

LEGISLATIVE BRANCH

An Agency Profile Prepared by the
Legislative Fiscal Division

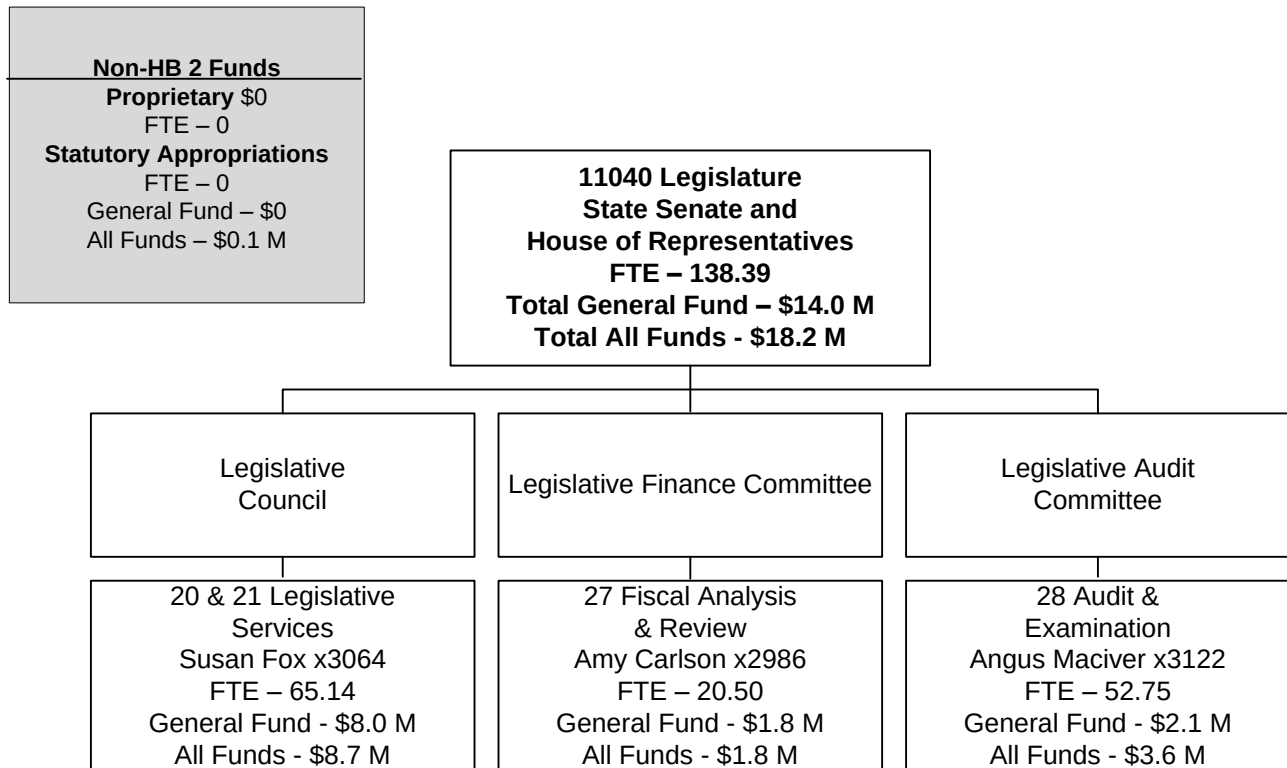
November, 2016



INTRODUCTION

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

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



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

HOW SERVICES ARE PROVIDED

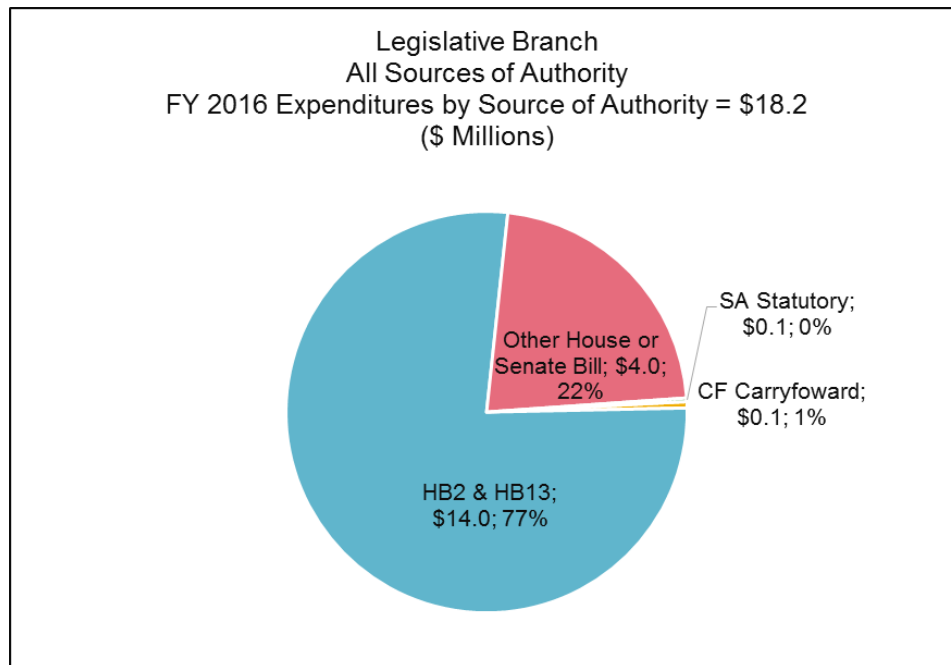
The Legislative Branch consists of the:

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

The Senate and the House and their supporting divisions enact the laws of the state and fund and monitor all of the functions of state government. The branch also includes 19 interim and administrative committees. The primary statutory references defining duties and responsibilities of the branch are found in Title 5 of the MCA and Article V, Section 10(4) of the Montana Constitution.

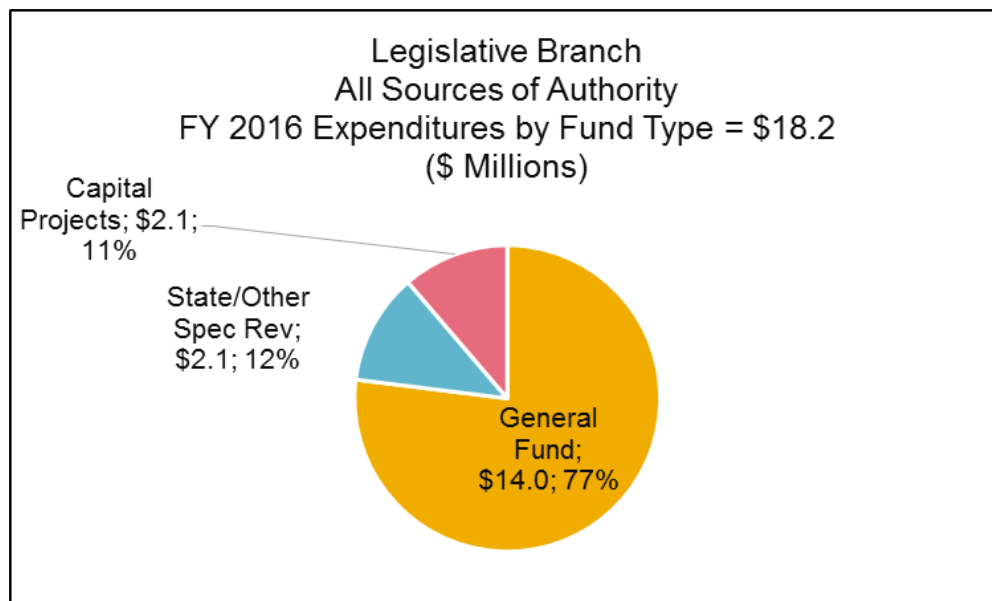
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Legislative Branch that were expended in FY 2016.

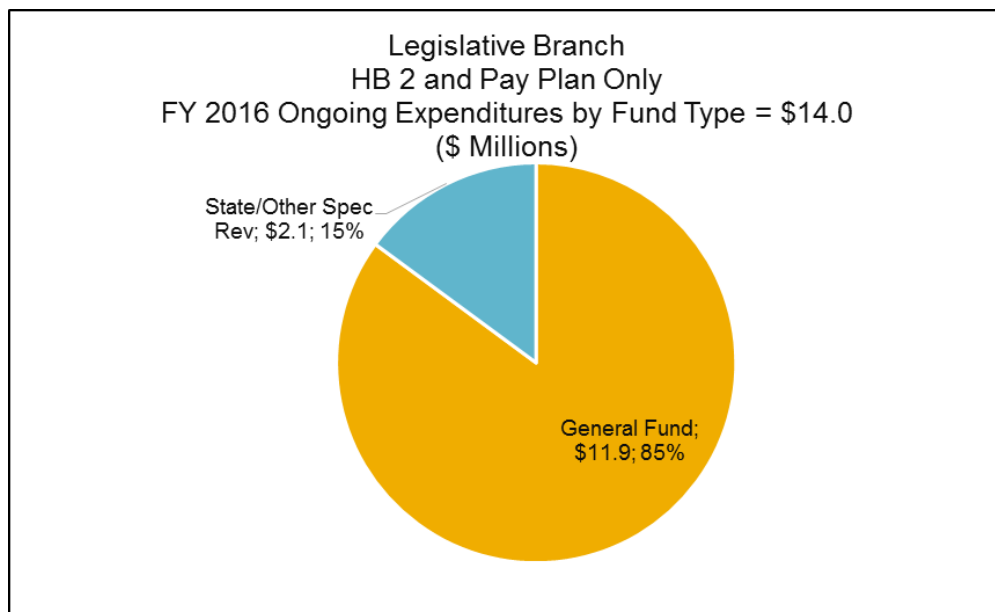


FUNDING

The Legislative Branch is funded primarily with general fund. State special revenues support the costs associated with the state broadcasting service (TVMT); the preparation, publication, distribution of the Montana Codes Annotated; and a portion of the audits conducted by the Legislative Audit Division. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

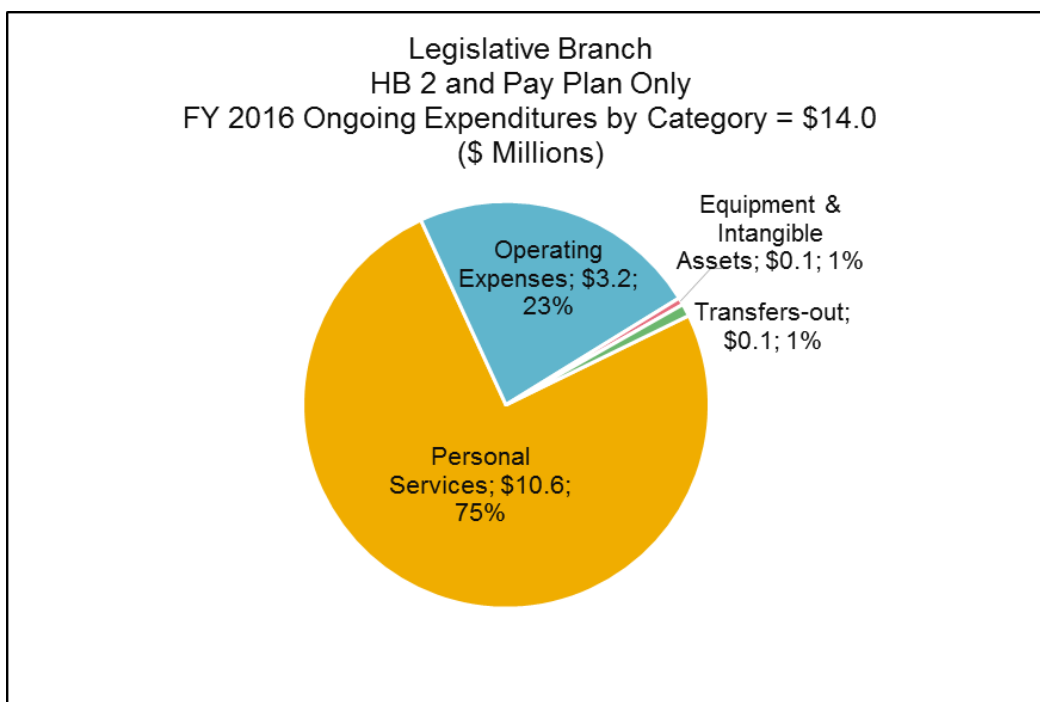


The chart below shows the Legislative Branch's HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The chart below explains how HB2 and pay plan authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

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

- Impacting policy related to the interim committees and interim studies

MAJOR COST DRIVERS

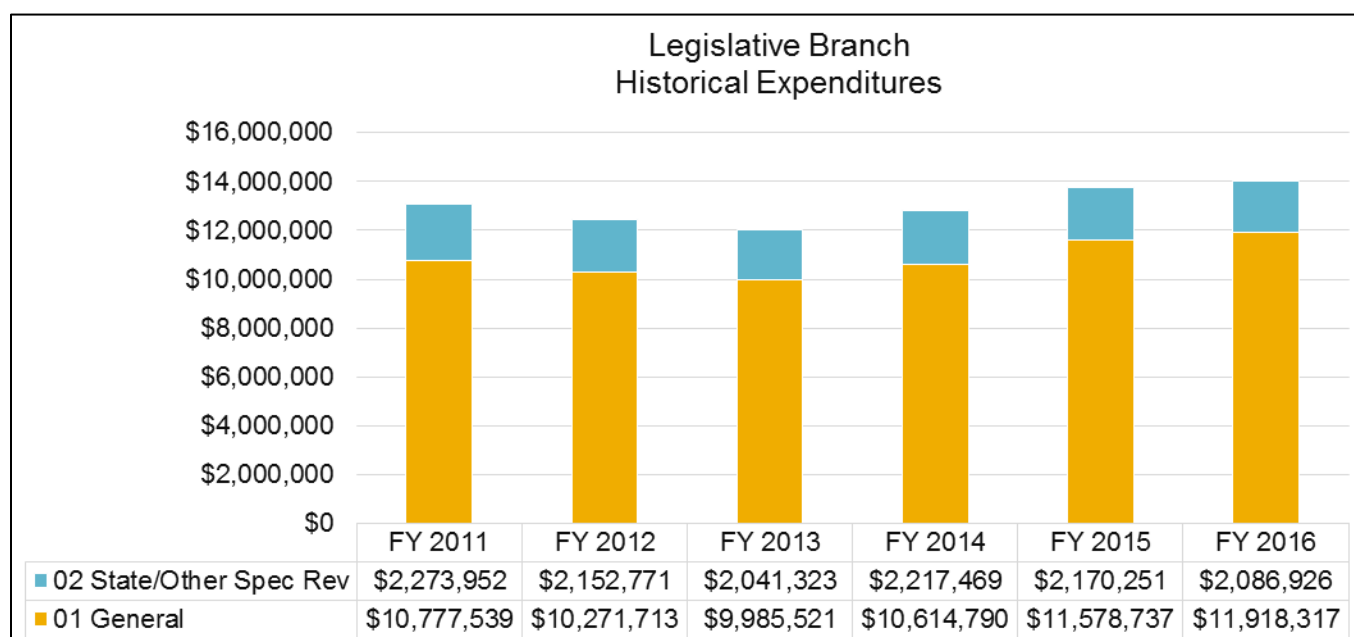
Element	2013	2015	Significance of Data
Number of total bill draft requests	2,218	2,471	Illustrates staff and committee workloads
Personal services costs (HB 2 and HB 13)	FY 2012 \$9.66 million	FY 2014 \$9.98 million	3.3% increase

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

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's funding and expenditures. Major reasons for change are:

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



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2011 – TVMT was expanded to include additional statewide channels and expanded satellite transmission
- 2007 – Legislative Branch employees were moved to the broadband classification plan and audio minutes were adopted as the official record of committees

For more information on the Legislative Branch, please visit their website here: <http://leg.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	23,366,251	24,061,109	694,858	2.97 %
Operating Expenses	6,857,829	6,904,558	46,729	0.68 %
Equipment & Intangible Assets	100,000	111,500	11,500	11.50 %
Transfers	278,837	298,837	20,000	7.17 %
Total Expenditures	\$30,602,917	\$31,376,004	\$773,087	2.53 %
General Fund	25,960,298	26,948,590	988,292	3.81 %
State/Other Special Rev. Funds	4,642,619	4,427,414	(215,205)	(4.64)%
Total Funds	\$30,602,917	\$31,376,004	\$773,087	2.53 %
Total Ongoing	\$30,602,917	\$31,376,004	\$773,087	2.53 %
Total OTO	\$0	\$0	\$0	0.00 %

Mission Statement

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

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/1104-00agency-profile.pdf.

