and distribution.

Consumer Counsel

Executive Summary

The HB 2 budget of $1.7 million for the Consumer Counsel through FY 2016 was 72.9% expended. Personal services contributed to the lower percentage expended because of vacancy savings. Operating expenses also contributed to the lower percentage expended because fiscal year 2016 caseloads were lower than the historical average.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

The Consumer Counsel's budget has not changed since the last Budget Status Report.

FY 2016 HB 2 Expenditures Summary

The HB 2 budget for the Consumer Counsel, which consists of state special revenue funds, was 72.9% expended through the end of FY 2016. Personal services and operating expenses contributed to the lower percentage expended.

Personal Services

As of the end of FY 2016, 87.3% of the $638,121 budget was expended. The lower percentage expended was due to vacancy savings.

Operating Expenses

The Consumer Counsel received a one-time-only state special revenue appropriation of $250,000 in FY 2016 to pay for costs associated with unanticipated caseload. This appropriation was 0.0% expended in FY 2016. Operating expenses were 64.1% expended when including this one-time-only appropriation and 83.8% expended when excluding the appropriation. Caseloads are determined by utility filings with the Public Service Commission and budgeted using a historical average. Fiscal year 2016 caseloads were lower than the historical average.

Governor's Office

Executive Summary

The HB 2 appropriations of $8.0 million for the Governor's Office were 80.7% expended through FY 2016. There was $1.3 million of personal services contingency funds included in the budget that had not been expended as of the end of FY 2016. However, this was a biennial appropriation so the Governor's Office is in line with anticipated spending at the end of the fiscal year.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

<u>Allocated Budget –</u>

Contingency Base Funding

The Office of Budget and Program Planning transferred general fund of $1.72 million in FY 2016 and $1.5 million in FY 2017. In FY 2016 the Department of Natural Resources and Conservation received $1.6 million, the Department of Corrections received $70,000 and the Department of Agriculture received $50,000. In FY 2017 the Department of Natural Resources and Conservation received $1.5 million.

Personal Services Contingency Funding

The Governor's Office approved the transfer of general fund and federal special revenue for personal services contingency spending. The Governor's Executive Office received general fund of $37,000, the Montana Arts Council received general fund of $20,750, and the Historical Society received federal special revenue of $22,235. There is $1.3 million remaining which includes $604,138 of general fund, $600,000 of state special revenue, $102,764 of federal special revenue, and $25,000 of proprietary funds.

<u>Modified Budget</u>

Program Transfers

The Governor's Office transferred $19,766 of general fund from the Air Transportation program to other programs for operational expenses. The Executive Office received $17,496, Executive Residence Operations received $190, Coordinator of Indian Affairs received $928, and the Lieutenant Governor's Office received $1,152.

Carry Forward

The Governor's Office transferred $1,940 of carryforward authority out of the Mental Disabilities Board of Visitors program to the Lieutenant Governor's Office. This transfer occurred to cover deficits in personal services which resulted from an exempt, appointed staff member raise.

Secretary of State's Office

Executive Summary

The Secretary of State's Office expenditures for FY 2016 align with anticipated expenditure percentages. HB 2 appropriations of $104,000 were 95.2% expended. Non-budgeted proprietary funds were 98.0% expended.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

The Secretary of State's Office budget has not changed since the last Budget Status Report.

Commissioner of Political Practices

Executive Summary

The HB 2 budget of $681,125 for the Commissioner of Political Practices, which consists of general fund, was 99.3% expended through the end of FY 2016. Personal services were 94.7% expended and operating expenses were 109.1% expended. Increased operating expenses were due to higher than anticipated legal costs and additional information technology costs related to a new online reporting service.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

The Commissioner of Political Practices' budget has not changed since the last Budget Status Report.

FY 2016 HB 2 Expenditures Summary

The HB 2 budget for the Commissioner of Political Practices, which consists of general fund, was 99.3% expended through the end of FY 2016.

<u>Operating Expenses</u>

Operating expenses were 109.1% expended as of fiscal year end. Legal costs were higher than anticipated in the fiscal year. Additionally, a new online service for candidates and committee reporting was implemented and FY 2016 was the first year it has been mandatory. Costs for storage and administration contributed to higher operating expenses.

State Auditor's Office

Executive Summary

The HB 2 budget of $13.4 million for the State Auditor's Office was 81.7% expended through the end of FY 2016. Personal services expenditures were slightly lower than budgeted due to the use of carryforward authority and vacancy savings. The agency used $352,671 in 2014 carryforward authority for personal services. Operating expenses were overall lower than budgeted due to a decrease in market exams, rate review costs, and the Insure Montana program ending during the fiscal year. The Securities Division over-expended by $88,752 due to an accrual for a new contract.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

<u>Modified Budget</u>

Operating Plan Changes

The State Auditor's Office had two operating plan changes that added FTE. The first operating plan change added 1.00 modified FTE in FY 2017 to the Insurance Division. This position will be a compliance specialist that will assist with consumer protection required by statute. The second change added 0.50 modified FTE to the Insurance Division in FY 2017. This position will be a license permit technician.

Department of Revenue (DOR)

Executive Summary

At the end of FY 2016, the Department of Revenue (DOR) had expended 95.2% of its budgeted $58.8 million in HB 2 and pay plan authority. This is in line with historical expenditures. General fund expenditures accounted for 92.2% of total HB 2 and pay plan expenditures. Lower than expected oil revenues resulted in less oil and gas money being distributed to the counties.

HB 2 Budget

Modified Budget

Program Transfers

The Department of Revenue had one program transfer since the last Budget Status Report. $355,659 was transferred out of Citizen Services & Resource Management Division. This was transferred to Property Assessment Division in the amount of $87,000, Business & Income Taxes Division in the amount of $90,000, and to the Director's Office in the amount of $178,659

HB 2 Expenditures Summary

Personal Services

As of the end of FY 2016, DOR had expended 41.7 million, or 97.9% of the $42.6 million personal services budget.

Operating Expenses

As of the end of FY 2016, DOR had expended $14.9 million, or 96.0% of the $15.6 million operating expenses budget.

Statutory Appropriations

In FY 2016, the department expended $178.2 million of its $236.8 million statutorily appropriated budget. The difference in the budgeted and expended amounts was due to smaller-than-expected oil revenues which are distributed to the counties. The majority of the statutory authority within DOR is in the form of entitlement share payments to local governments. In FY 2016, these payments totaled $129.6 million.

Proprietary Expenditures

The Department of Revenue has a budgeted proprietary program, the Liquor Division. The program has a language appropriation of $138 million to maintain inventories, pay freight charges, and transfer profits and taxes to appropriated accounts. At the end of FY 2016, DOR had expended $115.0 million this authority. In FY 2016 this program also expended $2.7 million of its $2.9 million in HB 2 and the pay plan.

Department of Administration (DOA)

Executive Summary

The HB 2 budget of $22.7 million for the Department of Administration (DOA) is 83.0% expended at the end of the fiscal year. Expenditures supported by general fund are 88.9% expended. Overall, lower HB 2 expenditures are partially due to lower personal services expenditures in the Banking and Financial Institutions Division and lower operating expenditures in the State Information Technology Services Division.

State special revenues are at 84.7% expended at the end of the fiscal year. Ongoing vacancies within Banking and Financial Institutions Division drive the lower spending level.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

The Department of Administration has not modified its budget since the last Budget Status Report.

FY 2016 HB 2 Expenditures Summary

Overall the Department of Administration (DOA) budget was 83.0% expended at the end of the fiscal year.

Department of Administration Budget Compared to Actual FY 2016				
Budget Category	Budget	Actual	Remainder	% Expended
Personal Services	$11,974,868	$10,744,004	$1,230,864	89.7%
Operating Expenses	10,418,285	7,843,594	2,574,691	75.3%
Equipment & Intangible Assets	150,375	148,891	1,484	99.0%
Local Assistance	30,060	36,078	(6,018)	120.0%
Transfers-Out	17,173	7,429	9,743	43.3%
Debt Service	89,977	55,423	34,554	61.6%
Total	$22,680,738	$18,835,420	$3,845,318	83.0%

Discussion of the various reasons for the lower than anticipated spending begins with personal services.

Personal Services

Agency wide personal services spending at the end of the fiscal year was 89.7%. As of July 25, 2016 13.31 FTE or 9.5% of total FTE were vacant with 6.80 FTE vacant within the Banking and Financial Institutions Division (BFIS). Spending for personal services within BFIS is 79.1% of budgeted appropriations as of the end of the fiscal year resulting in $0.7 million funding remaining in personal services. Issues with staff leaving for higher salaries paid for bank examiners within both the private sector and the federal banking regulators continue in spite of changes made for career ladders and salary adjustments.

Within the State Information Technology Services Division (SITSD) 2.00 FTE, a computer supervisor and a management analyst, were vacant all of FY 2016.

Operating Expenses

Overall expenditures for operating expenses are below levels forecasted through the budget with 75.3% expended through the fiscal year. About 16.6% of the budget for operating expenses is appropriated in the State Information Technology Services Division. Operating expenses budgeted for the FirstNet grant in SITSD continue to lag projections with just $121,224 of $1,427,035 expended at the end of the year.

Operating expenses for the Architecture and Engineering Division (A & E) are also below levels anticipated at this point in the fiscal year at 89.7% expended as of the end of the fiscal year.

Funding

Funding supporting DOA follows similar trends to the expenditure categories.

Department of Administration Budget Compared to Actual FY 2016				
Fund Type	Budget	Actual	Remainder	% Expended
General Fund	$7,685,762	$6,834,974	$850,788	88.9%
State/other Special Revenue	6,979,288	5,909,451	1,069,837	84.7%
Federal Special Revenue	1,555,248	134,399	1,420,849	8.6%
Enterprise	6,405,110	5,901,282	503,828	92.1%
Internal Service	55,330	55,313	17	100.0%
Total	$22,680,738	$18,835,420	$3,845,318	83.0%

General fund supports the:

- Director's Office functions including the Office of Labor Relations
- State Accounting Bureau in the State Financial Services Division
- Rent for the common areas within the Capitol complex in the General Services Division
- Public safety communications within State Information Technology Services Division
- State Human Resources Division
- Montana Tax Appeal Board

Within the Director's Office funding for Labor and Management Training Institute of $75,000 was not expended in FY 2016. The funding was provided as a restricted, biennial appropriation so that is also available in FY 2017. The State Human Resources Division and the Montana Tax Appeal Board did not expend $149,199 and $39,540 respectively for anticipated increases in operating expenses. The remaining differences are due to lower spending for personal services and operating expenses generally.

<u>State Special Revenues</u>

Agency wide DOA has expended 84.7% of its appropriations for state special revenues. The Banking and Financial Institutions Division is wholly supported by fees assessed to the financial institutions that the division regulates. Due to the vacant positions discussed previously, the division has spent $0.7 million less funding than anticipated in its budget for personal services. Operating expenses for the division are also below the level anticipated in the budget, mainly due to reduced travel and other examination costs related to the vacant positions.

The 911 Emergency Phone Program is also wholly supported by state special revenues, these generated through fees imposed on a per month per access line for each telephone subscriber in the state using either land lines or wireless services. A vacant position within the program has resulted in less spending than anticipated in the budget.

<u>Non-Budgeted Proprietary Funds</u>

State Information Technology Services Division (SITSD)

Through fiscal year end, revenues were $45.1 million, an increase from FY 2015 of $5.8 million. The revenues are a combination of rates paid by state agencies and reimbursements for services provided to other governmental agencies. Expenditures were $40.5 million or $4.6 million less than revenues. A previously discussed, SITSD obtained $2.9 million in financing for its Oracle licensing agreement which is not included as part of the FY 2016 expenditures.

State Employee Group Benefits Plan (SEGBP)

As of fiscal year end, the revenues for the SEGBP exceeded expenditures by $6.1 million. While total expenses increase by $1.4 million between FY 2015 and FY 2016, claims expenses decreased by $0.8 million.

State Agency Self-insurance Account

Revenues for the state agency self-insurance account exceeded expenditures by $5.1 million, allowing the program to establish reserves for its various insurance risks. It should be noted that the state is in the process of finalizing a settlement related to asbestos claims that could result in a $20.0 million payment for general liability. This would again eliminate the reserves within the account.

Department of Commerce

Executive Summary

The HB 2 budget of $33.3 million for the Department of Commerce was 76.6% expended as of the end of FY 2016. Expenditures related to personal services, operating expenses, and grants were all lower than budgeted. Several factors contributed to the lower percentage expended, which include the collection of private funds being less than estimated, budget authority exceeding funding received after a reorganization, the nature of revolving loan programs needing repayments to make loans, and statutory requirements not being met for the use of reserve funds. The lower expenditures in grants was due to the timing related to awarding the grants.