Agency Highlights

Legislative Branch Major Budget Highlights	
- The Legislative Branch 2019 biennium budget request is \$773,087 or 2.5% higher than the 2017 biennium. Significant changes include: - Requested general fund for an additional 2.00 FTE in the information technology section of the Legislative Services Division. - Requested present law adjustments for general fund and state special revenue due to the cyclical nature of the legislative business cycle, contracted services, Montana Code Annotated, information technology, actuarial services, and peer review costs. - Requested decrease of general fund and state special revenue due to the executive's implementation of a reduction to the budget, which is based on the 5% reduction plan.	
Legislative Action Issues	
The executive presentation of the Legislative Services Division 2019 biennium budget is not presented as submitted by the Legislative Branch in accordance with Montana Code Annotated.	

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	138.39	138.39	138.39	140.39	140.39
Personal Services	10,552,004	11,532,780	11,833,471	12,002,546	12,058,563
Operating Expenses	3,233,995	3,642,421	3,215,408	3,710,455	3,194,103
Equipment & Intangible Assets	81,073	80,000	20,000	80,750	30,750
Transfers	138,178	138,178	140,659	150,178	148,659
Total Expenditures	\$14,005,250	\$15,393,379	\$15,209,538	\$15,943,929	\$15,432,075
General Fund	11,918,326	12,794,317	13,165,981	13,668,208	13,280,382
State/Other Special Rev. Funds	2,086,924	2,599,062	2,043,557	2,275,721	2,151,693
Total Funds	\$14,005,250	\$15,393,379	\$15,209,538	\$15,943,929	\$15,432,075
Total Ongoing	\$14,005,250	\$15,393,379	\$15,209,538	\$15,943,929	\$15,432,075
Total OTO	\$0	\$0	\$0	\$0	\$0

Agency Discussion*FY 2016 Appropriation Compared to FY 2016 Actual Expenditures*

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

Legislative Branch Requests

Divisions of the Legislative Branch made requests for cyclical adjustments, primarily for information technology, temporary personnel, printing, and broadcasting. Most proposed increases and decreases reflect the cyclical nature of the legislative business cycle.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Legislative Branch has provided a plan for a reduction of \$595,106 general fund and \$104,346 state special revenue. The plan includes potential reductions in state broadcasting, interim committee support costs, information technology expenditures, and vacancy savings. The agency submitted plan is in the appendix.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the Legislative Branch (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Legislative Branch						
	Leg Approp	Allocations	OP Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
20 Legislative Services						
Personal Services	\$5,823,136	(\$239,524)	\$31,482	\$5,615,094	-3.6%	0.6%
Operating Expenses	2,478,254		(87,141)	2,391,113	-3.5%	-3.5%
Equipment	20,000			20,000	0.0%	0.0%
Transfers-out	85,000		55,659	140,659	65.5%	65.5%
Program Total	8,406,390	(239,524)	0	8,166,866	-2.8%	0.0%
21 Legis. Committees & Activities						
Personal Services	69,873			69,873	0.0%	0.0%
Operating Expenses	529,065			529,065	0.0%	0.0%
Program Total	598,938			598,938	0.0%	0.0%
27 Fiscal Analysis & Review						
Personal Services	1,894,894	66,007	(20,000)	1,940,901	2.4%	-1.0%
Operating Expenses	88,700		20,000	108,700	22.5%	22.5%
Program Total	1,983,594	66,007	0	2,049,601	3.3%	0.0%
28 Audit & Examination						
Personal Services	4,034,086	173,517		4,207,603	4.3%	0.0%
Operating Expenses	186,530			186,530	0.0%	0.0%
Program Total	4,220,616	173,517		4,394,133	4.1%	0.0%
Grand Total	\$15,209,538	\$0	\$0	\$15,209,538	0.0%	0.0%
Leg Approp = Legislative Appropriation						
Allocations = include Contingency Base & Pay Plan						
OP = Operating Plan Changes						

Significant budget changes adopted by the Legislative Branch include:

- Allocations for the pay plan were made from the Legislative Services Division to the Legislative Fiscal and Legislative Audit Divisions.
- There were two operating plan changes approved by the Legislative Council and one operating plan change approved by the Legislative Finance Committee.

Funding

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

Total Legislative Branch Funding by Source of Authority 2019 Biennium Budget Request - Legislative Branch						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	26,948,590	0	0	0	26,948,590	85.89 %
State Special Total	4,427,414	0	0	0	4,427,414	14.11 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$31,376,004	\$0	\$0	\$0	\$31,376,004	
Percent - Total All Sources	100.00 %	0.00 %	0.00 %	0.00 %		

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

While not shown in the table above, the Legislative Branch has statutory appropriation authority for the Legislative Branch reserve account. This account receives unexpended and unencumbered money included in the "feed bill" (the bill that funds the legislative session each year) and remaining carryforward appropriations for the divisions. The funds may be used for major Legislative Branch information technology projects including hardware, software, consulting services for new initiatives, and replacement and upgrading of existing systems. All projects and funding from the reserve account must be approved by the Legislative Council.

Budget Summary by Category

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

Budget Summary by Category								
-----General Fund-----					-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	13,165,981	13,165,981	26,331,962	97.71 %	15,209,538	15,209,538	30,419,076	96.95 %
SWPL Adjustments	71,511	491,537	563,048	2.09 %	74,510	501,393	575,903	1.84 %
PL Adjustments	609,168	(198,792)	410,376	1.52 %	896,141	(42,704)	853,437	2.72 %
New Proposals	(178,452)	(178,344)	(356,796)	(1.32)%	(236,260)	(236,152)	(472,412)	(1.51)%
Total Budget	\$13,668,208	\$13,280,382	\$26,948,590		\$15,943,929	\$15,432,075	\$31,376,004	

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	11,060,502	11,560,964	500,462	4.52 %
Operating Expenses	5,117,248	5,161,882	44,634	0.87 %
Equipment & Intangible Assets	100,000	111,500	11,500	11.50 %
Transfers	278,837	298,837	20,000	7.17 %
Total Expenditures	\$16,556,587	\$17,133,183	\$576,596	3.48 %
General Fund	15,476,893	16,436,923	960,030	6.20 %
State/Other Special Rev. Funds	1,079,694	696,260	(383,434)	(35.51)%
Total Funds	\$16,556,587	\$17,133,183	\$576,596	3.48 %
Total Ongoing	\$16,556,587	\$17,133,183	\$576,596	3.48 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Division services include:

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

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

Program Highlights

Legislative Services Division Major Budget Highlights	
- The Legislative Services Division 2019 biennium budget request is approximately \$0.6 million or 3.5% higher than the 2017 biennium. Significant changes include: - Proposed increases to personal services due to a statewide present law adjustment as well as requests for an additional 1.00 FTE and the conversion of an existing modified FTE in the information technology section of the division. - Proposed increases in FY 2018 and decreases in FY 2019 for costs related to contracted services, information technology costs, and other operating expenses. - Proposed decreases due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.	
Major LFD Issues	
The executive presentation of the Legislative Services Division 2019 biennium budget is not presented as submitted by the Legislative Branch in accordance with Montana Code Annotated.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	64.17	64.17	64.17	66.17	66.17
Personal Services	5,361,826	5,445,408	5,615,094	5,734,700	5,826,264
Operating Expenses	2,446,061	2,726,135	2,391,113	2,780,876	2,381,006
Equipment & Intangible Assets	81,073	80,000	20,000	80,750	30,750
Transfers	138,178	138,178	140,659	150,178	148,659
Total Expenditures	\$8,027,138	\$8,389,721	\$8,166,866	\$8,746,504	\$8,386,679
General Fund	7,423,656	7,573,331	7,903,562	8,364,988	8,071,935
State/Other Special Rev. Funds	603,482	816,390	263,304	381,516	314,744
Total Funds	\$8,027,138	\$8,389,721	\$8,166,866	\$8,746,504	\$8,386,679
Total Ongoing	\$8,027,138	\$8,389,721	\$8,166,866	\$8,746,504	\$8,386,679
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Legislative Services Division expended 95.7% of its FY 2016 budget. Personal services were 98.5% expended and operating expenses were 89.7% expended. Operating expenses were lower primarily due to information technology and MCA expenditure being lower than anticipated in FY 2016.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations. The primary reason for the difference is the cyclical nature of the legislative business cycle. The allocation of the pay plan is also contributing to this difference. The Legislative Services Division was appropriated funding for the pay plan for the entire branch and then transferred these funds to divisions within the branch.

Executive Request

Overall, the Legislative Services Division is requesting an increase in FY 2018 and FY 2019. Statewide present law adjustments for personal services, fixed costs, and inflation/deflation are contributing to requested changes. The division is also requesting a present law adjustment for operating expenses, equipment and transfers which is contributing to the requested increase in FY 2018 and slight decrease in FY 2019. This requested adjustment will be discussed in further detail in the Present Law Adjustments section below. New proposals for additional FTE and an executive proposal implementing a reduction to the budget that is based on the 5% reduction plan will be discussed in further detail in the New Proposal section below.

**LFD
ISSUE**Legislative Services Division 2019 Biennium Budget is Not Presented by the Executive in Accordance with Montana Code Annotated

Montana Law (17-7-122, MCA) requires Legislative Branch budget proposals "be included in the budget submitted by the Governor without changes." The Executive proposal for the Legislative Branch budget has been reduced from the budget submitted to the Governor. According to the Executive budget, the reduction is premised on the Executive's implementation of budget reduction measures under 17-7-111, MCA. The difference between the budget submitted by the Legislative Services Division and the budget submitted by the Executive are included in the figure below.

Figure 2

Legislative Services Division 2019 Biennium Budget			
Legislative Services			
	Division	Executive	Difference
Personal Services	\$11,911,212	\$11,560,964	(\$350,248)
Operating Expenses	5,448,128	5,161,882	(286,246)
Equipment and Intangible Assets	250,000	111,500	(138,500)
Transfers	<u>298,837</u>	<u>298,837</u>	<u>0</u>
Total	\$17,908,177	\$17,133,183	(\$774,994)

Personal Services

The LFD calculated an expected personal services budget as a comparison to the Legislative Branch personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

Figure 3

Legislative Branch: 20 Legislative Services Personal Services Present Law Calculations			
PS Base:	\$5,615,094		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$143,493	\$234,949
Legislative	Statutory Personal Service Change	<u>44,738</u>	<u>57,583</u>
	Difference	98,755	177,366
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	0	0
	Broadband Pay Adjustments	147,758	147,758
	Benefits and Taxes on Pay Adjustment	31,785	31,785
	Other	(80,788)	(2,177)
	Total	\$98,755	\$177,366

Personal services were \$5.6 million or 68.8% of total FY 2017 appropriations. The legislative branch proposes an increase of \$143,493 in FY 2018 and \$234,949 in FY 2019. This proposal is \$98,755 in FY 2018 and \$177,366 in FY 2019 more than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is primarily related to broadband pay increases in FY 2016. Adjustments made in the Legislative Services Division were due to career ladders, market adjustments, and reclassifications and totaled \$148,000 in FY 2016. These adjustments are partially offset by turnover in the division.

Funding

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

Legislative Branch, 20-Legislative Services Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	16,436,923	0	0	0	16,436,923	95.94 %
02522 Leg Branch Retirement Reserve	0	0	0	0	0	0.00 %
02800 Reimbursable Activities	636,736	0	0	0	636,736	91.45 %
02985 State Government Broadcasting	59,524	0	0	0	59,524	8.55 %
State Special Total	\$696,260	\$0	\$0	\$0	\$696,260	4.06 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$17,133,183	\$0	\$0	\$0	\$17,133,183	

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	7,903,562	7,903,562	15,807,124	96.17 %	8,166,866	8,166,866	16,333,732	95.33 %
SWPL Adjustments	31,922	493,859	525,781	3.20 %	31,435	493,594	525,029	3.06 %
PL Adjustments	607,956	(147,142)	460,814	2.80 %	784,463	(37,629)	746,834	4.36 %
New Proposals	(178,452)	(178,344)	(356,796)	(2.17)%	(236,260)	(236,152)	(472,412)	(2.76)%
Total Budget	\$8,364,988	\$8,071,935	\$16,436,923		\$8,746,504	\$8,386,679	\$17,133,183	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	143,493	0	0	143,493	0.00	234,949	0	0	234,949
DP 2 - Fixed Costs	0.00	(111,434)	(487)	0	(111,921)	0.00	259,043	(265)	0	258,778
DP 3 - Inflation Deflation	0.00	(137)	0	0	(137)	0.00	(133)	0	0	(133)
DP 4 - Present Law Change Package	0.00	607,956	176,507	0	784,463	0.00	(147,142)	109,513	0	(37,629)
Grand Total All Present Law Adjustments	0.00	\$639,878	\$176,020	\$0	\$815,898	0.00	\$346,717	\$109,248	\$0	\$455,965

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

DP 1 - Personal Services -

The Legislative Branch requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The Legislative Branch requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Present Law Change Package -

The Legislative Branch is requesting an increase in general fund and state special revenue in FY 2018 and a decrease in general fund and increase in state special revenue in FY 2019. This proposal includes changes due to:

- Increased costs for contracted services to produce, broadcast, and stream the legislature during session and the interim.
- Decreased costs to produce and print the Montana Codes Annotated.
- Increased information technology costs related to declining hardware and software. It also includes contracted services for network support and programming related to the LAWS II system.
- Other minor operating increases for training, supplies and materials, and miscellaneous services to support the Legislative Branch.

**LFD
COMMENT**

State special revenues collected from the sale of Montana Code Annotated (MCA) and ancillary publications are decreasing because fewer copies are printed and sold. While revenues are decreasing, costs to produce the MCA are not decreasing at the same rate. This results in the need for additional general fund to produce these texts. The fund switch portion of the change package, which is a decrease in state special revenue and increase in general fund of \$267,815, should have been shown as a new proposal.

New Proposals -

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

New Proposals										
	Fiscal 2018					Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Program 20 FTE Change Package	2.00	151,237	0	0	151,237	2.00	151,345	0	0	151,345
DP 555 - Appropriation Rebase	0.00	(329,689)	(57,808)	0	(387,497)	0.00	(329,689)	(57,808)	0	(387,497)
Total	2.00	(\$178,452)	(\$57,808)	\$0	(\$236,260)	2.00	(\$178,344)	(\$57,808)	\$0	(\$236,152)

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

DP 5 - Program 20 FTE Change Package -

The Legislative Branch requests an increase in general fund for an additional 1.00 FTE and the conversion of an existing FTE in the information technology section of the Legislative Services Division. Information technology needs in the Legislative Branch have increased due to the LAWS II project, the increased complexity of information technology environment, and growing business requirements. Additional FTE would be DevOps/Programmer Support and IT Help Desk Support positions.

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions. This change package is contingent upon the passage and approval of LC 907.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	178,182	213,439	35,257	19.79 %
Operating Expenses	1,166,384	1,172,059	5,675	0.49 %
Total Expenditures	\$1,344,566	\$1,385,498	\$40,932	3.04 %
General Fund	1,344,566	1,385,498	40,932	3.04 %
Total Funds	\$1,344,566	\$1,385,498	\$40,932	3.04 %
Total Ongoing	\$1,344,566	\$1,385,498	\$40,932	3.04 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program expenditures support :

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

Program Highlights

Legislative Committees and Activities Major Budget Highlights	
• Legislative Committees and Activities 2019 biennium budget request is approximately \$41,000 or 3.0% higher than the 2017 biennium. Significant changes include: ◦ Proposed increases due to a statewide present law adjustments for personal services ◦ Proposed increases due to present law adjustments to account for cyclical legislative session costs and increases in national organizational dues	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	0.97	0.97	0.97	0.97	0.97
Personal Services	101,029	108,309	69,873	132,617	80,822
Operating Expenses	525,275	637,319	529,065	640,724	531,335
Total Expenditures	\$626,304	\$745,628	\$598,938	\$773,341	\$612,157
General Fund	626,304	745,628	598,938	773,341	612,157
Total Funds	\$626,304	\$745,628	\$598,938	\$773,341	\$612,157
Total Ongoing	\$626,304	\$745,628	\$598,938	\$773,341	\$612,157
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Legislative Committees and Activities expended 84.0% of its FY 2016 budget. Personal services were 93.3% expended and operating expenses were 82.4% expended. Legislative Committees and Activities appropriations are biennial, so although expenditures were lower than budgeted in FY 2016, they will continue to be available and are expected to be used in FY 2017.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations. The primary reason for the difference is the cyclical nature of the legislative business cycle.

Executive Request

Legislative Committees and Activities is requesting an increase in FY 2018 and FY 2019. Statewide present law adjustments for personal services and present law adjustments for operating expenses are contributing to this requested increase. The statewide present law adjustment will be discussed further in the Personal Services section and the present law adjustment will be discussed in the Present Law Adjustments section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the Legislative Branch personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

Figure 4

Legislative Branch: 21 Legislative Committees & Activities Personal Services Present Law Calculations			
PS Base: \$69,873			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$62,744	\$10,949
Legislative	Statutory Personal Service Change	<u>187</u>	<u>390</u>
	Difference	62,557	10,559
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	-	-
	Broadband Pay Adjustments	-	-
	Benefits and Taxes on Pay Adjustment	-	-
	Other	62,557	10,559
Total		\$62,557	\$10,559

Personal services were \$69,873 or 11.7% of total FY 2017 appropriations. The Legislative Branch proposes an increase of \$62,744 in FY 2018 and \$10,949 in FY 2019. This proposal is \$62,557 in FY 2018 and \$10,559 in FY 2019 more than anticipated by LFD based upon pay plan and statutory personal services adjustments. These increases are related to statutory increases in legislators' salaries in the upcoming biennium and anticipated increases in committee secretary hours.

Funding

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

Legislative Branch, 21-Legis. Committees & Activities Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,385,498	0	0	0	1,385,498	100.00 %
02042 Legislative Audit	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$1,385,498	\$0	\$0	\$0	\$1,385,498	

Legislative Committees and Activities are funded entirely with general fund.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	598,938	598,938	1,197,876	86.46 %	598,938	598,938	1,197,876	86.46 %
SWPL Adjustments	62,598	10,803	73,401	5.30 %	62,598	10,803	73,401	5.30 %
PL Adjustments	111,805	2,416	114,221	8.24 %	111,805	2,416	114,221	8.24 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$773,341	\$612,157	\$1,385,498		\$773,341	\$612,157	\$1,385,498	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	62,744	0	0	62,744	0.00	10,949	0	0	10,949
DP 3 - Inflation Deflation	0.00	(146)	0	0	(146)	0.00	(146)	0	0	(146)
DP 4 - Present Law Change Package	0.00	111,805	0	0	111,805	0.00	2,416	0	0	2,416
Grand Total All Present Law Adjustments	0.00	\$174,403	\$0	\$0	\$174,403	0.00	\$13,219	\$0	\$0	\$13,219

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

DP 1 - Personal Services -

The Legislative Branch requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 3 - Inflation Deflation -

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

DP 4 - Present Law Change Package -

The Legislative Branch is requesting general fund increases from the 2017 budget starting point. The increase is related to cyclical legislative session costs and an increase related to national organizational dues (NCSL, PNWER, CSG, NCCUSL).

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	3,822,007	3,836,388	14,381	0.38 %
Operating Expenses	191,249	191,400	151	0.08 %
Total Expenditures	\$4,013,256	\$4,027,788	\$14,532	0.36 %
General Fund	4,013,256	4,027,788	14,532	0.36 %
Total Funds	\$4,013,256	\$4,027,788	\$14,532	0.36 %
Total Ongoing	\$4,013,256	\$4,027,788	\$14,532	0.36 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Division services include:

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

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

Program Highlights

Legislative Fiscal Division Major Budget Highlights
• The Legislative Fiscal Division 2019 biennium budget request is approximately \$15,000 or 0.4% higher than the 2017 biennium. Significant changes include: ◦ Proposed decreases due to statewide present law adjustments to personal services and an adjustment to account for cyclical legislative session costs.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	20.50	20.50	20.50	20.50	20.50
Personal Services	1,711,073	1,881,106	1,940,901	1,917,354	1,919,034
Operating Expenses	81,974	82,549	108,700	82,700	108,700
Total Expenditures	\$1,793,047	\$1,963,655	\$2,049,601	\$2,000,054	\$2,027,734
General Fund	1,793,047	1,963,655	2,049,601	2,000,054	2,027,734
Total Funds	\$1,793,047	\$1,963,655	\$2,049,601	\$2,000,054	\$2,027,734
Total Ongoing	\$1,793,047	\$1,963,655	\$2,049,601	\$2,000,054	\$2,027,734
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Legislative Fiscal Division expended 91.3% of its FY 2016 budget. Personal services expenditures were 91.0% expended. While LFD is now fully staffed, new staff salaries are lower than the senior staff that retired. Operating expenses were 99.3% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The differences between FY 2016 and FY 2017 appropriations are primarily due to the allocation of the pay plan and a program transfer. The program transfer moved personal services funding from the Legislative Fiscal Division to the Legislative Services Division to address a deficit in personal services at the Legislative Services Division due to increased demand for staff resources to accomplish mandates set forth by the Legislative Council.

Executive Request

The Legislative Fiscal Division is requesting a decrease in personal services for FY 2018 and FY 2019 due to statewide present law adjustments. These adjustments will be discussed in further detail in the Personal Services discussion below. The division is also requesting a decrease in operating expenditures in FY 2018. This adjustment is primarily due to a present law adjustment that will be discussed further in the Present Law Adjustments section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the Legislative Branch personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

Figure 5

Legislative Branch: 27 Fiscal Analysis & Review Personal Services Present Law Calculations			
PS Base: \$1,940,901			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$23,547)	(\$21,867)
Legislative	Statutory Personal Service Change	4,140	5,861
	Difference	(27,687)	(27,728)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	-	-
	Broadband Pay Adjustments	42,860	42,860
	Benefits and Taxes on Pay Adjustment	8,813	8,813
	Other	(79,360)	(79,401)
	Total	(\$27,687)	(\$27,728)

Personal services were \$1.9 million or 94.7% of total FY 2017 appropriations. The Legislative Branch proposes a decrease of \$23,547 in FY 2018 and \$21,867 in FY 2019. This proposal is approximately \$28,000 lower than anticipated based upon pay plan and statutory personal services adjustments in each fiscal year. Part of difference is related to employee turnover and retirements. Turnover generally lowers salaries because senior employees are typically paid at a higher rate and are replaced by lower paid employees.

While overall personal services decreased, there were some pay adjustments that increased employee salaries in FY 2016. These adjustments were predominately due to career ladders and market adjustments. Adjustments totaled \$43,000 during the fiscal year.

Funding

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

Legislative Branch, 27-Fiscal Analysis & Review Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	4,027,788	0	0	0	4,027,788	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$4,027,788	\$0	\$0	\$0	\$4,027,788	

The Legislative Fiscal Division is funded entirely with general fund.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	2,049,601	2,049,601	4,099,202	101.77 %	2,049,601	2,049,601	4,099,202	101.77 %
SWPL Adjustments	(23,600)	(21,876)	(45,476)	(1.13)%	(23,600)	(21,876)	(45,476)	(1.13)%
PL Adjustments	(25,947)	9	(25,938)	(0.64)%	(25,947)	9	(25,938)	(0.64)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$2,000,054	\$2,027,734	\$4,027,788		\$2,000,054	\$2,027,734	\$4,027,788	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(23,547)	0	0	(23,547)	0.00	(21,867)	0	0	(21,867)
DP 2 - Fixed Costs	0.00	(102)	0	0	(102)	0.00	(77)	0	0	(77)
DP 3 - Inflation Deflation	0.00	49	0	0	49	0.00	68	0	0	68
DP 4 - Present Law Change Package	0.00	(25,947)	0	0	(25,947)	0.00	9	0	0	9
Grand Total All Present Law Adjustments	0.00	(\$49,547)	\$0	\$0	(\$49,547)	0.00	(\$21,867)	\$0	\$0	(\$21,867)

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

DP 1 - Personal Services -

The Legislative Branch requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The Legislative Branch requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Present Law Change Package -

The Legislative Branch is requesting a general fund decrease in FY 2018. The changes are due to cyclical legislative session costs included in the base appropriation year but not required in the non-session year of the biennium.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	8,305,560	8,450,318	144,758	1.74 %
Operating Expenses	382,948	379,217	(3,731)	(0.97)%
Total Expenditures	\$8,688,508	\$8,829,535	\$141,027	1.62 %
General Fund	5,125,583	5,098,381	(27,202)	(0.53)%
State/Other Special Rev. Funds	3,562,925	3,731,154	168,229	4.72 %
Total Funds	\$8,688,508	\$8,829,535	\$141,027	1.62 %
Total Ongoing	\$8,688,508	\$8,829,535	\$141,027	1.62 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Division services include:

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

The Legislative Auditor consults with the Legislative Audit Committee.

Program Highlights

Legislative Audit Division Major Budget Highlights
• The Legislative Audit Division 2019 biennium budget request is approximately \$141,000 or 1.6% higher than the 2017 biennium. Significant changes include: ◦ Proposed increases due to statewide present law adjustments to personal services. ◦ Proposed increases in FY 2018 due to actuarial services and a required peer review.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	52.75	52.75	52.75	52.75	52.75
Personal Services	3,378,076	4,097,957	4,207,603	4,217,875	4,232,443
Operating Expenses	180,685	196,418	186,530	206,155	173,062
Total Expenditures	\$3,558,761	\$4,294,375	\$4,394,133	\$4,424,030	\$4,405,505
General Fund	2,075,319	2,511,703	2,613,880	2,529,825	2,568,556
State/Other Special Rev. Funds	1,483,442	1,782,672	1,780,253	1,894,205	1,836,949
Total Funds	\$3,558,761	\$4,294,375	\$4,394,133	\$4,424,030	\$4,405,505
Total Ongoing	\$3,558,761	\$4,294,375	\$4,394,133	\$4,424,030	\$4,405,505
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Legislative Audit Division expended 82.9% of its FY 2016 budget. Personal services expenditures were 82.4% expended. Recruitment and retention issues within the division were driving the lower percentage expended. Operating expenses were 92.0% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The differences between FY 2016 and FY 2017 appropriations are primarily due to the allocation of the pay plan.

Executive Request

The Legislative Audit Division is requesting an increase in personal services for FY 2018 and FY 2019 due to statewide present law adjustments. These adjustments will be discussed in further detail in the Personal Services discussion below. The division is also requesting an increase in operating expenditures in FY 2018 and a decrease in FY 2019. These adjustments are mainly due to a present law adjustment that will be discussed further in the Present Law Adjustments section below.

LFD COMMENT

The Legislative Audit Division budget is not presented as approved by the Legislative Audit Committee. Statewide present law adjustments have less allocated to general fund and more allocated to state special revenue. This difference is approximately \$11,000 for the biennium.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the Legislative Branch personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

Figure 6

Legislative Branch: 28 Audit & Examination Personal Services Present Law Calculations			
PS Base: \$4,207,603			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$10,272	\$24,840
Legislative	Statutory Personal Service Change	<u>25,023</u>	<u>39,596</u>
	Difference	(14,751)	(14,756)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	-	-
	Broadband Pay Adjustments	129,219	129,219
	Benefits and Taxes on Pay Adjustment	26,213	26,213
	Other	(170,183)	(170,188)
	Total	(\$14,751)	(\$14,756)

Personal services were \$4.2 million or 95.8% of total FY 2017 appropriations. The executive proposes an increase of \$10,272 in FY 2018 and \$24,840 in FY 2019. This proposal is approximately \$15,000 less than anticipated based upon pay plan and statutory personal services adjustments. The division made adjustments to employee salaries in FY 2016. These adjustments were predominately due to career ladders, market adjustments, and merit adjustments. These increases were offset by employee turnover and retirements.