HB 2 Budget Modifications (Between 6/1 and 6/30)

The Department of Commerce's budget has not changed since the last Budget Status Report.

FY 2016 HB 2 Expenditures Summary

The HB 2 budget for the Department of Commerce was 76.6% expended through the end of FY 2016. Personal services, operating expenses, and grants contributed to the low percentage expended.

Personal Services

Personal service expenditures, through the end of FY 2016, were 86.9% expended. There were 6.45 FTE vacant at the department with 1.00 FTE vacant in the Office of Tourism and Business Development, 4.45 FTE vacant in the Community Development Division, and 1.00 FTE vacant in the Board of Horse Racing. In the Community Development Division vacancies were related to the Quality Schools program. HB 15, the proposed 2017 Biennium Quality Schools Facility Grant Program, was not passed in the 2015 legislative session, so there were no grants awarded and the program was not fully staffed in FY 2016. Additionally, the Board of Horse Racing contracted with a person part-time to fill its Executive Secretary position in FY 2016 resulting in a lower percentage expended in personal services.

Personal Services
FY 2016

	Budget	Expenditures	Remaining Budget	Percent Expended
Office of Tourism and Business Development	$1,922,758	$1,801,172	$121,585	93.7%
Community Development Division	2,076,095	1,691,761	384,334	81.5%
Board of Horse Racing	34,508	11,580	22,928	33.6%
Total	**$4,033,361**	**$3,504,513**	**$528,848**	**86.9%**

Operating Expenses

Operating expenses were 56.2% expended in FY 2016. The Office of Tourism and Business Development, the Community Development Division, and the Housing Division had a low percentage of expended operating expenses.

Operating Expenses FY 2016				
	Budget	Actuals and Accruals	Remaining Budget	Percent Expended
Office of Tourism and Business Development	3,204,389	2,358,054	846,335	73.6%
Community Development Division	1,940,242	856,813	1,083,429	44.2%
Housing Division	873,160	114,421	758,739	13.1%
Board of Horse Racing	148,876	138,073	10,803	92.7%
Total	**6,166,667**	**3,467,361**	**2,699,306**	**56.2%**

Lower operating expenses in the Office of Tourism and Business Development were primarily due to expenditures related to promotional activities funded by private support and the GAP Financing program. Promotional activities were budgeted at $700,000, with only 14.8% expended at the end of FY 2016. The collection of private funds was less than was estimated in August 2014. The Gap Financing program is a biennial appropriation, and the $85,000 not spent in FY 2016 will roll forward to FY 2017.

The Community Development Division expended 44.2% of its $1.9 million budget. This lower percent expended was primarily attributable to the Community Development Block Grant, Economic Development Administration (EDA) Revolving Loan Fund, and the Hard Rock Mining Reserve. Department staff stated that the lower percentage expended in the Community Development Block Grant was due to a reorganization that brought the Economic Development program into the division. When this move occurred budget authority was added to the division; however, not all of the authority received funding. The Department is looking at potentially reducing the budget authority in the future. The EDA Revolving Loan Fund was budgeted at $443,830 but was dependent on the revolving nature of loan repayments so it only expended $1,544 in FY 2016. The Hard Rock Mining Reserve of $100,000 was 0.0% expended as of the end of the fiscal year. Statutory requirements outlining usage of the reserve were not met.

The Housing Division expended 13.1% of its $873,160 budget. The HUD Comprehensive Counseling and Emergency Homeowners Loan Program contributed to the lower percentage expended in the division. The department did not anticipate any expenditures in either the HUD Comprehensive Counseling or the Emergency Homeowners Loan Programs which were budgeted at $277,297 and $250,000 respectively.

Grants

Overall, HB 2 grant actual and accrued expenditures total $17.7 million or 79.9% of the budget for FY 2016.
Within the Community Development Division, the Capital Improvements Grants program of $1.5 million had no expenditures through the end of FY 2016 but was under contract and will be accrued if not distributed by the end of FY 2017. The Home Investment Partnership Program (HOME) Program was appropriated $6.4 million and has expended $2.2 million and accrued expenditures of $2.7 million through the end of FY 2016. Federal requirements mandate HOME funds be awarded and contractually obligated within two years and expended within five years of the allocation of funds.

FY 2016 HB 2 Expenditures by Program

Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget

Montana Office of Tourism and Business Development

The Montana Office of Tourism and Business Development expended 85.8% of its FY 2016 budget. Personal services were 93.7% expended, operating expenses were 73.6% expended and grants were

90.9% expended. Lower than anticipated operating expenses were primarily attributable to private promotional activities and the GAP Financing program. Collection of private funds were less than estimated and GAP financing was a biennial appropriation that will roll forward to FY 2017.

Community Development Division

The Community Development Division expended 75.8% of its FY 2016 budget. Personal services were 81.5% expended which is lower than the budget because of vacancies within the Quality Schools program. Operating expenses were 44.2% expended. Lower operating costs were due to budget authority being higher than funding received, the nature of revolving loan programs and statutory requirements not being met for the use of reserve funds. Grants were 78.4% expended which is lower than budgeted due to the timing of grant awards.

Housing Division

The Housing Division expended 26.6% of its FY 2016 budget. Operating expenses were 13.1% expended. The HUD Comprehensive Counseling and Emergency Homeowners Loan Program contributed to the lower percentage expended in the division. The department did not anticipate any expenditures in either program.

Board of Horse Racing

The Board of Horse Racing expended 81.6% of its FY 2016 budget. Personal services were 33.6% expended due to contracting of the Executive Secretary position. Operating expenses were 92.7% expended.

Management Services Division

The Management Services Division expended 79.0% of its FY 2016 budget.

Department of Labor and Industry (DOLI)

Executive Summary

The HB 2 budget of $84.2 million for the Department of Labor and Industry, which primarily consisted of state special revenue and federal special revenue, was 88.6% expended through FY 2016. Personal services were 89.3% expended through the end of the fiscal year. This slightly lower percentage was primarily due to a decline in federal grants and vacancy savings. Operating expenses were 90.5% expended and grants were 80.5% expended. These lower percentages were primarily due to the department receiving less federal funds than anticipated.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

<u>Modified Budget</u>

Program Transfers

The Unemployment Insurance Division transferred $22,984 of federal authority to the Commissioner's Office. This transferred 0.50 FTE and the budget related to this position to create a part-time position for an Appeals Coordinator in the Office of Administrative Hearings. This position will receive and screen appeal requests on unemployment insurance issues, assemble initial case files and coordinate with unemployment insurance adjudicators, legal secretaries and hearings officers.

The Workforce Services Division received a transfer of state special revenues of $238,000 from the Unemployment Insurance Division ($175,000) and the Employment Relations Division ($63,000). This transfer was made to allow for information technology expenditures to be recorded in the correct division.

The Employment Relations Division transferred state special revenues of $120,500 to the Workforce Services Division and the Workers Compensation Court. The Workforce Services Division received $120,000 to realign technology services costs. The Workers Compensation Court received $500 to support ITSD costs.

The Workforce Services Division received a transfer of state special revenue funds of $527,000 from the Unemployment Insurance Division ($72,000), Commissioner's Office ($80,000), Employment Relations Division ($327,000), and the Business Services Division ($48,000).

Operating Plan Changes

There were several transfers that occurred to record expenditures in the correct accounts within multiple divisions. The following chart illustrates the operating plan changes.

Operating Plan Changes June 1, 2016 through Fiscal Year End							
	Fund Type	Personal Services	Operating Expenses	Equipment	Grants	Transfers	Debt Service
Workforce Services Division	SSR	($140,000)	$50,000		$90,000		
	SSR	$5,000	$26,000		($31,000)		
	SSR and FSR	($27,400)	$91,528	($10,140)	($108,493)		$54,505
	SSR		$5,500		($5,500)		
Unemployment Insurance Division	SSR and FSR	($31,459)	$29,176				$2,283
Commissioner's Office	SSR, FSR and GF	$6,456	($7,739)			$722	$561
Employment Relations Division	SSR, FSR and GF	($18,550)	$14,245				$4,305
Business Services Division	SSR	($67,928)	$53,160	($15,590)		$27,250	$3,108
Office of Community Services	GF	$19,787	($19,876)				$89
Workers Compensation Court	SSR	($2,000)	$3,600				($1,600)

Additionally, the department had one operating plan change that added modified FTE. The Employment Relation Division had an operating plan change that added 0.10 modified FTE in FY 2016 and 0.25 modified FTE in FY 2017 for a summer internship position.

FY 2016 HB 2 Expenditures Summary

HB 2 appropriations for the Department of Labor and Industry were 88.6% expended as of the end of FY 2016. Personal services, operating expenses, and grants were lower than anticipated.

<u>Personal Services</u>

Personal services were 89.3% expended through the end of FY 2016, which was $5.1 million below the amount budgeted. There were 50.38 FTE vacant at the end of the fiscal year. The Workforce Services Division contributed to this lower percentage because there was a decline in National Emergency Grants. Personal services expenditures in the Unemployment Insurance Division were slightly lower than anticipated due to turnover in high level positions that resulted in vacancy savings.

<u>Operating Expenses</u>

Operating expenses were 90.5% expended which was $2.6 million lower than anticipated expenditures as of the end of FY 2016. The Office of Community Service did not receive the level of federal awards expected in FY 2016, which contributed to the lower percentage expended. Department staff state that they anticipate increases in awards in the next biennium.

<u>Grants</u>

Grants at the Department of Labor and Industry were 80.5% expended through the end of FY 2016. The Workforce Services Division and Office of Community Services contributed to the lower expenditure percentage. Declines in National Emergency Grants and Trade Adjustment Assistance participants in the Workforce Services Division contributed to this slightly lower percentage. Also, as discussed above, the Office of Community Services did not receive the level of federal awards anticipated in FY 2016.

Statutory Appropriations

The Department of Labor and Industry has three separate statutory appropriation authorities. The Uninsured Employer Fund and the Board of Public Accountants comprised the majority of the appropriations for FY 2016. The Uninsured Employer Fund pays benefits to an injured employee of an uninsured employer, the costs of investigating and prosecuting workers' compensation fraud, and expenses incurred by the department for administering the fund. This fund was appropriated $2.25 million and expended 22.5% of its appropriation as of the end of the fiscal year. The Board of Public Accountants was statutorily appropriated $411,557 and expended 83.8% of its appropriation.

Carry Forward

The Department of Labor and Industry transferred $1.67 million of 2015 carryforward authority to divisions across the agency. Personal services received $76,749 and operating expenses received $1.6 million. According to the Department, this carryforward authority will be used for legislatively intended program goals and objectives. Additionally, the Department transferred $5,000 of 2014 carryforward authority from operating expenses to personal services between the Centralized Services Division and the Business Standards Division.

Budget Amendments

The Department moved budget amendment authority within the Workforce Services Division for the Jobs Driven Grant Program. This transfer moved $89,141 to personal services and $42,812 to grants from operating expenses in order for expenditures to be recorded correctly.

Department of Military Affairs

Executive Summary

The HB 2 budget of $49.2 million for the Department of Military Affairs, which consists primarily of federal special revenue, was 80.4% expended as of the end of FY 2016. Grants primarily contributed to the low percentage expended. Operating expenses in the Air National Guard Program were lower than anticipated due to slightly overestimating the amount of federal funds that would be used in state fiscal year 2016 versus federal fiscal year 2016. Operating expenses and grants contributed to the lower percentage expended in Disaster and Emergency Services because the department did not receive the level of grant funding from the Department of Homeland Security projected in the budget.

HB 2 Budget Modifications from June 1, 2016 – Fiscal Year End

Modified Budget

Operating Plan Changes

The Air National Guard Program transferred general fund of $15,500 to equipment and intangible assets from operating expenses. This transfer occurred for the purchase of an engineering capable plotter printer required by a new mandatory Federal Independent Audit Review program.

The Directors Office, Starbase, Army National Guard Program, Disaster and Emergency Services Program, and Veterans Affairs Program made operating plan changes that included general fund, state special revenue, and federal special revenue. Personal services of $61,670 and grants of $10,230 were transferred to operating expenses ($61,210), equipment and intangible assets ($460), and transfers ($10,230). These transfers occurred to allow for positive fund balances at fiscal year-end.

The Directors Office transferred general fund of $3,240 out of personal services and $759 out of benefits and claims into operating expenses ($759) and transfers ($3,240). This transfer was made for the Employee Assistance Program (EAP).

FY 2016 HB 2 Expenditures Summary

Operating Expenses

The Department expended 92.1% of its $20.4 million operating budget. The Air National Guard Program expended 76.2% of its operating budget. The Department slightly overestimated the amount of federal funds that would be used in state fiscal year 2016, which is contributing to the slightly lower expenditure percentage. However, the funds in this program will likely be spent in federal fiscal year 2016. Disaster and Emergency Services expended 46.4% of its $1.1 million budget. This division administers mitigation and pre-disaster grants. The department did not receive the level of grant funds anticipated in the budget from the Department of Homeland Security.