Funding

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

Legislative Branch, 28-Audit & Examination Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	5,098,381	0	0	0	5,098,381	57.74 %
02042 Legislative Audit	3,731,154	0	0	0	3,731,154	100.00 %
State Special Total	\$3,731,154	\$0	\$0	\$0	\$3,731,154	42.26 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$8,829,535	\$0	\$0	\$0	\$8,829,535	

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	2,613,880	2,613,880	5,227,760	102.54 %	4,394,133	4,394,133	8,788,266	99.53 %
SWPL Adjustments	591	8,751	9,342	0.18 %	4,077	18,872	22,949	0.26 %
PL Adjustments	(84,646)	(54,075)	(138,721)	(2.72)%	25,820	(7,500)	18,320	0.21 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$2,529,825	\$2,568,556	\$5,098,381		\$4,424,030	\$4,405,505	\$8,829,535	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	187	10,085	0	10,272	0.00	8,345	16,495	0	24,840
DP 2 - Fixed Costs	0.00	252	(6,719)	0	(6,467)	0.00	180	(6,552)	0	(6,372)
DP 3 - Inflation Deflation	0.00	152	120	0	272	0.00	226	178	0	404
DP 4 - Present Law Change Package	0.00	(84,646)	110,466	0	25,820	0.00	(54,075)	46,575	0	(7,500)
Grand Total All Present Law Adjustments	0.00	(\$84,055)	\$113,952	\$0	\$29,897	0.00	(\$45,324)	\$56,696	\$0	\$11,372

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

DP 1 - Personal Services -

The Legislative Branch requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The Legislative Branch requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Present Law Change Package -

The Legislative Branch is requesting a decrease in general fund and an increase in state special revenue in FY 2018 and FY 2019. These adjustments are due to changes in the division's billing rate which are considered separately.

in the appropriation process as well as cyclical changes in operating expenses for actuary services and a Government Accountability Office (GAO) required peer review. The financial audit of the Legislative Branch is a biennial audit, so these fees are only needed in FY 2018.

5% Base Budget Reduction Form
17-7-111-3(f)

AGENCY CODE & NAME: 1140 Leg Branch - 20

NOTE: Agency 5% plan is submitted by first level, by fund. It is attached to Program 20 (Legislative Services Division) for administrative purposes. If 5% plans are implemented by the legislature, it will be distributed among all Legislative Branch programs at the directors' discretion.

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 595,106	\$ 104,346
		General Fund Annual Savings	State Special Revenue Annual Savings
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED		
	1 Reduction in personal services through vacancy savings (would delay new hires by the equivalent of approximately 4.5 FTE branchwise). This would create a hardship for existing staff to perform their job duties as well as other duties assigned to them as a result of this vacancy savings. (5-2-501, MCA)	\$ 241,937	\$ 74,172
	2 Reduction in operating expenditures. Could impact the following services and operating support: 1) contracted services for state broadcasting (5-11-1112, MCA); 2) interim committee support costs (5-5-202, MCA); 3) information technology replacement cycle- branchwide including House and Senate chambers (5-1-106, MCA); 4) other division operating support costs (5-2-501, MCA). This reduction would potentially impede our ability to maintain network connectivity, increase information technology related security vulnerabilities, limit resource availability to support interim committees and other statutory required functions including codification process. Session related support could also be negatively impacted by this reduction in resources.	\$ 228,169	\$ 30,174
	3 Reduction in equipment related to information technology hardware replacement and upgrades (5-1-106, MCA).	\$ 125,000	\$ -
	4		
	5		
	6		
	7		
	8		
	9		
	10		
	11		
TOTAL SAVINGS		\$ 595,106	\$ 104,346
DIFFERENCE		-	-

Form A

FY 2017 Fund Appropriation Transactions - Legislative Branch							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
20 Legislative Services							
01100 General Fund	\$8,143,086	(\$239,524)			\$7,903,562	-2.9%	-2.9 %
02800 Reimbursable Activities	221,555				221,555	0.0%	0.0 %
02985 State Government Broadca	41,749				41,749	0.0%	0.0 %
Program Total	8,406,390	(239,524)			8,166,866	-2.8%	-2.8 %
21 Legis. Committees & Activities							
01100 General Fund	598,938				598,938	0.0%	0.0 %
Program Total	598,938				598,938	0.0%	0.0 %
27 Fiscal Analysis & Review							
01100 General Fund	1,983,594	66,007			2,049,601	3.3%	3.3 %
Program Total	1,983,594	66,007			2,049,601	3.3%	3.3 %
28 Audit & Examination							
01100 General Fund	2,440,363	173,517			2,613,880	7.1%	7.1 %
02042 Legislative Audit	1,780,253				1,780,253	0.0%	0.0 %
Program Total	4,220,616	173,517			4,394,133	4.1%	4.1 %
Grand Total	\$15,209,538	\$0			\$15,209,538	0.0%	0.0%

FY 2017 Fund Appropriation Transactions - Legislative Branch							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01100 General Fund	\$13,165,981				\$13,165,981	0.0%	0.0%
02042 Legislative Audit	1,780,253				1,780,253	0.0%	0.0%
02800 Reimbursable Activities	221,555				221,555	0.0%	0.0%
02985 State Government Broadcasti	41,749				41,749	0.0%	0.0%
Grand Total	\$15,209,538				\$15,209,538	0.0%	0.0%

2019 BIENNIUM BASE BUDGET

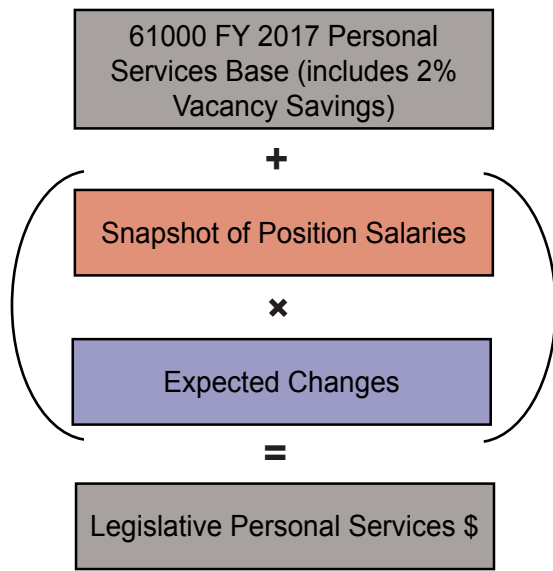
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

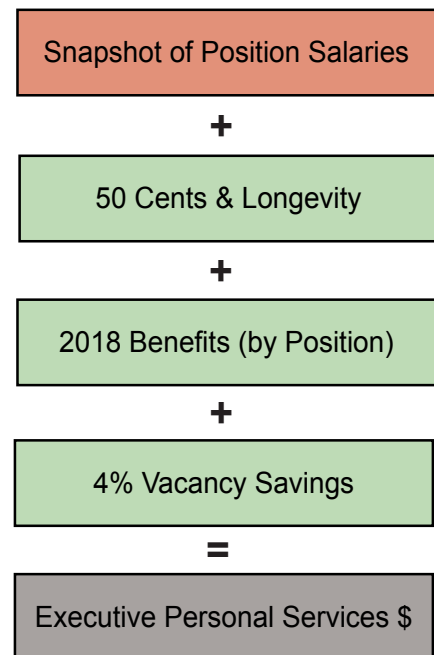
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

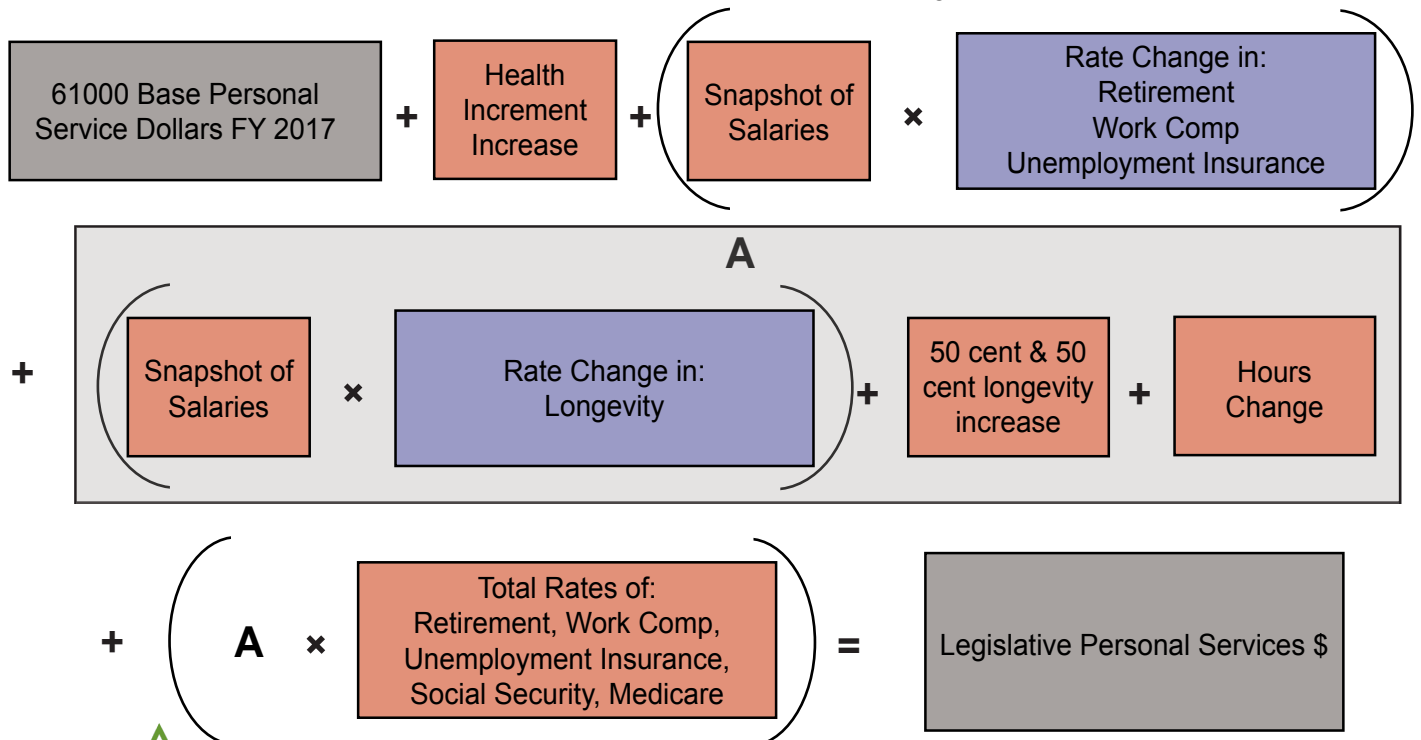
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



THE MONTANA CONSUMER COUNSEL

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016



INTRODUCTION

The Montana Consumer Counsel represents statewide consumer interests regarding utility and transportation issues in hearings before the Public Service Commission, as well as the state and federal courts and administrative agencies. The Montana Consumer Counsel is part of the legislative branch and is overseen by the Legislative Consumer Committee. The Counsel is provided for by Article XIII, Section 2 of the Montana Constitution, and is governed by Title 5, Chapter 15 and Title 69, Chapters 1 and 2, MCA.

HOW SERVICES ARE PROVIDED

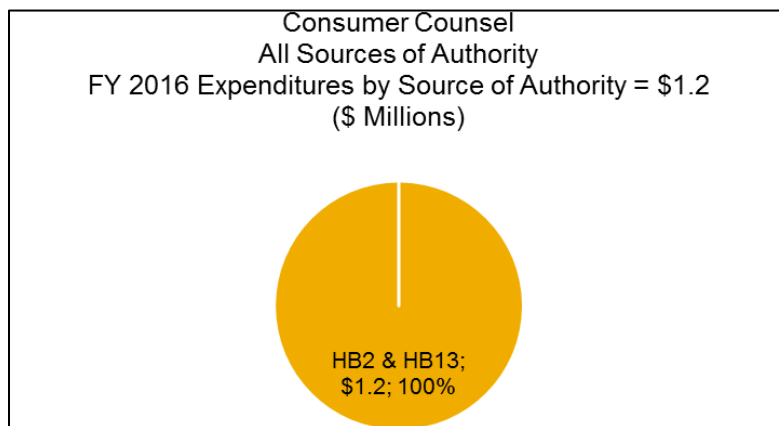
The Consumer Counsel represents Montana Consumers in:

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

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

SOURCES OF SPENDING AUTHORITY

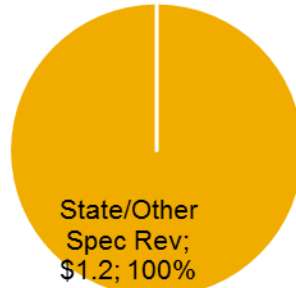
The chart below shows the sources of authority for the Consumer Counsel that were expended in FY 2016. The Counsel receives all of its spending authority from HB 2 and the pay plan.



FUNDING

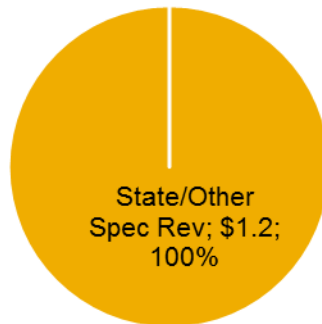
The Montana Consumer Counsel is fully funded with state special revenues collected through fees charged to various public utility and transportation companies operating in Montana. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

Consumer Counsel
All Sources of Authority
FY 2016 Expenditures by Fund Type = \$1.2
(\$ Millions)



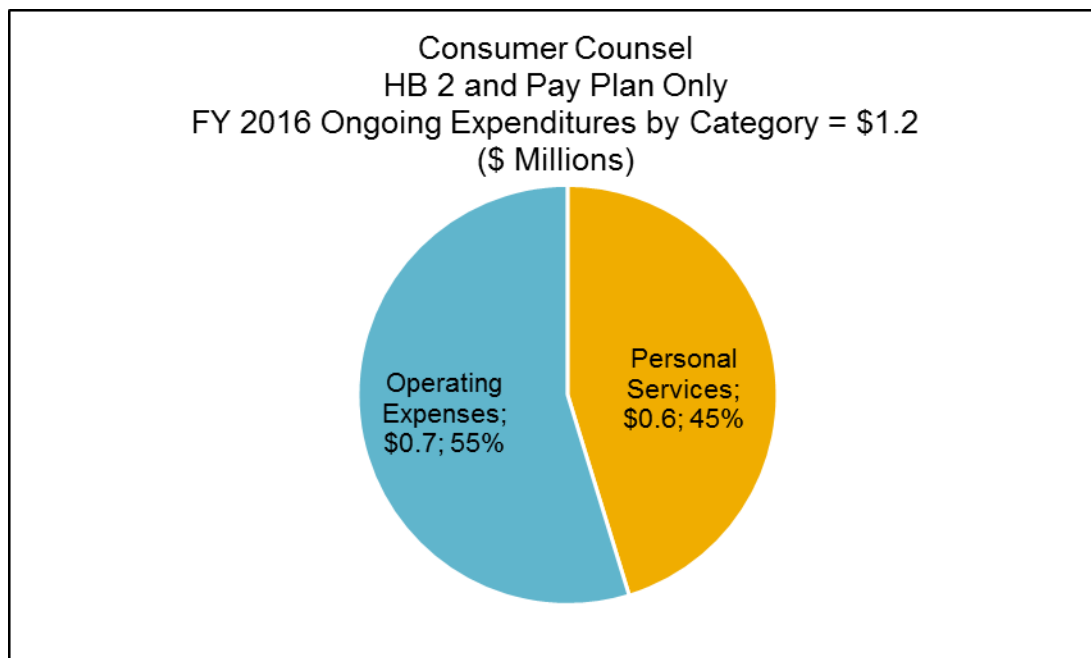
The chart below shows the Consumer Counsel's HB 2 expenditures by fund type. All of the counsel's state special revenue funding is included in HB 2.

Consumer Counsel
HB2 and Pay Plan Only
FY 2016 Ongoing Expenditures by Fund Type = \$1.2
(\$ Millions)



EXPENDITURES

The chart below explains how HB2 authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

- Rates, reporting processes, and fees or taxes charged to regulated utilities
- Which agency, if any, monitors utilities (through changes to the Constitution)
- Agency participation in regional and/or national issues

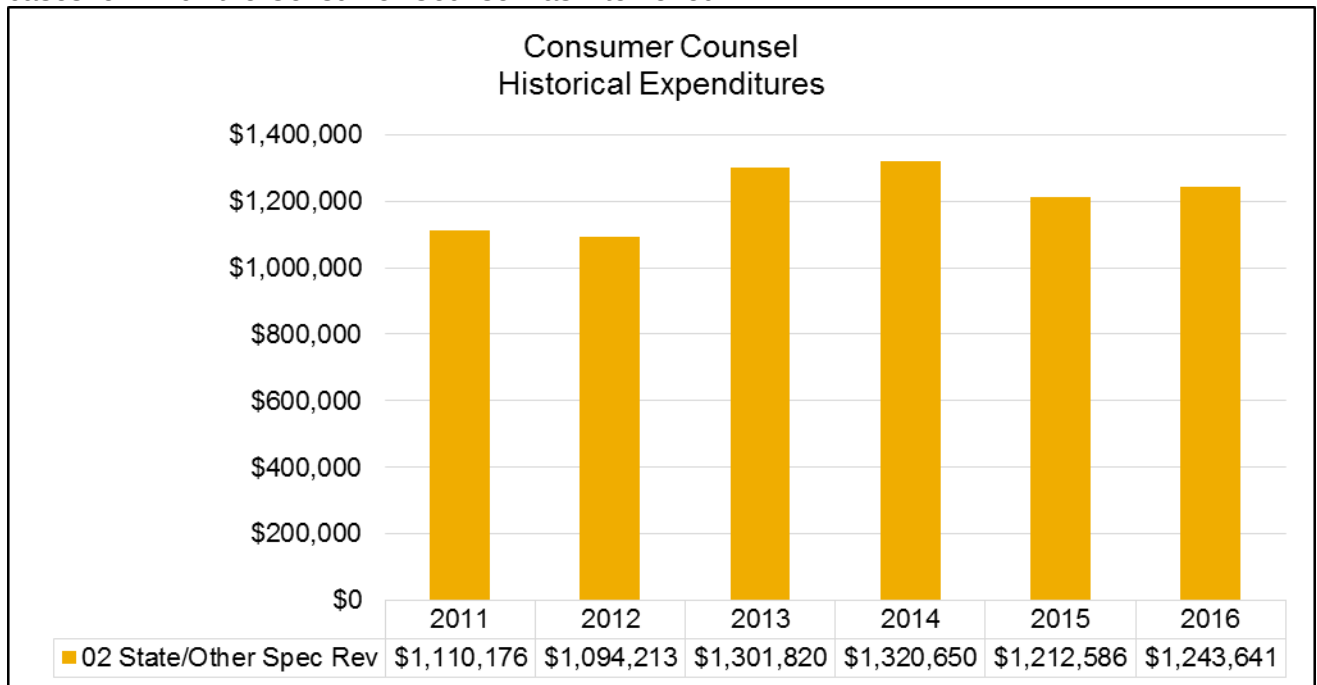
MAJOR COST DRIVERS

Element	FY 2006	FY 2016	Significance of Data
Contractor Fees	\$159	\$137	The Consumer Counsel makes use of contractors for the analysis of utility cases/issues. The fee is calculated based on the total hours worked divided by the total amount paid.
Dockets before the Montana Public Service Commission	250	175	As the number of dockets change, the number of cases that the Consumer Counsel might intervene on also changes. This data includes all dockets of the Public Service Commission, regardless of intervention. This factor influences contracting costs.

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's funding and expenditures. Major reasons for change are:

- Costs for consulting and professional services vary based on the number and complexity of the cases for which the Consumer Counsel has intervened



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2007 – The Montana Consumer Counsel was required to perform an analysis of the fiscal impacts related to permit applications for new electrical generation facilities and upgrades under the Montana Major Facility Siting Act. The analysis included an estimation of how customer rates may have been impacted. Costs of the analysis were paid by applicants.

For more information, please visit the consumer counsel website, here:

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

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	1,302,585	1,293,473	(9,112)	(0.70)%
Operating Expenses	2,137,258	2,171,551	34,293	1.60 %
Total Expenditures	\$3,439,843	\$3,465,024	\$25,181	0.73 %
State/Other Special Rev. Funds	3,439,843	3,465,024	25,181	0.73 %
Total Funds	\$3,439,843	\$3,465,024	\$25,181	0.73 %
Total Ongoing	\$2,939,843	\$2,965,024	\$25,181	0.86 %
Total OTO	\$500,000	\$500,000	\$0	0.00 %

Mission Statement

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

For additional information, please refer to the agency profile found at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/1112-00agency-profile.pdf.

Agency Highlights

Consumer Counsel Major Budget Highlights
- The 2019 biennium budget request for personal services is approximately \$9,000 or 0.7% lower than the 2017 biennium budget. This is primarily due to a decrease in Legislative Consumer Committee hours and turnover of a long-term position. - The 2019 biennium budget request for operating expenses is approximately \$34,000 or 1.6% higher than the 2017 biennium budget. This is mainly due to increases in information technology fixed costs, dues, travel and other expenses. - The Consumer Counsel is requesting \$500,000 in one-time-only funding for consulting and professional services for unanticipated caseloads.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	5.54	5.54	5.54	5.54	5.54
Personal Services	562,914	644,520	658,065	645,333	648,140
Operating Expenses	680,729	1,062,039	1,075,219	1,085,751	1,085,800
Total Expenditures	\$1,243,643	\$1,706,559	\$1,733,284	\$1,731,084	\$1,733,940
State/Other Special Rev. Funds	1,243,643	1,706,559	1,733,284	1,731,084	1,733,940
Total Funds	\$1,243,643	\$1,706,559	\$1,733,284	\$1,731,084	\$1,733,940
Total Ongoing	\$1,243,643	\$1,456,559	\$1,483,284	\$1,481,084	\$1,483,940
Total OTO	\$0	\$250,000	\$250,000	\$250,000	\$250,000

Agency Discussion

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

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

There is a variance between FY 2016 budget and actual expenditures in operating expenses which is occurring for two reasons. First, caseloads are determined by utility filings with the Public Service Commission and budgeted using a historical average. FY 2016 caseloads were lower than the historical average. Second, 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 caseloads. This appropriation was 0.0% expended in FY 2016.

FY 2016 Appropriation Compared FY 2017 Appropriation

There are slight differences between FY 2016 and FY 2017 appropriations in personal services and operating expenses. The difference in personal services is primarily due to legislatively approved employee pay and state share adjustments. The difference in operating expenses is primarily due to anticipated increases in rent and consulting services.

Executive Request

The Montana Consumer Counsel is proposing a decrease in personal services in FY 2018 and FY 2019. This decrease will be discussed in further detail in the Personal Services section below. The agency is proposing an increase to operating expenses which will be discussed in further detail in the Present Law Adjustments and New Proposals sections below.

5% Reduction Plan

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

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 1

Consumer Counsel: 01 Administration Program Personal Services Present Law Calculations			
PS Base:	\$658,065		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$12,732)	(\$9,925)
Legislative	Statutory Personal Service Change	<u>2,496</u>	<u>5,216</u>
	Difference	(15,228)	(15,141)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	-	-
	Broadband Pay Adjustments	-	-
	Benefits and Taxes on Pay Adjustment	-	-
	Other	(15,228)	(15,141)
	Total	(\$15,228)	(\$15,141)

Personal services were \$658,065 or 38.0% of total FY 2017 appropriations. The executive proposes a nearly \$13,000 decrease in FY 2018 and \$10,000 decrease in FY 2019. The executive proposal is approximately \$15,000 lower than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is primarily due to a reduction in Legislative Consumer Committee hours and turnover in a long-term position.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 2

FY 2017 Appropriation Transactions - Consumer Counsel					
	Leg Approp	Allocations	OP Changes	2017 Base	% Change from Legislative Approp
11120 Consumer Counsel					
01 Administration Program					
Personal Services	\$658,065			\$658,065	0.0%
Operating Expenses	825,219			825,219	0.0%
Program Total	1,483,284			1,483,284	0.0%
Grand Total	\$1,483,284			\$1,483,284	0.0%
Leg Approp = Legislative Appropriation					
Allocations = include Contingency Base & Pay Plan					
OP = Operating Plan Changes					

As illustrated by Figure 2, the Consumer Counsel did not have any modifications to its FY 2017 legislative appropriations in HB 2.

Funding

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

Total Consumer Counsel Funding by Source of Authority 2019 Biennium Budget Request - Consumer Counsel						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	2,965,024	500,000	0	0	3,465,024	100.00 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$2,965,024	\$500,000	\$0	\$0	\$3,465,024	
Percent - Total All Sources	85.57 %	14.43 %	0.00 %	0.00 %		

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

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	1,483,284	1,483,284	2,966,568	85.61 %
SWPL Adjustments	0	0	0	0.00 %	(5,642)	(2,819)	(8,461)	(0.24) %
PL Adjustments	0	0	0	0.00 %	3,442	3,475	6,917	0.20 %
New Proposals	0	0	0	0.00 %	250,000	250,000	500,000	14.43 %
Total Budget	\$0	\$0	\$0		\$1,731,084	\$1,733,940	\$3,465,024	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
Fiscal 2018						Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	(12,732)	0	(12,732)	0.00	0	(9,925)	0	(9,925)
DP 2 - Fixed Costs	0.00	0	7,085	0	7,085	0.00	0	7,077	0	7,077
DP 3 - Inflation Deflation	0.00	0	5	0	5	0.00	0	29	0	29
DP 4 - Operating Expenses	0.00	0	3,442	0	3,442	0.00	0	3,475	0	3,475
Grand Total All Present Law Adjustments	0.00	\$0	(\$2,200)	\$0	(\$2,200)	0.00	\$0	\$656	\$0	\$656

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Operating Expenses -

The executive requests state special revenue for anticipated increases in operating costs. This request is primarily for increases in dues and travel expenses.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Unanticipated Caseload Contingency (RST/OTO)	0.00	0	250,000	0	250,000	0.00	0	250,000	0	250,000
Total	0.00	\$0	\$250,000	\$0	\$250,000	0.00	\$0	\$250,000	\$0	\$250,000

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

DP 5 - Unanticipated Caseload Contingency (RST/OTO) -

The executive is requesting state special revenue, which is restricted one-time-only funding, for costs associated with unanticipated caseloads. This request is consistent with appropriations in prior biennia.

LFD COMMENT

In the previous biennia, the caseload contingency fund has been provided for the potential of unusually large, controversial, or complicated cases that could require agency intervention. Figure 3 illustrates actual historical expenditures from the caseload contingency fund since FY 2004. Since the caseload contingency is not expended in a consistent way, separating the caseload contingency into a separate appropriation allows the legislature to track the expenditures. In the 2013, 2015 and 2017 biennia, the caseload contingency was one-time-only and restricted. The one-time designation separated it from base expenditures and restricted it to a specific purpose or function. If the funds are not expended, the amount charged to the regulated utilities is reduced in the following year.

Figure 3

Caseload Contingency Historical Expenditures	
Fiscal Year	Expenditures
2004	\$219,354
2005	0
2006	43,000
2007	69,214
2008	148,523
2009	76,041
2010	(2,000)
2011	123,495
2012	0
2013	43,404
2014	0
2015	0
2016	\$0

FY 2017 Fund Appropriation Transactions - Consumer Counsel							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Administration Program							
02801 Dep Rev Const	\$1,483,284				\$1,483,284	0.0%	0.0 %
Program Total	1,483,284				1,483,284	0.0%	0.0%
Grand Total	\$1,483,284				\$1,483,284		0.0%

FY 2017 Fund Appropriation Transactions - Consumer Counsel							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
02801 Dep Rev Const	\$1,483,284				\$1,483,284	0.0%	0.0%
Grand Total	\$1,483,284				\$1,483,284	0.0%	0.0%

2019 BIENNIUM BASE BUDGET

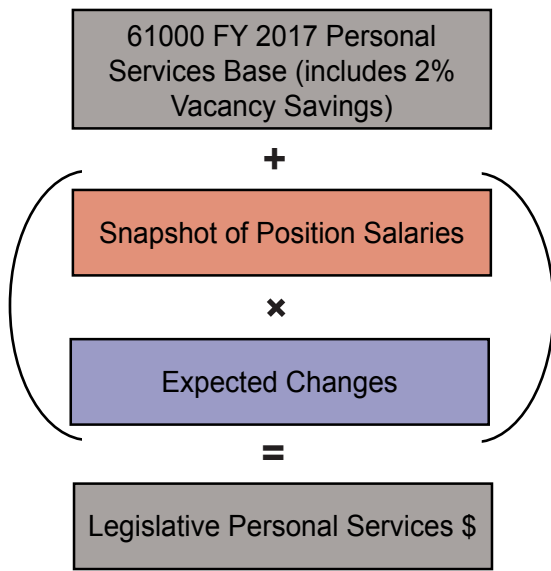
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

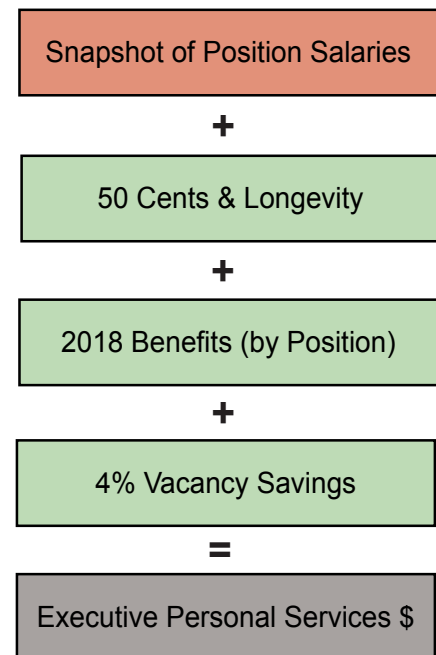
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