Grants

Overall, HB 2 grant expenditures were $5.8 million or 50.4% expended through the end of FY 2016. The Disaster and Emergency Services Division administers all of the grants at the department. As discussed above, the lower percentage expended was due to the department not receiving the level of grant funding projected in the budget.

Carryforward

The Department of Military Affairs moved 2014 carryforward authority of $20,000 from personal services to operating expenses. This transfer occurred to pay invoices that were received late. The Department also transferred $498 of 2014 carryforward authority from personal services to transfers. This occurred to pay for the Governor's Office Scheduling Module.

Budget Amendments

The Department of Military Affairs had one budget amendment that increased federal special revenue funds in the Challenge Program by $319,944. These funds were used to purchase medical supplies, clothing and boots for the incoming class. The funds were also used for the purchase of copiers and to buy out the existing lease for existing copiers.

SECTION B – DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

Department of Public Health and Human Services (DPHHS)

Executive Summary

The Department of Public Health and Human Services (DPHHS) had a modified budget of $2,087.4 million in FY 2016. DPHHS expended $2,000.7 million in the fiscal year and finished FY 2016 with a budget balance of $86.7 million.

General fund budget authority totaled $505.9 million. General funds were 96.5% expended in FY 2016, or $488.1 million, leaving a general fund balance of $17.8 million in DPHHS. State special revenue modified budget authority was $161.9 million for FY 2016. This authority was 96.8% expended leaving a budget balance of about $5.3 million. DPHHS federal special revenue authority totaled about $1,419.6 million in the FY16 modified budget. About $1,355.9 million, or 95.5%, of this sum was expended in FY 2016 leaving a budget balance of $63.7 million in federal special authority in DPHHS.

HB 2 Budget from June 1, 2016 – fiscal year end

Modified Budget

Program Transfers

DPHHS completed a variety of program transfers to conclude FY 2016, all of which combine for a net zero effect on the overall budget and no overall change in the level of general fund, state or federal special revenue authority. Each of DPHHS' fifteen divisions was involved in at least one program transfer. The net impact of program transfers on each division is summarized below.

Public Health and Human Services Progam Transfers	
01 Disability Employment & Transitions	$ 1,687,615
02 Human And Community Services	(2,636,000)
03 Child & Family Services	4,296,000
04 Director's Office	(168,543)
05 Child Support Enforcement	77,029
06 Business & Financial Services Div	(125,204)
07 Public Health & Safety Division	(320,000)
08 Quality Assurance Division	(35,019)
09 Technology Services Division	(380,404)
10 Developmental Services Division	(8,675)
11 Health Resources Division	(309,302)
12 Medicaid And Health Services Management	(377,384)
16 Management And Fair Hearings	(72,151)
22 Senior & Long-Term Care	(3,451,000)
33 Addictive & Mental Disorders	1,823,038
Total Budget Impact	$ -

- The Disability Employment and Transitions Division gained $1.7 million in budget authority as a result of program transfers. Of these transfers, $1.4 million were federal authority and the remainder were general fund authority. The majority of this transfer came from the Human and Community Services Division, which transferred about $1.0 million in federal authority.

- The Human and Community Services Division transferred out $2.7 million in budget authority through program transfers. The majority, or $1.9 million, of the transfers went to support functions in the Disabilities Employment and Transitions Division and to the Child and Family Services Division. The Medicaid and Health Services Management Division transferred $500,000 to the Offices of Public Assistance (OPA) within HCSD. An additional $75,000 in state special revenue authority was also transferred out from OPA.

- The Child and Family Services Division (CFS) gained $4.3 million in budget authority through program transfers. About $3.5 million of this increase was in general fund authority mainly supporting foster care benefits and administration. The majority of transfers ($3.2 million) gained in this division was transferred from the Senior and Long Term Care Division (SLTC), although there was a transfer of $0.3 million in state special revenue from CFS to SLTC.

- The DPHHS Director's Office budget authority declined by $168,543 due to program transfers. The Director's Office transferred out $82,542 of general fund authority and $90,000 in federal authority while $4,000 in state special revenue was received to complete the year. Federal and general fund authority were transferred out to support the Disability Employment and Transitions Division and the Addictive and Mental Disorders Division (AMDD).

- The Child Support Enforcement Division gained $77,029 in general fund authority due mainly to a program transfer from the Technology Services Division.

- The Business and Financial Services Division's budget authority declined by $125,204 due to program transfers. The Division transferred out $90,604 in general fund authority along with $34,600 in state special revenue authority.

- The Public Health and Safety Division transferred out $320,000 in state special revenue authority to the Addictive & Mental Disorders Division and chemical dependency programs.

- The Quality Assurance Division's budget authority declined by $35,019 due to program transfers. The Division transferred out $48,619 in general fund authority and $5,000 in federal authority while bringing in $18,600 in state special revenue authority.

- The Technology Services Division budget declined by $380,404 due to program transfers. The Division transferred out $207,404 in general fund authority and $390,000 in federal authority while transferring in $12,000 in state special revenue authority and $205,000 in federal authority.

- The Developmental Services Division transferred out $8,675 in general fund budget authority.

- The Health Resources Division's budget authority declined by $309,302 due to program transfers. The Health Resources Division transferred out $400,302 in general fund authority while gaining $91,000 in federal budget authority.

- The Medicaid and Health Services Management Division transferred out $377,384 in budget authority. The Division gained $302,616 in general fund authority while transferring out $89,000 in state special revenue authority and $591,000 in federal authority. The Medicaid and Health Services Management Division transferred $500,000 in federal budget authority to the Human and Community Services Division to cover anticipated year end expenses.

- The Management and Fair Hearings Division transferred out $72,151 in general fund program authority.

- The Senior and Long Term Care Division's budget authority was reduced by $3.5 million due to program transfers. The Division transferred out $3.6 million in general fund authority from Medicaid and other programs and $151,000 in federal authority while bringing in $300,000 of state special revenue budget authority. As mentioned earlier in the CFS section, $3.2 million in general fund authority was transferred from the Senior and Long Term Care Division to the Child and Family Services Division to cover costs associated with child protective services.

- The AMDD gained $1.8 million in budget authority due to program transfers. Of this total $1.3 million was general fund authority from a variety of programs and was directed towards Montana State Hospital Operations. State special revenue authority in the amount of $484,000 was also transferred and was aligned with chemical dependency programs in AMDD.

Executive Reallocation (House Adjustments)

Eleven of the fifteen DPHHS divisions completed House Adjustments in the most recent fiscal period. These reallocations are internal to each division and combine for a net zero effect on the overall budget and no overall change in the level of general fund, state or federal special revenue authority. House Adjustments across all of DPHHS resulted in the following reallocations:

- A total reduction of $2,117,999 from benefits and claims
- A total increase of $1,649,391 to personal services
- A total increase of $641,848 to operating expenses

- The majority of the budget authority reallocated across different accounts in the fiscal period of interest involved general fund authority. In total, $2,589,731 in general fund authority was reallocated across different accounts along with $461,292 in state special revenue authority and $169,560 in federal authority.

Four of the fifteen DPHHS divisions executed House Adjustments that reallocated a total sum of more than $1 million. These House Adjustments are grouped by DPHHS program and briefly described below.

- The Developmental Services Division completed one reallocation that moved a total of about $2.7 million in budget authority to align division appropriations with expenditures. This adjustment shifted a net of $759,731 from benefits and claims and $87,700 from operating expenses and expanded personal services by $847,431.

- The Health Resources Division completed seven large House Adjustments that shifted a total of about $24.5 million in budget authority. Some of these adjustments were submitted to cover anticipated expenses, while others aligned budgets with expected Medicaid expenditures. One adjustment moved about $3.7 million in HELP Act savings to a frozen appropriation.

- The Senior and Long Term Care Division completed one House Adjustment that moved about $3.3 million in budget authority in order to realign state special and general fund authority to cover anticipated expenses. The majority of this reallocation consisted of a shift in about $3.1 million in federal budget authority across different subclasses. These funds were used for benefits and claims both before and after the House Adjustment.

- The Addictive and Mental Disorders Division completed three House Adjustments that shifted about $6.6 million in budget authority. Two of the House Adjustments realigned budgets with expenditures while the third moved about $2.75 million in HELP Act savings to a frozen appropriation.

Fiscal Year End Expenditure Summaries

The following section briefly describes expenditures in FY 2016 for each of DPHHS' fifteen divisions or programs.

HB 2 Expenditures

<u>Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget</u>

Disabilities Employment and Transitions Division

This division expended 97.2% of its FY 2016 overall budget with 102.2% expenditure occurring in personal services and an 87.6% expenditure of operating expenses. The budget for benefits and claims was 98.3% expended.

Human and Community Services Division

Human and Community Services spent 96.4% of its FY16 budget. The personal services budget was 101.7% expended while operating expenses were 125.7% expended. Benefits and claims were 94.9% expended and transfers were 154.2% expanded.

Child and Family Services Division

The Child and Family Services Division expended 98.2% of its FY 2016 overall budget with personal services 100% expended and operating expenses 94.9% expended. Grants were 99.1% expended and benefits and claims were 97.8% expended.

DPHHS Director's Office

The DPHHS Director's Office expended 94.9% of its FY 2016 budget with personal services 97.5% expended and operating expenses 77.9% expended. Grants were a small portion of the total budget but were 163.2% expended.

Child Support Enforcement Division

This division expended 99.2% of its FY 2016 overall budget. Personal services were 100.3% expended while operating expenses were 94.8% expended.

Business and Financial Services Division

The Business and Financial Services division spent 96.9% of its FY 2016 budget, with personal services 97.8% expended and operating expenses 96.3% expended.

Public Health and Safety Division

This division spent 96.4% of its FY 2016 budget. Personal services were 101.6% expended, with operating expenses 127.1% expended and grants only 83.4% expended. Benefits and claims were 90.6% expended.

Quality Assurance Division

The Quality Assurance Division expended 91.9% of its FY 2016 budget. This relatively low figure was primarily due to operating expenses, which were only 80.3% expended. Personal services were 95.0 % expended.

Technology Services Division

This division spent 99.8% of its FY16 budget, with 105.5% expenditures in personal services and 98.0% expenditures in operating expenses. The equipment and intangible assets budget was 201.6% expended.

Developmental Services Division

Developmental Services expended 96.8% of its FY 2016 budget. Personal services were 95.1% expended while operating expenses were 107.5% expended. This division expended 96.7% of its benefits and claims budget. Benefits and claims make up about 91.4% of the overall budget for this division.

Health Resources Division

The Health Resources Division spent 97.1% of its FY 2016 budget, with personal services 89.5% expended and operating expenses 94.0% expended. Benefits and claims, which make up about 98.0% of the overall budget for this division, were 97.2% expended.

Medicaid and Health Services Management Division

This division expended 59.9% of its FY 2016 budget. The bulk of this low figure is partially due to low expenditures in the grants budget (25.5%), which made up about 38.3% of the total division budget. Personal services were 71.1% expended and operating expenses were 79.9% expended.

Management and Fair Hearings Division

Management and Fair Hearings spent 92.8% of its FY 2016 budget, including 96.1% expended in personal services and 66.8% expended in operating expenses.

Senior and Long Term Care Division

The Senor and Long Term Care Division expended 94.0% of its FY 2016 budget, with personal services 101.2% expended and operating expenses 92.3% expended. Grants were 95.1% expended and benefits and claims were 93.6% expended. Benefits and claims make up about 88.6% of the overall budget for this division.

Addictive and Mental Disorders Division

The Addictive and Mental Disorders Division expended 92.4% of its FY 2016 budget. Personal services were 98.8% expended while operating expenses were only 91.0% expended. Benefits and claims made up 56.9% of the division's budget authority and were only 89.3% expended.

SECTION C – NATURAL RESOURCES AND TRANSPORTATION

Department of Fish, Wildlife, and Parks (FWP)

Executive Summary

FWP showed normal expenditure patterns for FY2016 with 97.6% expended of its personal services budget and 92.9% of its operating expenses budget expended. The department expended 84.0% of their one-time-only general fund appropriation for aquatic invasive species due to hiring difficulties in eastern Montana. FWP expended 95.4% of their state special revenue appropriation across the department. The majority of funding comes from the General License account. FWP expended 94.6% of their state special revenue appropriation across the department. The majority of funding comes from the Pittman/Robertson & Dingell/Johnson account.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Program Transfers

FWP moved $67,725 in federal special revenue from the Administration Division to the Communications and Education Division to cover the costs of hunter education equipment.

Operating Plan Changes

FWP moved:

- $241,100 in federal special revenue from operating expenses to grants in the Wildlife Division to pay grantees as required by state accounting policy
- $63,820 in state special revenue from operating expense to capital outlay to account for capitalizable expenses for work done on buildings as required by state accounting policy
- $4,000 in federal special revenue from operating expenses to personal services in the Fisheries Division
- $2,544 in state special revenue from transfers to operating expenses in the Enforcement Division

Non-budgeted Proprietary Funds

FWP has a number of non-budgeted propriety funds. All spending is similar to previous fiscal years.

Statutory Appropriations

FWP has two statutory appropriations. The first is the Payment of Lieu of Taxes (PILT) to local governments. Spending under this authority shows expenditure commensurate with historical patterns. The second is the FWP portion of the accommodations tax which supports maintenance of state parks. This is running lower than would be expected due to budget management in association with state park strategic plan implementation. Funds will be used to address the infrastructure maintenance backlog across the Parks System as part of the department's HB 5 request.

Budget Amendments

The largest approved budget amendment was $639,539 in federal funds to study to impact of prescription grazing on food availability for grouse species.

Carry forward

FWP had $2.8 million in carry forward authority. Of this amount, $2.1 million is in state special revenue. In FY 2016, the department spent $386,335 in both federal and state special revenue.

Department of Environmental Quality (DEQ)

Executive Summary

DEQ faced increasing pressure throughout state special revenue accounts funded by natural resources. As a result, the department made a series of budget changes to compensate for revenue short falls. Additionally, DEQ under expended its appropriations most notably in the Air, Energy & Mining Division.

HB 2 Budget

<u>Modified Budget</u>

Program Transfers

DEQ moved:

- $51,500 in general fund from the Water Quality Division to the Air, Energy, and Mining Division to cover shortfalls in the Natural Resource Operations account
- An FTE in the Major Facility Siting Act program from the Air, Energy, and Mining Division to the Central Services Division.
- $500,000 in federal special revenue authority from the Waste Management and Remediation Division to the Water Quality Division to cover expenditures through federal grants

Operating Plan Changes

DEQ moved:

- $66,657 in state and federal special revenue authority from personal services and operating expenses to equipment and transfers in the Air, Energy & Mining Division.
- $44,100 in state special revenue authority from operating expense to grants and transfers in the Water Quality Division.

HB 2 Expenditures

<u>Personal Services</u>

DEQ had lower than expected personal services expenditures due to reorganization and short falls in natural resource-dependent state special revenue funds. Most notable among these was the Natural Resource Operations account. The major areas of impact were the Air, Energy & Mining Division, the Enforcement Division and the Attorney Pool within the Central Management Division.

<u>Operating Expenses</u>

DEQ showed under expenditure in operating expenses due to short falls in natural resource-dependent state special revenue funds. Most notable among these was the Natural Resource Operations account. The major areas of impact were the Air, Energy & Mining Division and the Waste Management & Remediation Division.

State Special Revenues

DEQ faced pressure from declining revenues in multiple state special revenue accounts, most notably the Natural Resources Operations account. Due to low interest from the Resource Indemnity Trust and declining oil and gas revenues, the executive anticipates $1.7 million shortfall for the 2017 biennium.

Non-budgeted Proprietary Funds

DEQ has one non-budgeted proprietary fund for its indirect costs. The spending is similar to previous fiscal years.

Statutory Appropriations

DEQ has one statutory appropriation for petroleum tank release cleanup through the Petroleum Storage Tank Cleanup state special revenue fund. This acts as a revolving fund administered by the Petroleum Tank Release Compensation Board. In FY 2016, the fund paid $3.5 million in claims.

Carry forward

DEQ had $5.6 million in carry forward authority in FY 2016. Of this amount, $3.7 million is in state special revenue. DEQ spent $641,589 across all funds.

Department of Transportation (MDT)

Executive Summary

MDT has total budget authority from all sources and funds of $814.6 million for FY 2016. The total budget is comprised of 37% state special, 58% federal special, and 5% non-budgeted proprietary authority. Total expenditures for the Department of Transportation (MDT) in FY 2016 were $720.4 million, which is 88.4% of the total authority. HB 2 expenditures were $629.1 million or 92.7% of the HB 2 authority of $678.3 million. Areas where spending was lower than expected include the Aeronautics and Maintenance Programs.

In FY 2016, highway state special restricted revenue account (HSRA) expenditures were greater than revenues for the fifth straight year, reducing the working capital balance by an average of 20% per year. MDT, as the account administrator, will not allow the account to go negative and will manage spending from the account in relation to available revenues and desired fund balance. In early planning, MDT expects total HSRA expenditures to be $295.8 million, which is about $52 million less than the level of FY 2017 appropriations and will leave a $27.7 million balance in HSRA at the beginning of the 2019 biennium.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Operating Plan Changes

Since last reported, total operating plan changes were $309,537. Most of the changes were related to fiscal year end accounting modifications. $309,537 of funds were moved from operating expenses to personal services ($212,000), equipment and intangible assets ($77,187), transfers out ($13,150), and debt service ($7,200). These operating plan changes net to a zero change in the overall budget.

Since last reported, MDT moved a net total of $7.2 million from federal special to state special funds.

FY 2016 HB 2 Expenditures Summary

The total HB 2 modified budget is $678.3 million. FY 2016 expenditures were $629.1 million or 92.7% of the authority. When compared to expenditures in the past five years, the MDT HB 2 spending patterns are substantially consistent. Areas where spending differs from the trends include the following:

- The Aeronautics Program expenditures appear low due to a $6.4 million federally funded project, the West Yellowstone airport taxiway. In FY 2016, only about 5.0% of the project authority has been expended. The project is still in the design phase and MDT expects to begin construction in September. Construction is not expected to be completed before the airport closes for the winter season, and the project construction will proceed through 2017 and 2018
- Expenditures in the maintenance program were approximately 3.6% lower than the previous five year average. Reduced spending in the program is related to two factors including 1) a relatively mild 2016 winter and 2) agency spending reductions from the restricted highway state special revenue account (HSRA)

<u>Personal Services</u>

In FY 2016, personal services expenditures were $155.6 million, or 96.2% of the HB 2 budget. As a percentage of the budget, expenditures in FY 2016 were higher than in past years, in part due to a reduced personal services budget in the 2017 biennium.

<u>Operating Expenses</u>

In FY 2016, MDT expended 92.7% of the HB 2 operating expenses budget. MDT historically expends 86.0% of their operating expenses in the fiscal year. Operating expenses is higher than normal principally as a result of a relatively mild 2015-2016 winter season that allowed increased spending in the Construction Program.

<u>State Special Revenues</u>

The MDT budget is funded primarily with state special and federal special revenues and includes no general fund appropriations. Spending from the FY 2016 MDT HB 2 budget was funded with 39% state special funds and 61% federal special funds. The highway state special restricted revenue account (HSRA) is the primary state special revenue fund dedicated to the construction and maintenance of state roads and highways and supported 35.8% of the MDT HB 2 expenditures in FY 2016.

MDT relies on HSRA to cover the federal funds costs on major highway construction projects, which are subsequently reimbursed through payments from the federal highway trust fund. As a result, MDT tries to retain a substantial balance in the account. Over the past five years, expenditures from the account have exceeded revenues. In the past three years, FY 2014 through FY 2016, expenditures exceeded revenues by a total amount of $34.5 million, which has drawn down the balance by an average of approximately 20% per year. At the end of FY 2016, the working capital balance for HSRA was $35 million, a reduction of $6.9 million since the 2015 balance.

The projected balance for FY 2017 is negative $24.4 million when assuming that all appropriations will be expended. MDT, as the account administrator, will not allow the account to go negative and will manage spending from the account in relation to available revenues and desired fund balance. In early long-term planning, MDT expects total HSRA revenues to be $1.0 million greater than the HJ 2 projections and plans to expend $295.4 million. The MDT planning provides a difference of about $52 million from the LFD projections and would leave $27.7 million in HSRA at the beginning of the 2019 biennium.

Federal Special Revenues

In FY 2016, MDT received $444.5 million in federal funds. Federal funds generally flow into MDT as grants or reimbursements for road construction costs. In FY 2016, the receipt of federal funds was $27.9 million higher than anticipated by MDT during the 2015 session (additions to federal expenditure authority provided through budget amendments).

Non-budgeted Proprietary Funds

MDT has three non-budgeted proprietary programs. The budgets and expenditures are provided in the following figure:

MDT Proprietary Programs
FY 2016

Program	FY 2016 Budget	Total Exp FY 2016	Remaining Budget	% Expended
State Motor Pool	$6,689,237	$5,677,993	$1,011,244	84.9%
Equipment Program	32,915,869	26,649,138	6,266,731	81.0%
West Yellowstone Airport	982,467	352,166	630,301	35.8%
Grand Total	$40,587,573	$32,679,297	$7,908,276	80.5%

Notable details related to the budgets include:

- In the State Motor Pool, equipment purchases were $3.1 million and gasoline costs of $1.2 million in FY 2016, making up over 75% of the total program expenditures
- In the FY 2016 Equipment Program operating expenses were $11.2 million of which fuel costs were $4.5 million, or 40% of the total program expenditures
- The West Yellowstone Airport operating expenses include $134,906 in FY 2016 for improvements to the West Yellowstone Airport. The project is in the planning phase and increased operating expenses will be incurred once construction on the project begins

Statutory Appropriations

MDT has budgeted $38.2 million in statutory appropriations for FY 2016, consisting of gasoline tax distributions to tribal and local governments and debt service on several bond issues. The authority was fully distributed and expended over the course of the year.

Budget Amendments

In FY 2016, MDT entered 12 budget amendments amounting to a total of $20.4 million in federal authority. One of the amendments was carried forward in HB 2 language from FY 2015. The new amendments and changes total $19.7 million. Total budget amendments are an increase to the FY 2016 HB 2 federal budget of 4.8%. Since the last report, MDT entered one budget amendment that moved authority from the operating expenses expenditure category to the equipment and intangible assets category. This change did not increase federal authority. In FY 2016, MDT expended $577,173, or 2.8%, of the budget amendment authority.

Other Bills

MDT has $4.9 million of authority in FY 2016 from continuing and new authority provided in the Long-Range Building Program (LRBP) and the Long-Range Information Technology Program (LRITP). In FY 2016, MDT expended $1.8 million of the authority. Details on the authority and the related expenditures are shown in the figure below.

MDT Other Legislation FY 2016			
Biennium / Bill	FY 2016 Budget	Total Exp FY 2016	% Expended
2015 LRBP - HB5	$225,445	$225,445	100.0%
2017 LRBP - HB403	2,500,000	532,006	21.3%
2015 LRITP - HB10 (MMS)	2,000,000	1,051,870	52.6%
2017 LRITP - HB10 (3 projects)	200,000	15,600	7.8%
Grand Total	$4,925,445	$1,824,921	37.1%

- LRBP HB 5 and HB 403 appropriations are for the construction and maintenance of equipment storage facilities across the state
- 2015 biennium LRITP appropriation funds the maintenance management system information technology project
- 2017 biennium LRITP appropriation funds the program and project management, risk-based asset management, and linear referencing system projects The authority seen in the figure above will fund the program and project management project
- The remainder of the authority will be continued until the projects are completed
- The Department of Administration retains $7.8 million of project authority for the 2017 LRITP projects, which will be transferred to MDT when the plans for the computer systems are fully developed and approved

Carry forward

MDT entered a total of $32.1 million in carryforward authority in FY 2016. In FY 2016, $2.0 million, or 6.4%, of the authority was expended. $30.0 million of the carry forward authority was continued to FY 2017.

Continued Authority

The MDT budget is a biennial budget. As such, unused authority is continued to the second year of the biennium, FY 2017. At the end of FY 2016, MDT continued $101.5 million of authority, from which $36.1 million is state special revenue and $65.4 million is federal special revenue. The continued authority will increase the FY 2017 budget.

HB 2 Expenditures by Program

Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget

General Operations Program

MDT modified the General Operations Program budget by $193,296 through various budget transactions. From the total modified budget of $31.4 million in FY 2016, $29.9 million, or 92%, was expended. The program did not expend any of the $285,000 of contingency funding authority in FY 2016 allocated budget. In the General Operations Program, 96% of the total program funding is through the restricted highway state special revenue account (HSRA), and the agency expended 93.1% of the authority. The reduced spending provided a savings of $2.1 million in HSRA funds.

Construction Program

MDT reduced the Construction Program HB 2 allocated budget by $268,485 through various budget transactions. The mild 2015-2016 winter allowed the program to execute numerous road construction projects, leading to the use of $429.7 million, or 95.9%, of the modified budget. The remaining balance of $18.4 million was continued into FY 2017. From the budget, 97.5% of the personal services and 96.7% of the operating expenses were expended. The Construction Program is the highest federal special funds user in MDT, and in 2016 the program used 96.5% of the anticipated HB 2 federal funds budget.