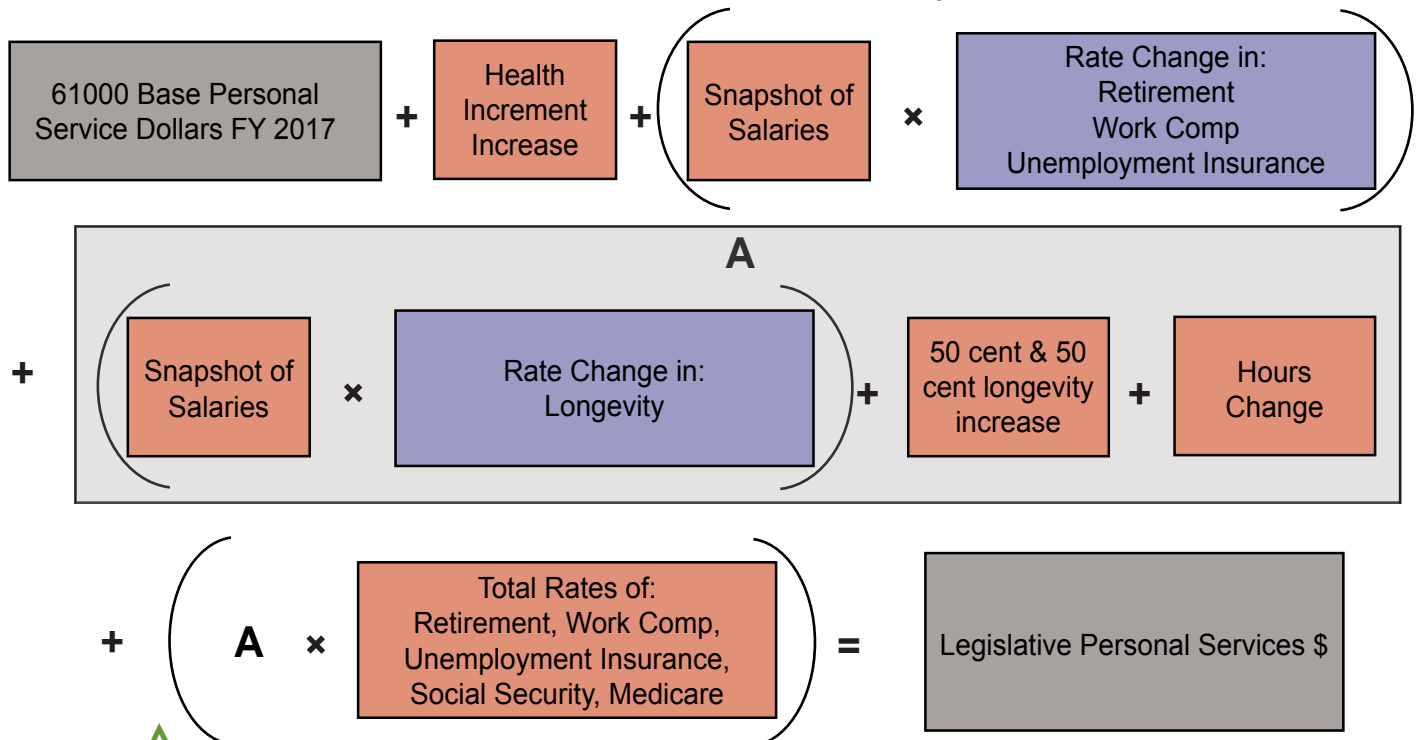
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



GOVERNOR'S OFFICE

An Agency Profile Prepared by the
Legislative Fiscal Division

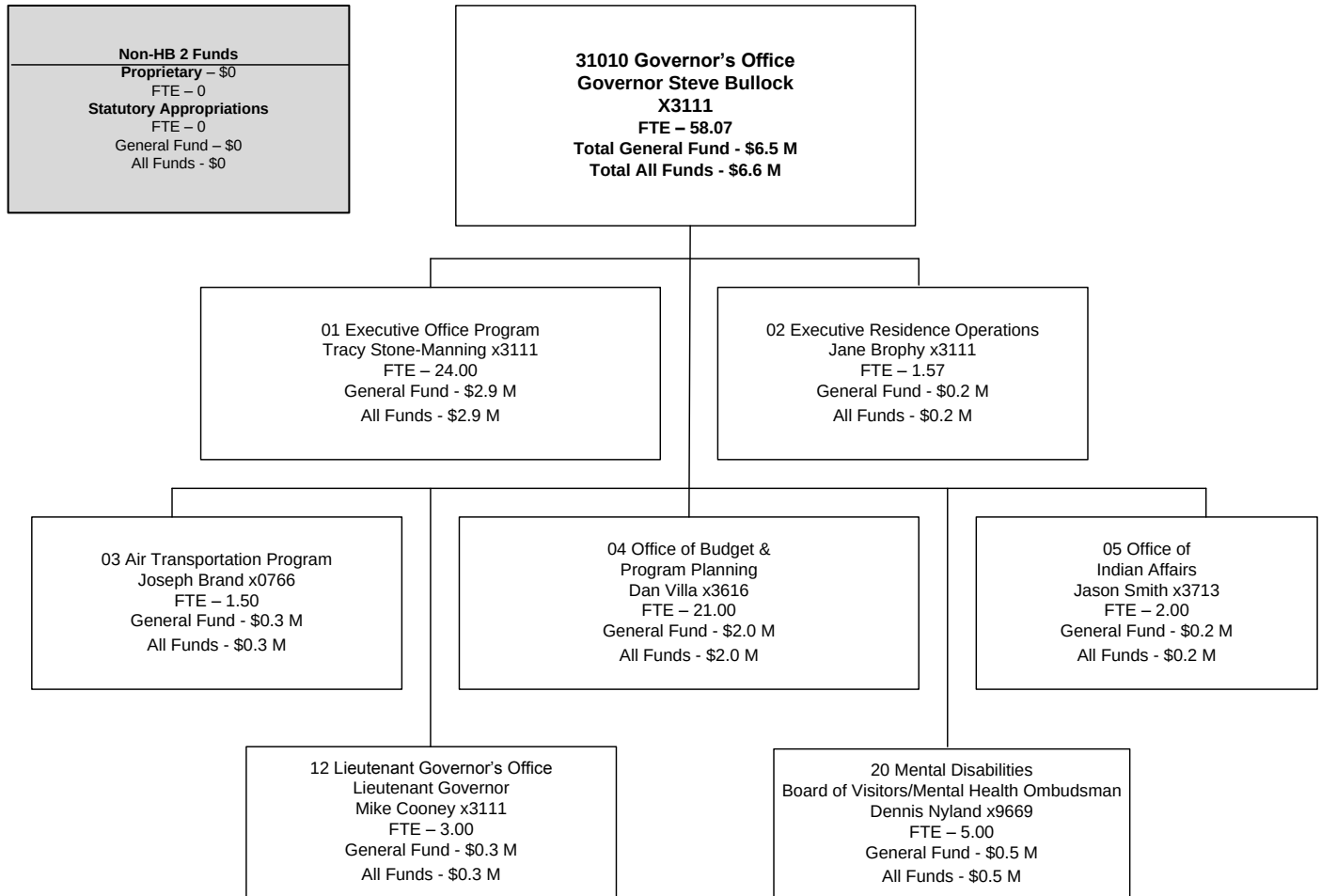
November, 2016



INTRODUCTION

The mission of the Governor's Office is to oversee and direct the activities of the Executive Branch of the Montana state government, consistent with statutory and constitutional mandates. The Office of the Governor exists under authority granted in Article VI of the Montana Constitution. The primary statutory references defining duties and responsibilities of the office are found in Title 2, Chapter 15, Part 2; Title 53, Chapter 20, Part 1 (53-20-104, MCA); and Title 90, Chapter 11, Part 1 of the Montana Code Annotated.

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



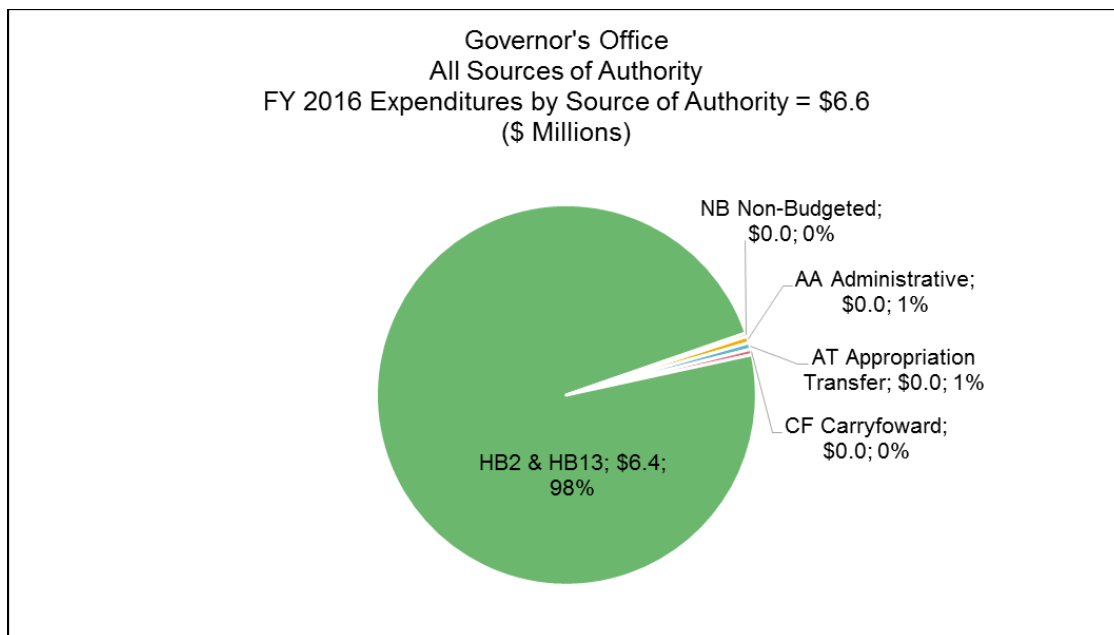
HOW SERVICES ARE PROVIDED

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

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

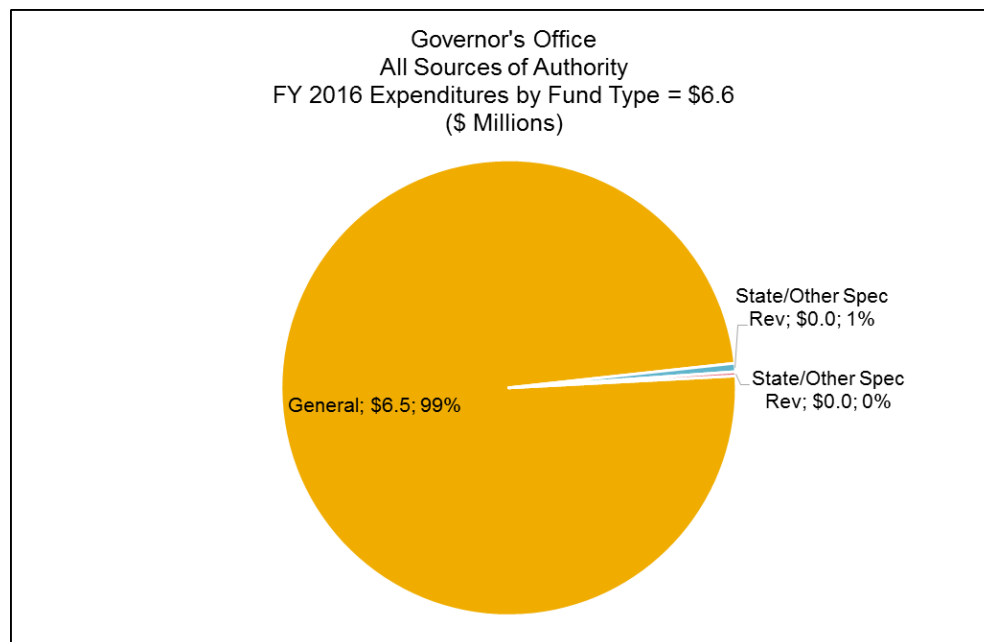
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Governor's Office that were expended in FY 2016. The office receives nearly all of its spending authority from HB 2 and the pay plan.

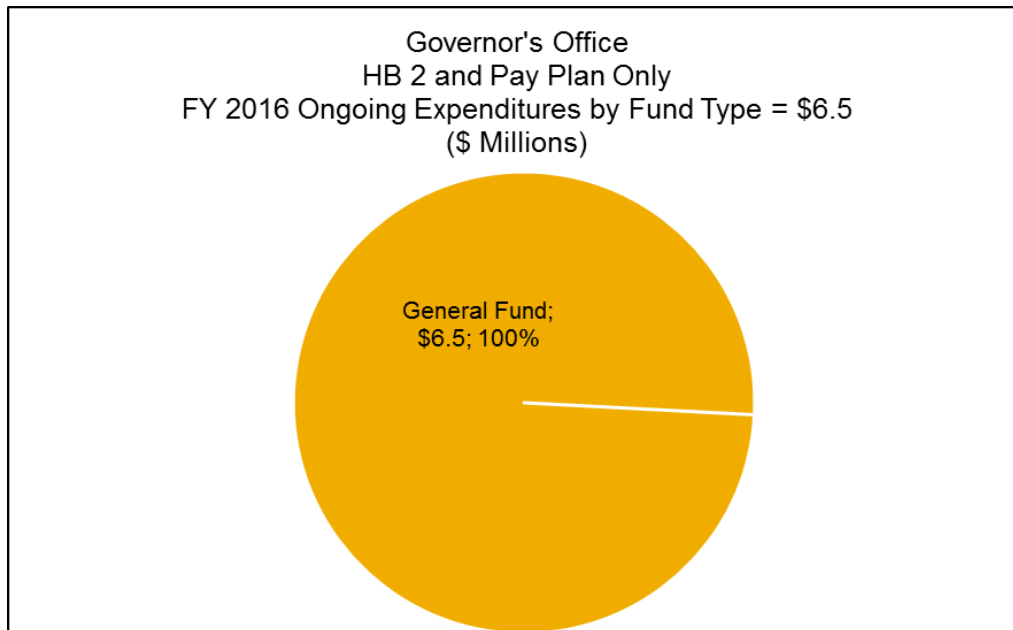


FUNDING

The Governor's Office is predominately funded with general fund. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

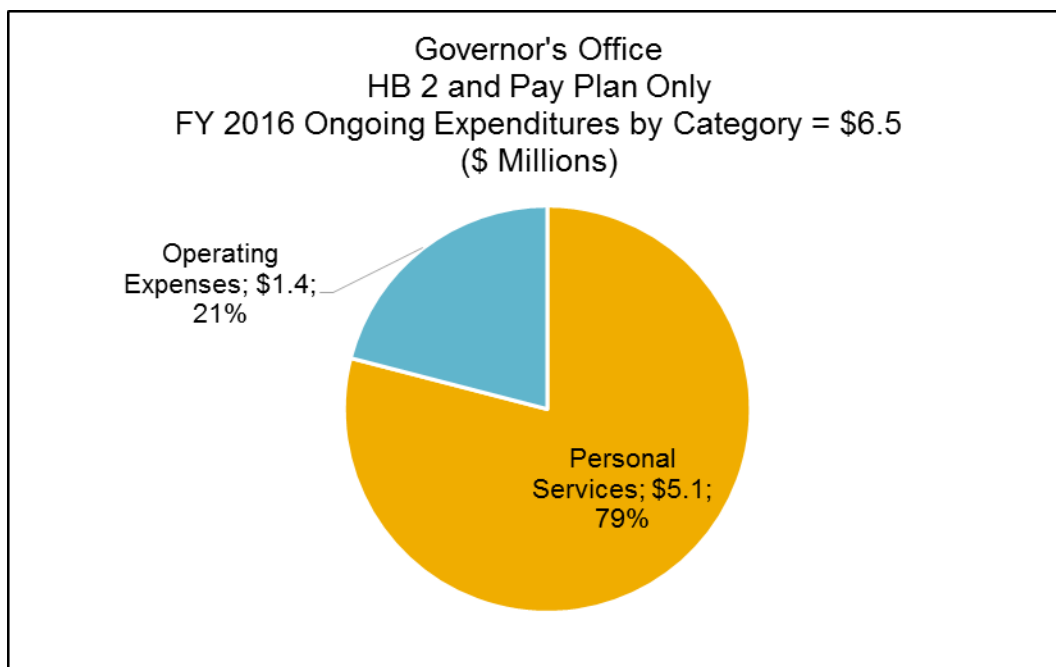


The chart below shows the Governor's Office HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The chart below explains how HB 2 and pay plan authority is spent.