Maintenance Program

MDT added $75,189 to the Maintenance Program allocated HB 2 budget through various budget transactions. The program expended $123.6 million, or 88% of the $140.5 million allocated budget. The Maintenance Program is funded primarily, 94%, with the restricted highway state special revenue account (HSRA). Included in that amount is the $10.0 million state funded construction program. In FY 2016, the program expended $6.7 million, or 66%, of the authority. HSRA savings within the Maintenance Program in FY 2016 was $3.3 million.

Motor Carrier Services Division

MDT made no changes between the Motor Carrier Services Division FY 2016 allocated and modified budgets. In FY 2016, the division expended 92.5% of the total authority. The division expended 97.5% of its personal services budget and 81.7% of its operating expenses budget.

Aeronautics Program

MDT made no changes between the Aeronautics Program FY 2016 allocated and modified budgets. In FY 2016, the division expended 24.4% of the $9.0 million of HB 2 authority. In the 2017 biennium, the legislature increased the budget with the addition of one-time only funding for capital improvements on the West Yellowstone Airport runway and taxiway. The project added $6.4 million to the budget. In FY 2016 the project was in the planning phase, and more of the authority will be expended in FY 2017 and FY 2018.

Rail, Transit, and Planning Program

The FY 2016 allocated budget for the Rail, Transit, and Planning Program was increased by $4.3 million through various budget transactions. Approximately 32.5%, or $1.4 million of the increase is credited to a conditional language appropriation included 2015 version of HB 2, which increased the budget for federal transit authority grants. The program expended 90% of its modified authority, where 98.9% of the personal services budget and 99.1% of the operating expense budget were expended. The HB 2 budget for grants and transfers, combined comprising 62% of the budget, were 84.5% expended.

Department of Livestock (DOL)

Executive Summary

The Department of Livestock made a series of budgetary changes to cover costs in the Diagnostic Lab and Central Services Divisions. The department under expended appropriations in the Milk and Egg Division due to lack of state special revenue funds.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

<u>Modified Budget</u>

Program Transfers

Livestock moved $45,000 in Per Capita state special revenue authority from the Brands Enforcement Division to the Diagnostic Laboratory Division to cover costs.

Operating Plan Changes

Livestock moved:

- $6,500 in state special revenue from operating expenses to equipment to cover Veterinary Diagnostic Lab needs
- $49,000 in state special revenue authority from operating expenses to personal services and transfers in the Central Services Division

FY 2016 HB 2 Expenditures

Personal Services

Livestock as a whole had personal services expenditures lower than expected. The Milk and Egg Division expended 63.0% of its HB2 authority. The primary reason for the low expenditure was lower revenues from inspections. Other divisions had lower than expected expenditures due to vacancies throughout the year.

Operating Expenses

Livestock as a whole showed operating expenses expenditures in line with expectations. The Milk and Egg Division was the exception and expended 55.1% of its HB2 authority. The primary reason for the low expenditure was the lower revenues from inspections.

General Fund

Livestock reverted $239,621 in general fund due to under expenditures in Animal Health and Meat and Poultry Inspection Divisions.

State Special Revenues

Livestock faced major pressures on the Milk and Egg Inspection account which is a principal source for the Milk & Egg Program. This fund supports operations both in the Milk & Egg program as well as Milk Lab within the Diagnostic Lab.

Statutory Appropriations

Livestock has two statutory appropriations. The first is for the Livestock Loss Board claims which spent $172,634 in state special revenue. The second is for predator control which spent $349,999. Both are state special revenue accounts. Both show expenditures commensurate with historic spending in state special revenue.

Budget Amendments

Livestock had one budget amendment for $145,000 in federal funds for compensation and loss prevention of livestock due to wolf predation.

Other Bills

House Bill 629 appropriated $2,000 of general fund to implement changes to the executive officer position. The department has used the entire appropriation.

Carry forward

Livestock had $219,183 in carry forward authority. It used $69,192 in FY 2016.

Department of Natural Resources and Conservation

Executive Summary

The Department of Natural Resources and Conservation (DNRC) received $1.6 million in contingency base funding to begin implementing terms of the Confederated Salish Kootenai Tribe (CSKT) Water Compact. Expenditures were 84.1%, or $60.3 million, due to unspent language appropriations.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Allocated Budget

Contingency Base Funding

DNRC received $1.5 million in additional Contingency Base funding from the Governor's office to implement terms of the CSKT Water Compact.

Modified Budget

Program Transfers

DNRC moved $300,000 in general fund from the Forestry and Trust lands Division and $403,064 from the Director's Office to the Conservation and Resource Development Division to deal with declining natural resource revenues.

Operating Plan Changes

DNRC moved $1.3 million dollars from operating expense to transfers to implement terms of the CSKT Water Compact.

FY 2016 HB 2 Expenditures

Personal Services

All DNRC divisions showed under expenditure of personal services expenditures due to a request from the executive to hold positions open.

Operating Expenses

All DNRC divisions showed under expenditure of operating expenses due to requests from the executive to constrain expenditures.

General Fund

DNRC reverted 1.5 million in general fund.

State Special Revenues

The fire suppression fund had a balance of $73.7 million at the end of FY 2016. State fire costs for FY 2016 amounted to $15.8 million.

The department received additional funds in the Coal Shared account due to a one-time audit. The coal shared account funds local libraries (through Montana State Library), conservation districts (through DNRC), and the Growth Through Agriculture Program (through the Department of Agriculture). This event is detailed in the revenue section of the September Budget Status Report.

Non-budgeted Proprietary Funds

The DNRC has two non-budgeted proprietary funds, one for air operations and one for the state nursery. Both have shown spending similar to previous fiscal years.

Statutory Appropriations

The DNRC has a number of statutory appropriations. The oil and gas production damage mitigation account pays for the costs of reclamation of oil and gas drill sites. In FY 2016, it paid $208,845. The Morrill Act state special revenue account statutory appropriation is capped at $80,000 each biennium and pays for the administration of Morrill Land grant trust lands. The total spent was $53,070. Additionally, the costs of fire suppression, including the Fire Suppression Fund and the federal reimbursements are statutorily appropriated.

Budget Amendments

The largest approved budget amendment was $24,261 in federal funds to reimburse DNRC for use of department expertise on fire management.

Other Bills

The department had two other bills with appropriations.

- HB 510 put $240,000 in general fund towards a local forest advisor. To date, $34,356 has been expended. This lag was due to the position being hired at the beginning of February 2016.
- SB 261 appropriated $5.0 million state special revenue for sage grouse stewardship. DNRC spent no money in FY2016

Carry forward

DNRC has $1.3 million in carry forward authority of which $338,720 is general fund. The department spent $230,846 of which 92,087 was general fund.

Department of Agriculture

Executive Summary

At the end of FY 2016, the Department of Agriculture received contingency base funding to support Growth Through Agriculture grants. Personal services was under expended due to lack of demand at the State Grain Lab.

HB 2 Budget

<u>Allocated Budget</u>

Contingency Base Funding

The department received $50,000 in Contingency Base funding for Growth Through Agriculture grants.

<u>Modified Budget</u>

Operating Plan Changes

Agriculture moved $683,000 in Wheat and Barley Account state special revenue funds from operating expense to grants, personal services, and transfers to cover approved grants and associated costs.

Reorganizations

Agriculture did not make any changes through reorganizations.

FY 2016 HB 2 Expenditures

Personal Services

The Agriculture Development Division had lower than expected personal services costs. This pattern resulted from a decreased need for workers at the state grain lab during FY 2016.

State Special Revenue

The department received additional funds in the Coal Shared account due to a one-time audit. The Coal Shared account funds local libraries (through Montana State Library), conservation districts (through DNRC), and the Growth Through Agriculture Program (through the Department of Agriculture). This event is detailed in the revenue section of the September Budget Status Report.

Statutory Appropriations

Agriculture has multiple statutory appropriations. The general fund statutory appropriations are for coal severance tax interest income that go to the Growth through Agriculture and the Montana Cooperative Development Center. Together these total $690,000. The crop checkoffs for Cherry, Pulse, and Potatoes are all statutorily appropriated state special revenue accounts. The department also has a statutory appropriation for hail insurance claims through a proprietary fund.

Carry forward

The department has $873,951 in carry forward authority of which $519,408 is state special revenue. It used $93,842 in FY 2016.

SECTION D – JUDICIAL BRANCH, LAW ENFORCEMENT JUSTICE

Judicial Branch

EXECUTIVE SUMMARY

The Judicial Branch implemented an operational plan change that transferred $3.2 million from various expenditure categories in order to move unexpended judicial districts' annual allocations and cost containment pool funds to the youth court intervention and prevention account per statute.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Program Transfers

The branch transferred a net of nearly $44,500 from the Supreme Court Operations program to the District Court Operations program to balance funding with expenditures for the fiscal year.

Operating Plan Changes

Besides various adjustments to balance the operating plan to expenses, the most significant change in the operating plan was in the Supreme Court Operations program where $3.2 million was transferred from the benefits and claims expenditure category to move unexpended judicial districts' annual allocations and cost containment pool funds to the youth court intervention and prevention account per statute.

At the end of the fiscal year operating plan changes increased transfers by $3.2 million with the funding primarily being moved from benefits and claims and personal services. In aggregate, the agency experienced a 5.7% vacancy savings rate when comparing actual hours to available FTE hours. This vacancy savings freed up personal services for this transfer but funded 2.00 modified FTE with HB2 funding. The primary factor behind the transfer from benefits and claims is the statutory requirement to transfer unexpended district court allocations and cost containment pool funds to the youth court intervention and prevention account. These funds are available for two years and are statutorily appropriated as state special revenue.

FY 2016 HB 2 Expenditure

The total expenditures for the Judicial Branch for FY 2016 were $1.8 million below, or 96.4% of, HB 2 authority. HB 2 expenditures are in line with historical expenditure patterns as compared to the last two fiscal years. State and federal special revenue budgets totaled a combined $716,000 in the Supreme Court Operations and District Court Operations programs. For these two programs state and federal special revenue expenditures were 62.6% of budget and contributed $268,000 to the agency reversions.

Budget Amendments

The Supreme Court Operations program received three budget amendments two of which were no cost extensions to previously approved amendments for drug and veteran's courts. The third was funding to the 13th Judicial District Court adult drug court (Yellowstone County) to provide intensive case management services and mental health services for co-occurring disorders and to fund a court coordinator, treatment court clerk, and data input specialist.

HB 2 Expenditures

Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget

Supreme Court Operations Program

The Supreme Court Operations Program expended 95.0% of its FY 2016 budget with personal services expended 92.9% and operating expenses at 95.9%. The program had payouts totaling $18,300 in FY 2016.

Law Library

The Law Library expended 88.1% of its FY 2016 budget with personal services 85.9% expended, operating expenses 90.7%, and equipment 90.7% expended. The available hours for the 6.75 FTE of the Law Library were 84.8% expended. The program had two payouts totaling $6,700 in FY 2016.

District Court Operations

The District Court Operations program expended 97.5% of its FY 2016 budget. Personal services, which comprises 90% of the program's budget was 97.6% expended. The program had payouts totaling $68,000 in FY 2016.

Water Court Supervision

The Water Court Supervision program expended 97.3% of its FY 2016 budget. Personal services, which comprises 88% of the program's budget was 98.8% expended.

Clerk of Court

The Clerk of Court expended 95.3% of its FY 2016 budget. Personal services, which comprises 91.6% of the program's budget was 96.0% expended.

Crime Control Division

EXECUTIVE SUMMARY

The Crime Control Division of the Board of Crime Control has expended only 51.1% of state special revenue funding and 61.5% of federal special revenue finding. This is typical of prior years and is due to delays in the pass-through grant process. The legislature recognized this spending delay and approved language in HB 2 that makes the unexpended FY 2016 authority continuing into FY 2017.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Operating Plan Changes

At the end of the year $113,824 in federal grant funding was reallocated to personal services, operating expenses, and transfers to support grant related activities of the division.

HB 2 Expenditure

HB 2 expenditures are in line with historical expenditure patterns as compared to the past two fiscal years. State and federal special revenue are 51.1% and 61.5% expended respectively and about 10% ahead of the spending at the end of FY 2015.

Budget Amendments

The Crime Control Division received a budget amendment that added $120,680 in federal funds to support training and technical assistance to providers of guidance for victims of crime.

HB 2 Expenditures

Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget

The Crime Control Division expended 67.3% of its FY 2016 budget. Personal services was 89.4% expended, while operating expenses were 70.1%, grants were 87.1%, and transfers were 36.7% expended. State and federal special revenue were 51.1% and 61.5% expended respectively. Apparent low expenditures of non-general fund are typical in this division and are due to inherent delays in expending grant funding for both state and non-state entities. The available hours for the 17.50 FTE funded in HB 2 were 84.7% expended. The division had retirement payout of $68,600 explained predominantly by the retirement of one senior staff member.

Department of Justice (DOJ)

Executive Summary

The Forensic Services Division in the Department of Justice experienced budget pressures as a result of the turnover of staff in the medical examiner function. To address these budget pressures the department transferred $200,000 of FY 2017 funding into FY 2016, used FY 2015 carryforward authority, and transferred unexpended funding from various other programs. FY 2016 expenditures for the Motor Vehicle Division license plate rolling reissuance were less than half of the budgeted $5.6 million in state special revenue. Expenditures of federal funds for crime victim benefits were half of the $518,500 budget.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Operating Plan Changes

The Information Technology Services Division moved $172,466 general fund from operating expenses to equipment to account for Internet security equipment and other equipment purchase as a capital asset instead of as an operating expense. The Division of Criminal Investigations moved $16,911 from personal services to transfers in anticipation of transferring the funds to the Justice Information Technology Services Division for the SmartCop memorandum of understanding (see program transfer below). The Forensic Services Division moved $6,000 general fund from personal services to equipment to cover funding shortages in equipment.

Program Transfers

The Central Services Division moved $203,062 in general fund and $174,953 in highways state special revenue to the Justice Information Technology Services Division, Division of Criminal Investigations, and Motor Vehicle Division to reallocate funding for fixed costs.

To address funding shortfalls in the Forensic Services Division, $181,000 general fund was transferred from the Motor Vehicle Division and $30,500 general fund was transferred from the Legal Services Division.

A public relations position was created in the Legal Services Division by moving 1.00 FTE and $57,593 in general fund from the Motor Vehicle Division.

Fiscal Year Transfers

The Forensic Services Division moved $200,000 of FY 2017 general fund budget to FY 2016 to cover shortfalls due to impacts of employee turnover of medical examiner functions during FY 2016. Legislative Finance Committee raised no concerns with this transfer when it was discussed at its June 2016 meeting.

The Public Safety Officers Standards and Training program moved half, or $50,000, of its general fund budget for legal support and travel from FY 2016 to FY 2017 as all of the authority was established in FY 2016.

Carryforward

The Forensic Services Division received $149,962 in FY 2015 general fund carryforward to fund personal services in the crime laboratory.

HB 2 Expenditure

Total expenditures for the Department of Justice made with FY 2016 HB 2 funding were $93.1 million, or 94.2% of budget. Areas where spending is significantly lower than expected include the following:

- Debt service expenditures in the Motor Vehicle Division for the MERLIN motor vehicle system were $27,500 out of a state special revenue budget of $616,700, or 4.5%
- Expenditures for crime victims benefits in the Legal Services Division were $263,000 out of a $518,500 budget, or 50.8%
- The Public Safety Officers Standards and Training (POST) program expended only 56.5% of its general fund authority of $193,000 for operating expenses
- The Motor Vehicle Division expended only 42.3% of its $5.6 million state special revenue budgeted for the insurance verification system and license plate rolling reissuance
- The Gambling Control Division expended only 88.4% of its $551,000 gambling fee state special revenue and only 75.5% of its $236,000 liquor enterprise fund authority budgeted for operating expenses

Budget Amendments

The Division of Criminal Investigations had four no cost adjustments to previously approved budget amendments. These four amendments change funding to a different federal fund. Additionally, the division received $2,568 in federal funds to fund overtime and associated operating costs for support of investigations supporting the Adam Walsh Act.

Public Service Regulation

EXECUTIVE SUMMARY

The Public Services Regulation expended 89.5% of its FY 2016 budget. Personal services was 89.1% expended, while operating expenses were 91.1% expended. The available hours for the 38.44 FTE funded in HB 2 were 81.3% expended, which is a key factor for the low spending in personal services. The program had six retirement payouts totaling $92,150.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

The entire $47,662 in restricted funding for information technology has been reverted.

Office of State Public Defender (OPD)

EXECUTIVE SUMMARY

The Office of State Public Defender expended all but $221,642 of its FY 2016 budget. This spending level is after $600,000 of FY 2017 funding was transferred to FY 2016 and the agency received nearly $1.8 million and 4.00 FTE from allocations of personal service contingency base and base contingency funding from the Governor's Office. The 4.00 FTE were filled only a short amount in FY 2016 and the excess personal services authority was used to fund shortfalls generated by higher than budgeted caseload growth.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Operating Plan Changes

Through a series of yearend transactions the Office of Public Defender program transferred a net of $1.5 million general fund in personal services to operating expenses and equipment. Of these transferred funds, $9,541 was transferred to equipment to account for equipment purchases as capital assets instead of operating costs per accounting standards. The remaining $1.5 million was transferred to operation expenses to cover funding shortfalls due to higher than anticipated expenditures on contract attorneys as a result of higher than anticipated caseloads. Personal services was available partly due to the delayed hiring of staff funded with the allocation of the Governor's personal services base contingency and base contingency funds and a 3% vacancy savings rate based. The Office of Appellate Defender program transferred $82,312 general fund in operating costs to personal services to cover funding shortfalls in personal services. The Chief Administrator's Office program transferred $19,800 general fund in personal services to operating costs at yearend to cover funding shortages. The Conflict Coordinator program transferred $15,080 general fund in operating costs to personal services to cover funding shortfalls.

Program Transfers

Through a series of transactions to cover shortfalls throughout the yearend, the Office of Public Defender program transferred a net of $422,390 general fund, the Office of Appellate Defender program transferred $22,725 general fund, and the Chief Administration's Office program transferred $141,619 general fund to the Conflict Coordinator program.

Fiscal Year Transfers

The Conflict Coordinator program transferred $600,000 general fund from FY 2017 to cover shortfalls in operating expenses due to higher than anticipated caseloads.

HB 2 Expenditure

Total expenditures for the Office of State Public Defender made with FY 2016 HB 2 funding were $35.3 million, or 99.4% of budget after transferring $600,000 general fund from FY 2017. The only area where funding was not fully expended was the operating costs in the Chief Administrator's Office program where 80% of the budget was expended.

HB 2 Expenditures

Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget

Office of Public Defender

The Office of Public Defender program expended 100% of its FY 2016 budget.

Office of Appellate Defender

The Office of Appellate Defender program expended 100% of its FY 2016 budget.

Conflict Coordinator

The Conflict Coordinator program expended 100% of its FY 2016 budget.

Office of Chief Administration

The Office of Chief Administration program expended 91.3% of its FY 2016 budget. Personal services was fully expended and operating expenses was 80% expended.

Department of Corrections

EXECUTIVE SUMMARY

The Department of Corrections transferred $2.0 million of FY 2017 general fund authority to FY 2016 and received a $70,000 allocation from the Governor's contingency base funding. Pressures the department continued to deal with at yearend were higher than anticipated number of inmates held in county jails and outside medical costs. The department segregated $1.37 million of general fund appropriations that corresponded to half of the anticipated savings from implementation of the Montana Health and Economic Livelihood Partnership (HELP) Act and this funding will revert to the general fund. Also reverted was $208,900 in state special revenue authority for a medical copayment program that was not implemented in FY 2016 while the department implemented the HELP Act.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Allocated Budget

Contingency Base Funding

The Office of Budget and Program Planning (OBPP) transferred $70,000 in general fund to the Clinical Services Division to fund outside medical costs.

Modified Budget

Operating Plan Changes

The Clinical Services Division moved $1.4 million from the restricted appropriation for outside medical costs to a separate appropriation reserved for Medicaid savings. The amount is half of the amount anticipated in the fiscal note for SB 405 due to delayed implementation until January 1, 2016. The funding in the Medicaid savings appropriation was designated frozen on the state accounting system and unavailable for use by the agency.

The Probation and Parole Division moved $231,985 state special revenue from operating expenses to equipment to properly account for a capitalized equipment purchase.

The Business Management Services Division moved $440,000 general fund and the Clinical Services Division moved $490,000 general fund from personal services to operating expenses to cover yearend shortfalls.

The Montana Correctional Enterprises moved $5,231 general fund and $34,627 in state special revenue to equipment and transfers to fund equipment purchases and transfer funds to the inmate welfare fund.

Program Transfers

The Secure Custody Facilities program moved 2.00 FTE and $95,983 general fund to the Business Management Services Division to function as an information technology project manager and paralegal.

Through a series of transactions the Probation and Parole Division moved a net $656,794 general fund and the Youth Services Division moved a net $1.15 million to the Secure Custody Facilities program and the Clinical Services Division to cover yearend shortfalls. The Secure Custody Facilities program received a net $543,779 but also reallocated $1.2 million in excess personal services to operating expenses along with the additional funding going to operating expenses to address county jail hold costs. The Clinical Services Division received $1.26 million in operating expenses to address shortfalls in outside medical costs.

Fiscal Year Transfer

The Secure Custody Facilities program transferred $2.0 million general fund from FY 2017 biennial budget authority to fund shortfalls due to higher than anticipated costs to hold inmates in county jails.

Carryforward

The Secure Custody Facilities program utilized $30,351 general fund and $267,729 in state special revenue carryforward from FY 2015 reversions to fund shortfalls due to higher than anticipate costs to hold inmates in county jails.

HB 2 Expenditure

Total expenditures for the Department of Corrections made with FY 2016 HB 2 funding were $198.7 million, or 98.9% of budget after transferring $2.0 million general fund from FY 2017. Areas where spending is significantly lower than expected include the following:

- Benefits and claims funded with general fund in the Youth Services Division were only 82.1% expended on a budget of $519,400 while state special revenue funding was over expended by nearly the same amount indication a higher than anticipated cost of care by youth families
- Operating expenses in the Clinical Services Division transferred $1.37 million to an appropriation that will fully revert and represents half of the estimated FY 2016 Medicaid savings from the Montana Health and Economic Livelihood Partnership (HELP) Act

- Operating expenses in the Clinical Services Division for a medical copayment program were not expended due to delaying implementation of the copayment program during implementation of the HELP Act Medicaid expansion resulting in a reversion of $208,900 state special revenue
- Personal services for a correctional officer pay adjustment was only 75.7% expended in the Secure Custody Facilities program and 59.4% expended in the Youth Services program reverting a combined $397,943 general fund

Budget Amendments

The Probation and Parole program received two no cost extensions to previously approved budget amendments. One amendment funds family based therapy and the second funds reentry projects.

HB 2 Expenditures

<u>Comparison of FY 2016 Actual Expenditures to FY 2016 Executive Modified Budget</u>

Business Management Services Division

The Business Management Services Division expended 99.3% of its FY 2016 budget.

Probation & Parole Division

The Probation & Parole Division expended 99.3% of its FY 2016 budget.

Secure Custody Facilities

The Secure Custody Facilities program expended 99.9% of its FY 2016 budget.

Mont Correctional Enterprises

The Mont Correctional Enterprises program expended 96.7% of its FY 2016 budget.

Youth Services

The Youth Services program expended 97.7% of its FY 2016 budget.

Clinical Services Division

The Clinical Services Division expended 93% of its FY 2016 budget. Operating costs were 92.5% expended due to the intentional reversion of estimated Medicaid savings and no expenditures on a medical copayment program. Personal services were 93.7% expended due to vacancy savings.

Board of Pardons & Parole

The Board of Pardons & Parole program expended 100% of its FY 2016 budget.

SECTION E – EDUCATION

Office of Public Instruction (OPI)

Executive Summary

The HB 2 budget of $961.8 million for the Office of Public Instruction was 98.1% expended through the end of FY 2016. Of this total budget $784.3 million was general fund, of which 99.4% was expended in FY 2016. As of the end of FY 2016, 97.7% of the $12.8 million personal services budget was expended and 96.0% of the $15.8 million operating expenses budget was expended. As of the end of FY 2016, 98.8% of the $771.1 million in local assistance to school districts was distributed. Unexpended expenditures include $3.5 million in general fund resulting from a transfer of appropriation from FY 2017 to FY 2016 the bulk of which was not needed and $4.6 million in state special revenue appropriated for debt relief that did come in as anticipated.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Operating Plan Changes
Within the Local Education Activities Program $60,468 of general fund appropriation was transferred from Operating Expense to Local Assistance and $100,000 of federal appropriation from Grants to Transfer Out to cover year-end negative balances. These budget changes did not change the total agency budget.