MAJOR COST DRIVERS

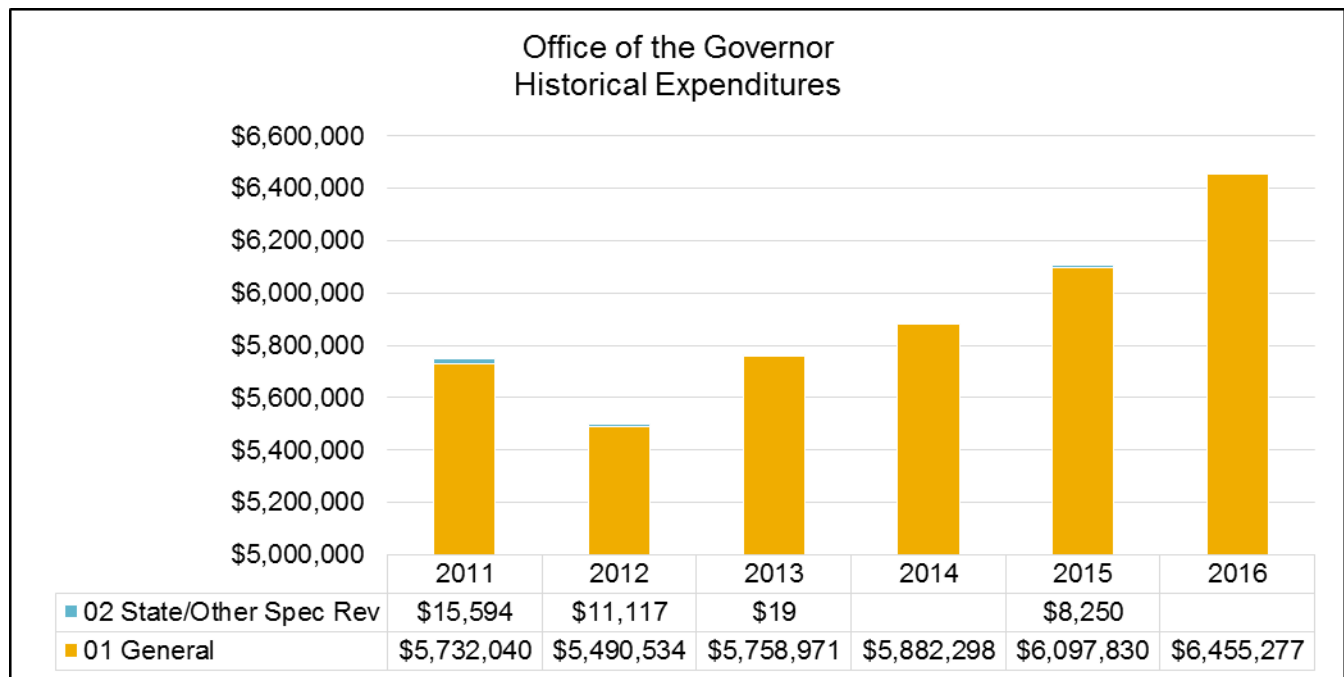
Element	FY 2006	FY 2016	Significance of Data
Total FTE	59.07	58.07	Personal services are 79% of the office's HB 2 budget. The office provides services directly through staff employed in the office.

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

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's funding and expenditures. Major reasons for change are:

- Pay increases for staff FY 2014, FY 2015 and FY 2016
- Operating expenses declined in FY 2012
- Legislative approval of office's 5% reduction plan in FY 2012
- Vacancy saving increased to 7%, reducing the personal services funding in the 2011 biennium



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2013 – The duties of the Energy Promotion and Development Division in the Department of Commerce was transferred to the Office of Economic Development in the Executive Office Program.
- 2007 – The function of executive protection was transferred from the Governor's Office to the Department of Justice.

For more information, please visit the agency's website, here: <http://governor.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	11,989,177	10,681,964	(1,307,213)	(10.90)%
Operating Expenses	2,674,484	2,383,066	(291,418)	(10.90)%
Total Expenditures	\$14,663,661	\$13,065,030	(\$1,598,631)	(10.90)%
General Fund	13,935,896	13,065,030	(870,866)	(6.25)%
State/Other Special Rev. Funds	600,000	0	(600,000)	(100.00)%
Federal Spec. Rev. Funds	102,765	0	(102,765)	(100.00)%
Proprietary Funds	25,000	0	(25,000)	(100.00)%
Total Funds	\$14,663,661	\$13,065,030	(\$1,598,631)	(10.90)%
Total Ongoing	\$13,331,758	\$13,065,030	(\$266,728)	(2.00)%
Total OTO	\$1,331,903	\$0	(\$1,331,903)	(100.00)%

Mission Statement

The Governor's Office mission is to oversee and direct the activities of the Executive Branch of Montana state government, consistent with statutory and constitutional mandates. The Governor appoints all military and civil officers of the state whose appointments are provided for by statute or the constitution. The Governor approves or vetoes legislation, reports to the legislature on the condition of the state, and submits a biennial executive budget.

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/3101-00agency-profile.pdf.

Agency Highlights

Governor's Office Major Budget Highlights	
- The Governor's Office 2019 biennium budget request is approximately \$1.6 million or 10.9% lower than the 2017 biennium, mainly due to one-time-only appropriations for personal services contingency funding being excluded from the 2019 biennium budget request. - The Governor's Office has proposed decreases in statewide present law adjustments for personal services and inflation/deflation. Statewide present law adjustments for fixed costs are requested to increase. - During the interim the Governor's Office reorganized. The Centralized Services Division and Citizen's Advocate Office were eliminated and the budget and FTE were transferred to other programs within the office.	

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	58.07	58.07	58.07	58.07	58.07
Personal Services	5,102,516	6,590,142	5,399,035	5,334,207	5,347,757
Operating Expenses	1,352,774	1,367,901	1,306,583	1,217,071	1,165,995
Total Expenditures	\$6,455,290	\$7,958,043	\$6,705,618	\$6,551,278	\$6,513,752
General Fund	6,455,290	7,230,278	6,705,618	6,551,278	6,513,752
State/Other Special Rev. Funds	0	600,000	0	0	0
Federal Spec. Rev. Funds	0	102,765	0	0	0
Proprietary Funds	0	25,000	0	0	0
Total Funds	\$6,455,290	\$7,958,043	\$6,705,618	\$6,551,278	\$6,513,752
Total Ongoing	\$6,455,290	\$6,626,140	\$6,705,618	\$6,551,278	\$6,513,752
Total OTO	\$0	\$1,331,903	\$0	\$0	\$0

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The FY 2016 budget of \$8.0 million for the Governor's Office was 81.1% expended through the end of the fiscal year. There was \$1.3 million in personal services contingency funding included in the budget that had not been expended as of the end of the fiscal year. While this funding is contributing to the difference between FY 2016 actual expenditures and appropriations, it was a biennial appropriation so the appropriation can be expended in FY 2017.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between the FY 2016 appropriation and the FY 2017 appropriation is primarily due to \$1.3 million in personal services contingency funding in FY 2016.

Executive Request

The executive requests decreases to personal services and operating expenses in FY 2018 and FY 2019. These requests will be discussed in further detail at the program level.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor's Office has provided a plan for \$321,569 in general fund reductions. The plan includes the elimination of the Mental Health Ombudsman Office and across the board reductions among the remaining programs for the remaining \$198,322. A summary of the entire 2019 biennium 5% Plan submitted for this agency is in the appendix.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns

provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Governor's Office						
	Leg Approp	Allocations	Program Transfers	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Executive Office Program						
Personal Services	\$1,962,481	\$68,378	\$199,772	\$2,230,631	13.7%	9.8 %
Operating Expenses	676,637		742	677,379	0.1%	0.1 %
Program Total	2,639,118	68,378	200,514	2,908,010	10.2%	7.4 %
02 Executive Residence Operations						
Personal Services	89,672	5,908		95,580	6.6%	0.0 %
Operating Expenses	59,364			59,364	0.0%	0.0 %
Program Total	149,036	5,908		154,944	4.0%	0.0 %
03 Air Transportation Program						
Personal Services	133,683	5,782		139,465	4.3%	0.0 %
Operating Expenses	196,463			196,463	0.0%	0.0 %
Program Total	330,146	5,782		335,928	1.8%	0.0 %
04 Ofc Budget & Program Planning						
Personal Services	46,487,310	(44,718,600)	276,046	2,044,756	-95.6%	15.6 %
Operating Expenses	10,857,440	(10,662,415)	77,345	272,370	-97.5%	39.7 %
Program Total	57,344,750	(55,381,015)	353,391	2,317,126	-96.0%	18.0 %
05 Coordinator Of Indian Affairs						
Personal Services	165,552	6,685		172,237	4.0%	0.0 %
Operating Expenses	22,473			22,473	0.0%	0.0 %
Program Total	188,025	6,685		194,710	3.6%	0.0 %
06 Centralized Services Program						
Personal Services	331,178	13,368	(344,546)	0	-100.0%	-100.0 %
Operating Expenses	77,345		(77,345)	0	-100.0%	-100.0 %
Program Total	408,523	13,368	(421,891)	0	-100.0%	-100.0 %
12 Lieutenant Governor'S Office						
Personal Services	286,330	8,220		294,550	2.9%	0.0 %
Operating Expenses	24,227			24,227	0.0%	0.0 %
Program Total	310,557	8,220		318,777	2.6%	0.0 %
16 Citizens' Advocate Office						
Personal Services	124,587	6,685	(131,272)	0	-100.0%	-100.0 %
Operating Expenses	742		(742)	0	-100.0%	-100.0 %
Program Total	125,329	6,685	(132,014)	0	-100.0%	-100.0 %
20 Mental Disabilities Bd Visitors						
Personal Services	403,570	18,246		421,816	4.5%	0.0 %
Operating Expenses	54,307			54,307	0.0%	0.0 %
Program Total	457,877	18,246		476,123	4.0%	0.0 %
Grand Total	\$61,953,361	(\$55,247,743)	\$0	\$6,705,618	-89.2%	0.0%
Leg Approp = Legislative Appropriation						
Allocations = include Contingency Program Base & Pay Plan						
OP = Operating Plan Changes						

Significant budget changes adopted by the executive include:

- The Office of Budget and Program Planning (OBPP) transferred \$39.0 million to executive branch agencies for employee pay plans and state share of health care benefits. Additionally, OBPP transferred \$5.7 million of personal services contingency base funding to state agencies. These transfers increased the personal services base budget of recipient agencies.
- OBPP transferred \$10.7 million of base contingency funding to state agencies. This transfer increased the base budget of recipient agencies.
- The Governor's Office reorganized its Citizens' Advocate Office into the Executive Office. This reorganization moved 2.00 FTE, \$131,272 budgeted for personal services, and \$742 budgeted for operating expenses.
- The Governor's Office also reorganized the Centralized Services Program into OBPP. This reorganization moved 4.00 FTE, \$344,546 budgeted for personal services, and \$77,345 budgeted for operating expenses.

Funding

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

Total Governor's Office Funding by Source of Authority 2019 Biennium Budget Request - Governor's Office						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	13,065,030	0	0	0	13,065,030	100.00 %
State Special Total	0	0	0	0	0	0.00 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$13,065,030	\$0	\$0	\$0	\$13,065,030	
Percent - Total All Sources	100.00 %	0.00 %	0.00 %	0.00 %		

In the 2017 biennium, the Office of Budget and Program Planning received state and federal special revenues and proprietary funds for the state employee pay plan, personal services base contingency funding, personal services contingency funding, and base contingency funding. However, proposed funding for the 2019 biennium only includes general fund.

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	6,705,618	6,705,618	13,411,236	102.65 %	6,705,618	6,705,618	13,411,236	102.65 %
SWPL Adjustments	23,809	(13,717)	10,092	0.08 %	23,809	(13,717)	10,092	0.08 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(178,149)	(178,149)	(356,298)	(2.73)%	(178,149)	(178,149)	(356,298)	(2.73)%
Total Budget	\$6,551,278	\$6,513,752	\$13,065,030		\$6,551,278	\$6,513,752	\$13,065,030	

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	4,435,375	4,519,265	83,890	1.89 %
Operating Expenses	1,408,897	1,239,607	(169,290)	(12.02)%
Total Expenditures	\$5,844,272	\$5,758,872	(\$85,400)	(1.46)%
General Fund	5,844,272	5,758,872	(85,400)	(1.46)%
Total Funds	\$5,844,272	\$5,758,872	(\$85,400)	(1.46)%
Total Ongoing	\$5,844,272	\$5,758,872	(\$85,400)	(1.46)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program Highlights

Executive Office Program Major Budget Highlights
• The Executive Office Program 2019 biennium budget request is approximately \$85,000 or 1.5% lower than the 2017 biennium. Significant changes include: ◦ Proposed increases due to statewide present law adjustments for personal services, information technology fixed costs, rent and other operating costs. ◦ Proposed decreases due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	24.00	24.00	24.00	24.00	24.00
Personal Services	2,206,103	2,204,744	2,230,631	2,258,792	2,260,473
Operating Expenses	730,161	731,518	677,379	618,403	621,204
Total Expenditures	\$2,936,264	\$2,936,262	\$2,908,010	\$2,877,195	\$2,881,677
General Fund	2,936,264	2,936,262	2,908,010	2,877,195	2,881,677
Total Funds	\$2,936,264	\$2,936,262	\$2,908,010	\$2,877,195	\$2,881,677
Total Ongoing	\$2,936,264	\$2,936,262	\$2,908,010	\$2,877,195	\$2,881,677
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

There were two major changes that occurred in the Executive Office Program in FY 2016. The Governor's Office transferred 1.00 permanent FTE and related general fund of \$65,000 from the Office of Budget and Program Planning to the Executive Office Program. This transfer was made to provide for workload relief with an Administrative Special Assistant in the Chief Legal Counsel's Office. Additionally, the Governor reorganized its Citizens Advocate Office into the Executive Office Program. This reorganization moved 2.00 FTE, \$131,272 of general fund budgeted for personal services, and \$742 of general fund budgeted for operating expenses.