FY 2016 HB 2 Expenditures Summary

The Office of Public Instruction receives 81.6% of its total budget from the state general fund, 17.4% from federal special revenue funds, and 1.0% from state special funds. OPI expended 99.4% of its general fund budget and 98.1% of its total budget in FY 2016. The agency made a year-end transfer of appropriation authority from FY 2017 to FY 2016 of $3.5 million for BASE Aid in anticipation of a possible shortfall in revenues available from the Guarantee Account, only $61,279 of this transfer was needed; $3.4 million, or 98% of this fund transfer will be carried back into FY 2017. An additional $0.9 million of unspent appropriation authority from transportation, tuition, and other areas of the budget will also be carried into FY 2017.

One-half of the appropriation for state special revenue for Local Education Activities Program was expended. The legislature appropriated $8.6 million from the School Facility & Technology Account (02218) to subsidize debt service for school districts. In FY 2016, only $4.0 million in revenue was available for this purpose.

Statutory Appropriations

Guarantee Account – 02018 (Statutorily appropriated for BASE Aid[1])

BASE Aid is funded by a combination of interest and income from the guarantee account and an appropriation from the general fund. In FY 2016 revenues flowing into the guarantee account were $1.8 million lower than anticipated by the 2015 legislature due primarily to lower than expected oil bonus payments, however this was offset for the most part by higher than expected grazing fees.

For FY 2017 LFD forecast that interest and income from the guarantee account will be $6.6 million less than anticipated. The LFD projects this reduction, along with FY 2017 BASE Aid payments currently estimated to be $0.9 million higher than FY 2016 amounts, will likely lead to the need for a supplemental appropriation of $7.5 million in general fund to fully fund FY 2017 BASE Aid payments.

Budget Amendments

Since June, $80,000 of federal special revenue authority was added to the State Level Activities Program as a result of a Northwest Earth and Space Science Pipeline grant award for a NASA supported STEM program. Additionally, $150,000 of state special revenue authority was added to this program for Tobacco Use Prevention programs.

[1] 20-9-622, MCA

Board of Public Education (BPE)

Executive Summary

The HB 2 budget of $365,420 for the Board of Public Education was 84.4% expended through the end of FY 2016 with 93.6% of the personal services budget expended and 69.8% of the operating expenses budget spent. Of this total budget $187,428 was general fund, of which 77.2% was expended in FY 2016. Unexpended appropriation for legal services account for 31.6% of unexpended general fund, operations account for the remaining unexpended general fund (68.4%). The 2015 legislature provided a one-time-only general fund appropriation of $30,000 for legal expenses, $13,500 of this appropriation was not used; this funding is restricted for its intended purpose.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

The Board of Public Educations budget has not changed since the last Budget Status Report.

Office of the Commissioner of Higher Education (OCHE)

Executive Summary

The HB 2 budget of $331.7 million for the Office of the Commissioner of Higher Education (OCHE) was 91.0% expended as of the end of FY 2016. The OCHE expenditures are in line with historical spending patterns and no issues with division expenditures were identified.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

<u>Modified Budget</u>

Operating Plan Changes

Since the June report, OCHE completed two operating plan changes that moved authority between expenditure categories in FY 2016. Cumulatively, the changes moved $2,218,534.38 of authority between expenditure categories. The total changes included the following:

- $108,411 from personal services
- $2,110,124 from benefits and claims
- $1,624,896 into operating expenses
- $8,621 into equipment
- $585,017 into grants

FY 2016 HB 2 Expenditures Summary

OCHE receives 72.9% of its total budget from the state general fund, state special funds are 6.4%, and 20.6% is federal special revenue. As part of HB2 authority, the OCHE also has proprietary funding that makes of the remaining of its budget. The six mill levy including oil & gas and bentonite revenues for the university system are indicating a declining trend. While revenue from property tax will increase slightly it will not offset the revenue lost from the oil & gas sector.

Total HB 2 expenditures for the Office of the Commissioner of Higher Education for FY 2016 were $301.8 million or 91.0% of the HB 2 authority. Areas where spending is lower than expected included the following:

- Improving Teacher Quality program expended 45.6% of the $517,390 of funding provided for FY 2016. The unspent portion of funds will be carried over for awarding in FY 2017.
- Educational Outreach & Diversity program expended 74.6% of the $8.7 million allocated funding. This program had staff turnover and vacancies that resulted in a portion of the

remaining funds. Within the GEAR UP grant, there was a transfer of funds from FY 2017 to FY 2016 due to expenditures occurring earlier in the grant process than planned.
  - Work Force Development program was allocated $5.6 million in funding for FY 2016 and utilized 91.2%. The Carl Perkins grant is set up on a 27 month cycle and this is in line with expenditures and the timing for utilizing the funds during FY 2017.
  - Of the $53.7 million allocated for funding, Guaranteed Student Loan expended 54.6%. This program is phasing out, expenditures will continue to decline and a continual review of personal services and operating expenses is taking place to determine the funding needs of the program.

As of the end of FY 2016, the OCHE expended 81.9% of their HB 2 personal services budget and the agency had 23.13 FTE vacancies or 25.7% of budgeted FTE, the majority in Guaranteed Student Loan. The agency has expended 70.0% of the operating expenses budget.

Statutory Appropriations

Statutory appropriations actual expenditures were slightly higher than original estimates. An increase in appropriation authority of $60,000 for the Montana University System retirement plan and $10,000 for the rural physicians program were implemented during FY16.

Montana School for the Deaf and Blind

Executive Summary

The HB 2 budget of $7.4 million for the Montana School for the Deaf and Blind (MSDB) was 93.9% expended through the end of FY 2016. Of this total budget $7.0 million was general fund, of which 93.7% was expended in FY 2016. Unexpended personal services of $429,038 accounted for 94.7% of the unexpended appropriation. The modified budget for personal services as of FYE 2016 was $6.5 million of which only 92.5% was spent on personal service and 0.9% was used to cover operating expenses and 6.6% was unexpended.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

<u>Modified Budget</u>

Operating Plan Changes
Since June, the agency has submitted four general fund program transfers that had a net effect of reducing reduced personal services by $58,000, and increasing operating expenses by a like amount. This transfer was used to fund personal services and operations in all programs.

FY 2016 HB 2 Expenditures Summary

MSDB receives 95.5% of its total budget from the state general fund, state special funds are 3.5% (revenues from trust lands), and the remaining 1.0% is federal special revenue (reimbursements for Medicaid eligible services and school lunch programs). The modified budget for state general funds consists of the 2015 HB 2 legislative appropriation and adjustments in personal services related to pay plan and workers compensation.

The school expended 93.9% of its total budget. Unexpended personal services of $453,264 accounted for 94.7% of the unexpended appropriation. As of the end of FY 2016, 97.6% of the $0.9 million operating expenses budget was expended.

Personal Services

As of the end of FY 2016, 93.3% of the $6.4 million personal services budget was expended. The lower percentage expended was due to 15 open positions (10.4 FTE). The school has filled four (2.94 FTE) of the positions for the second year of the biennium, the positions are three teachers and an administrative clerk. See table below for details.

MSDB Vacancies		
Position	Positions Count	Total FTE
Teacher	6	4.38
Institution Attendant	3	2.16
Administrative Clerk	1	0.75
Licensed Practical Nurse	1	0.62
Professional	1	0.77
Cook	1	0.77
Food Preparation Worker	1	0.1
Lifeguard	1	0.82
Total	15	10.37

Montana Arts Council

Executive Summary

The HB 2 budget of $1,506,241 for the Montana Arts Council was 98.0% expended through the end of FY 2016. The agency expended 94.7% of its appropriated general fund and 100% of all other funds. Of the unexpended general fund, personal services were 100% expended, $5,000 budgeted for operations were unexpended and $25,000 in federal grants was not used.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Allocated Budget –

Contingency Base Funding

The agency received $22,750 general fund for personal services.

Modified Budget

Operating Plan Changes

The Arts Council had two operating plan changes that in total moved $15,700 of general fund from operating expense to personal services, $8,800 of state special revenue from personal services to operating expense, and $52,000 of federal fund appropriation from grants to personal services and operating expenses.

Montana State Library

Executive Summary

The HB 2 budget of $6.5 million for the Montana Historical Society was 85.7% expended through the end of FY 2016. Of this total budget $3.1 million was general fund, of which 98.3% was expended in FY 2016 and 95.7% of the personal services of appropriation were expended.

Two state special revenue accounts did not have the revenues anticipated by the 2015 legislature, the Coal Severance Tax Shared Account, and the Montana Land Information fund. The Office of Budget and Program Planning (OBPP) directed the library, and other agencies, to reduce expenditures from the Coal Severance Tax Shared Account due to anticipated shortfalls in actual revenues compared to HJ 2 estimates. The Library Commission was directed to reduce expenditures by 23%. Revenues available from Montana land information fund less than anticipated by the 2015 legislature. During session, the agency estimates the amount of federal grants that may be available in the next biennium. In FY 2016, federal grants were $0.56 million less than anticipated.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Modified Budget

Operating Plan Changes
Since June, the library commission has submitted eight general fund program transfers that reduced personal services by $16,000, increasing operating expense by $4,711 and equipment / intangibles by $11,298.

Montana Historical Society

Executive Summary

The HB 2 budget of $5.7 million for the Montana Historical Society was 96.4% expended through the end of FY 2016. Of this total budget $3.7 million was general fund, of which 97.0% was expended in FY 2016. Unexpended personal services of $159,330 accounted for 77.7% of the unexpended appropriation. As of the end of FY 2016, 97.1% of the $1.9 million operating expenses budget was expended and 105.9% of the agency's $85,620 federal appropriation for grants was expended.

HB 2 Budget Modifications from June 1, 2016 – fiscal year end

Allocated Budget

Contingency Base Funding
The agency received $22,235 federal special funds for personal services contingency base funding for its Historic Preservation Program.

Modified Budget

Operating Plan Changes
Since June, the Historical Society has submitted eight general fund program transfers that reduced personal services by $20,000, equipment and intangible assets by $18,900, and increased operating expense by $38,900.

SECTION F (LONG-RANGE PLANNING)

Executive Summary

The Long-Range Planning (LRP) programs consist of statewide infrastructure programs and various local government (infrastructure and natural resource improvements) grants programs. Two things these programs have in common include:

- The programs are funded through dedicated revenue sources, which limits the number of projects or grants that can be appropriated or authorized
- The programs have either statutory or temporary statute continuing authority, as opposed to only biennial authority, because projects most often take more than the two years of a biennium to complete

Program expenditures in FY 2016 has consisted of spending from past/continuing appropriations and spending from the 2017 biennium budgets. Through FY 2016, no unusual project issues have occurred. With many of the programs relying on dedicated revenue streams from resource extraction taxes, particularly coal severance taxes and oil and natural gas taxes, some of the programs are experiencing funding shortfalls. In such cases, the programs will need to manage their project funding within the available funding. Since in many cases the projects will be continued into the 2019 biennium, future revenues will continue to flow into the program accounts and could be used to offset the shortfall effects.

FY 2016 Expenditures by Program

Long-Range Building Program

In FY 2016, total expenditures in the Long-Range Building Program (LRBP) were $56.6 million. From the total expenditures, $52.4 million of the authority was from non-legislative and prior year authority. The distribution of the authority is as follows:

- Prior biennium legislative authority: $34.9 million
- Administrative and Board of Regents Authority: $15.9 million
- Appropriation Transfers: $ 1.6 million

The 2015 Legislature provided the LRBP (Architectural and Engineering Division (A&E) of the Department of Administration), $93.8 million of all funds appropriations and authority budget in HB 403. The budget was reduced by $800,000 through appropriation transfers, providing total modified authority of $93.0 million. The specific modified budget appropriations and authority include:

- Capital project funds: $15.7 million
- State special funds: $ 8.3 million
- Federal special funds: $ 4.2 million
- Authorizations (not appropriations): $64.8 million

As shown in the figure below, expenditures in FY 2016 were $4.1 million, or 4.4% of the budget.

Note: Expenditure amounts in the LRBP report are reduced from the June report due to year end accrual reversals.

LRBP 2017 Biennium Project Approrpiations and Authority
FY 2016 Expenditures

Project	Allocated HB 403 Budget	AT	Modified HB 403 Budget	Total Expenditures	Balance	% Expended
AUTHORITY ONLY - Bitterroot College Facility - Hamilton	$4,200,000		$4,200,000	$0	$4,200,000	0.0%
AUTHORITY ONLY-Engineering Building - MSU Bozeman	60,000,000	(400,000)	59,600,000	680,013	58,919,987	1.1%
Automotive Tech Center, MSU-Northern	2,000,000		2,000,000	0	2,000,000	0.0%
Def. Maintenance & Repairs, Original Gov. Mansion	200,000		200,000	0	200,000	0.0%
Elevator Modifications, Capitol Complex	700,000		700,000	0	700,000	0.0%
Equipment Storage Buildings	4,300,000		4,300,000	92,459	4,207,541	2.2%
Fire Protection Measures, Capitol Complex	300,000		300,000	0	300,000	0.0%
Firing Range Cleanup	500,000		500,000	0	500,000	0.0%
Flooring Replacement, Capitol Complex	500,000		500,000	37,558	462,442	7.5%
Improvements at Montana Military Museum	65,000		65,000	65,000	0	100.0%
Infrastructure Repairs, Capitol Complex	2,500,000		2,500,000	687,071	1,812,929	27.5%
Life Safety & Deferred Maintenance	7,300,000		7,300,000	265,572	7,034,428	3.6%
Life Safety, Deferred Maintenance & Energy Improvements	2,000,000		2,000,000	826,970	1,173,030	41.3%
Mechanical System Corrections, GFAFRC USAR	450,000		450,000	0	450,000	0.0%
Misc. Improvements, VA Cemetery	2,000,000		2,000,000	0	2,000,000	0.0%
Miscellaneous Improvements MSDB	125,000		125,000	0	125,000	0.0%
MT Ag Experiment Station ProjectsPhase 1	2,480,000		2,480,000	1,303,887	1,176,113	52.6%
Replace Boiler, MVH	331,500		331,500	142	331,358	0.0%
Roof Repairs & Replacements	1,950,000		1,950,000	159,164	1,790,836	8.2%
Sandblast Booth, CSMS	1,500,000		1,500,000	0	1,500,000	0.0%
Historic Buildings Maintenance	400,000	(400,000)	0	0	0	-
Grand Total	$93,801,500	($800,000)	$93,001,500	$4,117,835	$88,883,665	4.4%

While the expenditures in FY 2016 mark the mid-point of the biennium, it is not unusual that LRBP expenditures are 4.4% of the budget.

Because LRBP projects most often take longer than the two years of a biennium to complete, the program is permitted by law to re-appropriate project authority until the project is complete. At FY 2016 year end, A&E re-appropriated/re-authorized total authority of $379.3 million. The continuing appropriations/authorizations have the following attributes:

- 34.2% from capital project funds appropriations
- 12.9% from state and federal special funds appropriations
- 8.1% from donation authority other than the university system
- 44.51% from appropriations and authority at the university system

A&E also reverted $53.1 million in authority and authorizations. From the total 10% of the reversions were from capital project fund appropriations and 90% from university system appropriations and authority.

The legislature budgets LRBP to anticipated revenues of the LRBP capital projects fund. Total revenues for the fund; consisting of cigarette taxes, coal severance taxes, short-term interest, supervisory fees, and energy savings transfers; were expected to be $22 million over the biennium. Revised estimates are approximately $3.6 million (17.0%) lower than initial estimates, with reduced projections of coal severance taxes and short-term interest earnings. As of the end of FY 2016, revenues in the fund (including revenue accruals) were $10.3 million, or 10.4% below the FY 2016 projections. As a result, the LRBP may need to manage expenditures within the limits of the available revenues.

State Building Energy Conservation Program

The State Building Energy Conservation Program (SBECP), administered by the Department of Environmental Quality (DEQ), is appropriated in the LRBP bill (HB 403). The SBECP is a revolving loan program. In effect, agencies borrow from the program for energy conservation projects and then repay the program for the project costs from the associated energy savings. The SBECP appropriations assume the LRBP ability to re-appropriate authority until all projects or complete, or in this case all funds are expended. Often, SBECP project appropriations are transferred to the LRBP and used in conjunction with LRBP project funding.

In the 2017 biennium, the legislature provided the SBECP with $2.5 million of appropriation authority and the program re-appropriated approximately $1.0 from the 2015 biennium. In FY 2016, DEQ transferred the re-appropriated authority and approximately $500,000 of the 2017 biennium authority to the LRBP for the energy conservation components of LRBP projects. The transferred authority is obligated to projects that are currently in design and construction. The program plans to transfer the remaining 2017 biennium authority into projects by the end of FY 2017.

Long-Range Information Technology Program

In FY 2016, total expenditures through the Long-Range Information Technology Program (LRITP) are $4.3 million. As with the LRBP, the LRITP projects take more than the normal 2 year budgets to complete, and the program has statutory authorization to re-appropriate project authority. From the total FY 2016 expenditures, $811,123 of the expenditures were attributed to prior biennia authority.

The 2015 Legislature provided the LRITP (State Information Technology Services Division of the Department of Administration), $34.5 million of appropriations in HB 10. The budget has been reduced by $20.6 million through appropriation transfers out of the LRITP to various agencies for their projects. As a result, the LRITP has modified authority of $13.9 million. The specific modified budget appropriations include:

- Capital project funds: $6.1 million
- State special funds: $3.6 million
- Federal special funds: $4.2 million

As shown in the figure below, expenditures in FY 2016 from the 2017 biennium LRBP appropriations are $3.5 million, or 25.1% of the total budget.

LRITP 2017 Biennium Project Appropriations FY 2016 Expenditures						
Project	Allocated HB 10 Budget	AT	Modified HB 10 Budget	Total Expenditures	Balance	% Expended
Statewide Information Technology Projects	$6,466,000		$6,466,000			0.0%
Network Equipment	0		0	2,898,727		
Data Protection Initiative	0		0	577,928		
Statewide Public Safety Communications	0	(20,000)	(20,000)			
Security System Replacements/Assessments	0		0			
Court Data Exchange Enhancement	0	(370,025)	(370,025)			
Total Statewide Information Technology Projects	$6,466,000	($390,025)	$6,075,975	$3,476,655	$2,599,320	57.2%
Enhanced Federal Financial Participation	20,000,000	(20,000,000)	0		0	
PPMS, Risk Based Management, Linear Referencing System	5,000,000	(200,000)	4,800,000		4,800,000	
Financial Management Suite	3,000,000		3,000,000		3,000,000	
Total	$34,466,000	($20,590,025)	$13,875,975	$3,476,655	$10,399,320	25.1%

While the expenditures in FY 2016 mark the mid-point of the biennium, it is not unusual that LRITP expenditures are 25.1% of the budget.

Treasure State Endowment Program

In FY 2016, total project expenditures through the Treasure State Endowment Program (TSEP) are $9.0 million. From the total expenditures, $6.9 million are from prior biennia authority. The TSEP legislation, HB 11, contains language that allows projects to be continued past the end of the biennium within guidelines provided in the TSEP legislation (must meet start-up conditions by 9/30/2018).

The 2015 Legislature provided the TSEP (Community Development Division of the Department of Commerce), $18.9 million of total biennial appropriations in HB 11. As shown in the figure below, total expenditures in FY 2016 were $2.0 million, or 10.8% of the total biennial budget. From the list of authorized 2017 biennium grants, 8 out of 9 bridge projects and 17 out of 24 infrastructure projects have met start-up conditions. None of the local governments have withdrawn their project requests, and as a result, there are still 3 contingency projects. Four bridge projects and seven infrastructure projects are receiving reimbursement funding for project costs. A full list of the projects with the project funding to date is available upon request.

TSEP 2017 Biennium Project Appropriations and Expenditures FY 2016				
Expenditures	Appropriations HB 11	Total Expenditures	Balance	% Expended
Emergency Grants	$100,000	$10,000	$90,000	10.0%
Infrastructure Planning Grants	900,000	259,973	640,027	28.9%
Bridge Grants	3,988,000	537,822	3,450,178	13.5%
Infrastructure Grants	13,941,000	1,237,747	12,703,253	8.9%
Total Expenditures	$18,929,000	$2,045,542	$16,883,458	10.8%

The legislature budgets TSEP to anticipated revenues of the TSEP state special revenue fund. Total revenues for the fund; consisting of coal severance tax trust interest was expected to be $19.9 million in the 2017 biennium. Revised estimates are approximately $1.2 million (6.0%) lower than initial estimates. In FY 2016, the interest earnings of the TSEP were consistent with the projections.

Treasure State Regional Water Program

The 2015 Legislature provided the Treasure State Endowment Regional Water Program (TSEPRW), administered by the Conservation and Resource Development Division of the Department of Natural

Resources and Conservation, $4.3 million of appropriations in HB 11. In FY 2016, total project expenditures are $433,992, or 10.2%, of the total biennial appropriation. During FY 2016, the program worked with the North Central Regional Water Authority in constructing pipeline from Shelby to Cut Bank. That project will continue into FY 2017. TSEPRW has also been working with the Central Montana and Dry Red Water authorities, and there may construction projects on those systems in FY 2017.

In FY 2016, the TSEPRW trust was projected to generate $3.3 million in interest earnings to support TSEPRW costs. Actual interest earnings were consistent with projections.

DNRC Grant and Loan Programs

Three programs, administered by the Conservation and Resource Development Division of the Department of Natural Resources and Conservation (DNRC), are budgeted through the work of the Long-Range Planning Subcommittee and include:

- Renewable Resource Grant Program – HB 6
- Reclamation and Development Grant Program – HB 7
- Renewable Resource Loan Program – HB 8

The grants programs are funded through the natural resource projects state special account (projects account). The projects account receives funding from resource extraction taxes, most notably the oil and natural gas tax, and the interest earnings of the Resource Indemnity Trust. Total revenues for the projects account were expected to be $10.1 million in the 2017 biennium. Revised revenue estimates are approximately $1.2 million (11.4%) lower than the initial biennial estimates. In FY 2016, with revenue accruals, the total revenues are $297,853 (6.5%) lower than anticipated by the 2015 Legislature. The agency may need to manage the various program appropriations within the limits of the available revenues. According to DNRC, the programs will manage available funds by limiting the funding to the discretionary grants to better enable contracting and funding the legislatively authorized project grants.

Renewable Resource Grant Program

The 2015 Legislature provided the Renewable Resource Grant Program (RRG), $5.6 million of appropriations in HB 6. As shown in the figure below, total project expenditures in FY 2016 were $858,356, or 15.4% of the total biennial appropriations. From the list of authorized 2017 biennium grants, 21 of the 34 approved RRG projects have contracted for their grants and ten projects are receiving reimbursement funding for project costs. A full list of the projects with the project funding to date is available upon request.

RRG 2017 Biennium Project Appropriations and Expenditures

	Appropriations HB 6	Total Expenditures in FY 2016	Balance	% Expended
Emergency Grants	$100,000	$35,000	$65,000	35.0%
Project Planning Grants	700,000	230,882	469,118	33.0%
Irrigation Development Grants	200,000	24,740	175,260	12.4%
Watershed Grants	300,000	27,758	272,242	9.3%
Septic Loan Grants	100,000		100,000	0.0%
RRG Project Grants	4,172,615	539,976	3,632,639	12.9%
Total / Balance	$5,572,615	$858,356	$4,714,259	15.4%

Renewable Resource Loan Program

The 2015 Legislature provided the authorization to issue $27.5 million in bonds, and the associated appropriations, for the Renewable Resource Loan Program in HB 8. In FY 2016, $4.7 million, or 17% of the total authorized, of coal severance bonds have been issued. The proceeds will fund two of the

HB 8 loans along with four wastewater/water projects from the $5.0 million appropriation to refinance existing debt or rehabilitation of water and sewer facilities. In FY 2016, $2.7 million in loans were made from the bond proceeds.

Reclamation and Development Program

The 2015 Legislature provided the Reclamation and Development Grant Program (RDGP), $5.3 million of appropriations in HB 7. As shown in the figure below, total project expenditures in FY 2016 were $756,303, or 14.3% of the total biennial appropriations. From the list of authorized 2017 biennium grants, six of the ten approved projects have contracted for their grants and two projects are receiving reimbursement funding for project costs. A full list of the projects with the project funding to date is available upon request.

RDGP 2017 Biennium Project Appropriations and Expenditures				
	Appropriations HB 7	Total Expenditures in FY 2016	Balance	% Expended
Project Planning	$800,000	$125,480	$674,520	15.7%
Aquatic Invasive Species Control	500,000	5,129	494,871	1.0%
Montana Salinity Control Association	214,000	115,000	99,000	53.7%
RDGP Project Grants	3,770,620	510,695	3,259,925	13.5%
Total / Balance	$5,284,620	$756,303	$4,528,317	14.3%

Cultural and Aesthetic Grant Program

The 2015 Legislature provided the Cultural and Aesthetic Grant Program (C&A), administered by the Arts Council, with $384,995 of appropriations in HB 9. In FY 2016, total expenditures by the Arts Council were $242,771, or 63.1% of the total biennial appropriation. In addition to the appropriation to the Arts Council, HB 9 included an appropriation of $30,000 for the Historical Society, from which $17.54 has been expended to date. The agency does anticipate fully expending all of their grant appropriation.

C&A is funded with earnings from the Cultural Trust. With concerns for interest earnings from the trust, the agency has encouraged the grantees to request their grants only when needed, which will allow monies deposited in the trust to earn more interest. Through FY 2016, transfers from the trust are consistent with the projections of the 2015 Legislature.