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Executive Office Program expended 100.0% of its FY 2016 budget. Personal services were 100.1% expended and operating expenses were 99.8% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations in personal services and operating expenses. The allocation of the pay plan and transfer of excess authority for personal services from Centralized Services are contributing to the difference in personal services. The difference in operating expenses is predominately due to the transfer of extra operating authority from the Air Transportation Program and Centralized Services.

Executive Request

The Executive Office Program is requesting an increase in personal services in FY 2018 and FY 2019 which will be discussed in further detail in the Personal Services section below. Statewide present law adjustments for fixed costs and inflation/deflation are also proposed to increase; however, this increase is offset by a new proposal implementing the executive's reduction to the budget, based on the 5% reduction plan, which ultimately results in a requested decrease in operating expenses.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 2

Governor's Office: 01 Executive Office Program Personal Services Present Law Calculations			
PS Base:	\$2,230,631		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$28,161	\$29,842
Legislative	Statutory Personal Service Change	<u>21,495</u>	<u>23,249</u>
	Difference	6,666	6,593
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(43,978)	(44,014)
	Broadband Pay Adjustments	81,840	81,840
	Benefits and Taxes on Pay Adjustment	14,043	14,043
	Other	(45,239)	(45,276)
	Total	\$6,666	\$6,593

Personal services were \$2.2 million or 76.7% of total FY 2017 appropriations. The executive proposes an increase of \$28,161 in FY 2018 and \$29,842 in FY 2019. The executive proposal is approximately \$7,000 higher than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference increases when adding back the additional 2% vacancy savings proposed by the executive and take into account employee turnover. Broadband pay increases implemented in FY 2016 primarily explain the difference between the two calculations. Adjustments made in the program were due to competency adjustments, exempt employee raises, and market adjustments and totaled \$81,840 in FY 2016.

Funding

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

Governor's Office, 01-Executive Office Program Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	5,758,872	0	0	0	5,758,872	100.00 %
02038 Governor's Office Ssr	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03286 SSBCI Treasury Grant	0	0	0	0	0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$5,758,872	\$0	\$0	\$0	\$5,758,872	

The Executive Office Program is funded entirely with general fund.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	2,908,010	2,908,010	5,816,020	100.99 %	2,908,010	2,908,010	5,816,020	100.99 %
SWPL Adjustments	50,218	54,700	104,918	1.82 %	50,218	54,700	104,918	1.82 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(81,033)	(81,033)	(162,066)	(2.81)%	(81,033)	(81,033)	(162,066)	(2.81)%
Total Budget	\$2,877,195	\$2,881,677	\$5,758,872		\$2,877,195	\$2,881,677	\$5,758,872	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	28,161	0	0	28,161	0.00	29,842	0	0	29,842
DP 2 - Fixed Costs	0.00	21,727	0	0	21,727	0.00	24,239	0	0	24,239
DP 3 - Inflation Deflation	0.00	330	0	0	330	0.00	619	0	0	619
Grand Total All Present Law Adjustments	0.00	\$50,218	\$0	\$0	\$50,218	0.00	\$54,700	\$0	\$0	\$54,700

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(81,033)	0	0	(81,033)		0.00	(81,033)	0	(81,033)
Total	0.00	(\$81,033)	\$0	\$0	(\$81,033)		0.00	(\$81,033)	\$0	(\$81,033)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	198,051	202,273	4,222	2.13 %
Operating Expenses	126,324	115,795	(10,529)	(8.33)%
Total Expenditures	\$324,375	\$318,068	(\$6,307)	(1.94)%
General Fund	324,375	318,068	(6,307)	(1.94)%
Total Funds	\$324,375	\$318,068	(\$6,307)	(1.94)%
Total Ongoing	\$324,375	\$318,068	(\$6,307)	(1.94)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program Highlights

Executive Residence Operations Major Budget Highlights
- The Executive Residence 2019 biennium budget request is approximately \$6,000 or 1.9% lower than the 2017 biennium. Significant changes include: - Proposed increases due to statewide present law adjustments for personal services, information technology fixed costs, and other operating costs. - Proposed decreases to operating expenses due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	1.57	1.57	1.57	1.57	1.57
Personal Services	101,815	102,471	95,580	101,104	101,169
Operating Expenses	67,619	66,960	59,364	57,293	58,502
Total Expenditures	\$169,434	\$169,431	\$154,944	\$158,397	\$159,671
General Fund	169,434	169,431	154,944	158,397	159,671
Total Funds	\$169,434	\$169,431	\$154,944	\$158,397	\$159,671
Total Ongoing	\$169,434	\$169,431	\$154,944	\$158,397	\$159,671
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Executive Residence Operations expended 100.0% of its FY 2016 budget. Personal Services were 99.4% expended and operating expenses were 101.0% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are minor differences between FY 2016 and FY 2017 appropriations in personal services and operating expenses. These differences are predominately due to the transfer of excess budget authority from Centralized Services.

Executive Request

The Executive Office Program is requesting an increase for personal services in FY 2018 and FY 2019. Statewide present law increases for fixed costs, and inflation are also proposed; however, this increase is offset by a new proposal implementing the executive's reduction to the budget, based on the 5% reduction plan, which ultimately results in a requested decrease in operating expenses.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 3

Governor's Office: 02 Executive Residence Operations Personal Services Present Law Calculations			
PS Base:	\$95,580		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$5,524	\$5,589
Legislative	Statutory Personal Service Change	<u>1,936</u>	<u>2,002</u>
	Difference	3,588	3,587
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(2,106)	(2,107)
	Broadband Pay Adjustments	5,330	5,330
	Benefits and Taxes on Pay Adjustment	1,128	1,128
	Other	(764)	(765)
	Total	\$3,588	\$3,587

Personal services were \$95,580 or 61.7% of total FY 2017 appropriations. The executive proposes an increase of \$5,524 in FY 2018 and \$5,589 in FY 2019. The executive proposal is approximately \$3,500 higher than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference increases when adding back the additional 2% vacancy savings proposed by the executive. Broadband pay increases in FY 2016 accounts for the difference in the two calculations. Adjustments made in the program were due to performance adjustments and totaled \$5,330 in FY 2016.

Funding

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

Governor's Office, 02-Executive Residence Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	318,068	0	0	0	318,068	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$318,068	\$0	\$0	\$0	\$318,068	

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	154,944	154,944	309,888	97.43 %	154,944	154,944	309,888	97.43 %
SWPL Adjustments	8,129	9,403	17,532	5.51 %	8,129	9,403	17,532	5.51 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(4,676)	(4,676)	(9,352)	(2.94)%	(4,676)	(4,676)	(9,352)	(2.94)%
Total Budget	\$158,397	\$159,671	\$318,068		\$158,397	\$159,671	\$318,068	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
DP 1 - Personal Services	0.00	5,524	0	0	5,524	0.00	5,589	0	0	5,589
DP 2 - Fixed Costs										
DP 2 - Fixed Costs	0.00	2,122	0	0	2,122	0.00	2,126	0	0	2,126
DP 3 - Inflation Deflation										
DP 3 - Inflation Deflation	0.00	483	0	0	483	0.00	1,688	0	0	1,688
Grand Total All Present Law Adjustments	0.00	\$8,129	\$0	\$0	\$8,129	0.00	\$9,403	\$0	\$0	\$9,403

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(4,676)	0	0	(4,676)	0.00	(4,676)	0	0	(4,676)
Total	0.00	(\$4,676)	\$0	\$0	(\$4,676)	0.00	(\$4,676)	\$0	\$0	(\$4,676)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	256,448	271,964	15,516	6.05 %
Operating Expenses	389,000	338,312	(50,688)	(13.03)%
Total Expenditures	\$645,448	\$610,276	(\$35,172)	(5.45)%
General Fund	645,448	610,276	(35,172)	(5.45)%
Total Funds	\$645,448	\$610,276	(\$35,172)	(5.45)%
Total Ongoing	\$645,448	\$610,276	(\$35,172)	(5.45)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Air Transportation Program provides the Governor with air transportation.

Program Highlights

Air Transportation Program Major Budget Highlights	
- The Air Transportation Program 2019 biennium budget request is approximately \$35,000 or 5.5% lower than the 2017 biennium. Significant changes include: - Proposed decreases due to statewide present law adjustments for personal services, fuel, and other operating costs. - Proposed decreases to operating expenses due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	1.50	1.50	1.50	1.50	1.50
Personal Services	116,875	116,983	139,465	135,935	136,029
Operating Expenses	192,563	192,537	196,463	167,404	170,908
Total Expenditures	\$309,438	\$309,520	\$335,928	\$303,339	\$306,937
General Fund	309,438	309,520	335,928	303,339	306,937
Total Funds	\$309,438	\$309,520	\$335,928	\$303,339	\$306,937
Total Ongoing	\$309,438	\$309,520	\$335,928	\$303,339	\$306,937
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Air Transportation Program expended 100.0% of its FY 2016 budget. Personal Services were 99.9% expended and operating expenses were 100.0% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations which are primarily in personal services. The allocation of the pay plan and transfer of excess authority for personal services from the Air Transportation Program to other programs in the Governor's Office are contributing to the difference in personal services.

Executive Request

The Air Transportation Program is requesting a decrease in FY 2018 and FY 2019. Statewide present law adjustments for personal services, fixed costs, and deflation are driving this decrease. Additionally, a new proposal implementing the executive's reduction to the budget, which is based on the 5% reduction plan, is contributing to the proposed decrease in operating expenses. These changes will be discussed in further detail in the Personal Services and New Proposals sections below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 4

Governor's Office: 03 Air Transportation Program Personal Services Present Law Calculations			
PS Base: \$139,465			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$3,530)	(\$3,436)
Legislative	Statutory Personal Service Change	<u>1,001</u>	<u>1,097</u>
	Difference	(4,531)	(4,533)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(2,832)	(2,834)
	Broadband Pay Adjustments	-	-
	Benefits and Taxes on Pay Adjustment	-	-
	Other	(1,699)	(1,700)
	Total	(\$4,531)	(\$4,533)

Personal services were \$139,465 or 41.5% of total FY 2017 appropriations. The executive proposes a decrease of \$3,530 in FY 2018 and \$3,436 in FY 2019. The executive proposal is approximately \$4,500 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. Part of this difference is related to the additional 2% vacancy savings the executive is implementing on personal services.

Funding

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

Governor's Office, 03-Air Transportation Program Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	610,276	0	0	0	610,276	100.00 %	
02693 Air Transportation Special Rev	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$610,276	\$0	\$0	\$0	\$610,276		

The Air Transportation Program is funded entirely with general fund.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	335,928	335,928	671,856	110.09 %	335,928	335,928	671,856	110.09 %
SWPL Adjustments	(24,049)	(20,451)	(44,500)	(7.29)%	(24,049)	(20,451)	(44,500)	(7.29)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(8,540)	(8,540)	(17,080)	(2.80)%	(8,540)	(8,540)	(17,080)	(2.80)%
Total Budget	\$303,339	\$306,937	\$610,276		\$303,339	\$306,937	\$610,276	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
DP 1 - Personal Services	0.00	(3,530)	0	0	(3,530)	0.00	(3,436)	0	0	(3,436)
DP 2 - Fixed Costs										
DP 2 - Fixed Costs	0.00	(486)	0	0	(486)	0.00	(1,961)	0	0	(1,961)
DP 3 - Inflation Deflation										
DP 3 - Inflation Deflation	0.00	(20,033)	0	0	(20,033)	0.00	(15,054)	0	0	(15,054)
Grand Total All Present Law Adjustments	0.00	(\$24,049)	\$0	\$0	(\$24,049)	0.00	(\$20,451)	\$0	\$0	(\$20,451)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(8,540)	0	0	(8,540)	0.00	(8,540)	0	0	(8,540)
Total	0.00	(\$8,540)	\$0	\$0	(\$8,540)	0.00	(\$8,540)	\$0	\$0	(\$8,540)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	5,323,822	3,928,692	(1,395,130)	(26.21)%
Operating Expenses	532,925	526,773	(6,152)	(1.15)%
Total Expenditures	\$5,856,747	\$4,455,465	(\$1,401,282)	(23.93)%
General Fund	5,128,982	4,455,465	(673,517)	(13.13)%
State/Other Special Rev. Funds	600,000	0	(600,000)	(100.00)%
Federal Spec. Rev. Funds	102,765	0	(102,765)	(100.00)%
Proprietary Funds	25,000	0	(25,000)	(100.00)%
Total Funds	\$5,856,747	\$4,455,465	(\$1,401,282)	(23.93)%
Total Ongoing	\$4,524,844	\$4,455,465	(\$69,379)	(1.53)%
Total OTO	\$1,331,903	\$0	(\$1,331,903)	(100.00)%

Program Description

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

Program Highlights

Office of Budget and Program Planning Major Budget Highlights
- The Office of Budget and Program Planning 2019 biennium budget request is approximately \$1.4 million or 23.9% lower than the 2017 biennium. The majority of this reduction is due to one-time-only appropriations for personal services contingency funding being excluded from the 2019 biennium budget request. Other significant changes include: - Proposed decreases due to statewide present law adjustments for personal services - Proposed decreases to operating expenses due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	21.00	21.00	21.00	21.00	21.00
Personal Services	1,798,237	3,279,066	2,044,756	1,959,329	1,969,363
Operating Expenses	239,770	260,555	272,370	292,987	233,786
Total Expenditures	\$2,038,007	\$3,539,621	\$2,317,126	\$2,252,316	\$2,203,149
General Fund	2,038,007	2,811,856	2,317,126	2,252,316	2,203,149
State/Other Special Rev. Funds	0	600,000	0	0	0
Federal Spec. Rev. Funds	0	102,765	0	0	0
Proprietary Funds	0	25,000	0	0	0
Total Funds	\$2,038,007	\$3,539,621	\$2,317,126	\$2,252,316	\$2,203,149
Total Ongoing	\$2,038,007	\$2,207,718	\$2,317,126	\$2,252,316	\$2,203,149
Total OTO	\$0	\$1,331,903	\$0	\$0	\$0

Program Discussion -

There were two significant changes in the Office of Budget and Program Planning. The Governor's Office transferred 1.00 FTE and related general fund of \$65,000 from the OBPP to the Executive Office Program. This transfer was made to provide for workload relief with an Administrative Special Assistant in the Chief Legal Counsel's Office. Additionally, the Governor's Office reorganized Centralized Services into OBPP. This reorganization moved 4.00 FTE, \$344,546 budgeted for personal services, and \$77,345 budgeted for operating expenses.

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Office of Budget and Program Planning expended 57.6% of its FY 2016 budget. Personal services were 54.8% expended. This lower percentage expended is due to a \$1.3 million biennial appropriation for personal services contingency funding. The OBPP can expend this funding in FY 2017 because it carries forward to the next fiscal year. Operating expenses were 92.0% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is primarily in personal services. This difference, as discussed above, is due to the \$1.3 million biennial appropriation for personal services contingency funding.

Executive Request

The OBPP is requesting a decrease in personal services for FY 2018 and FY 2019 due to a statewide present law adjustment which will be discussed in further detail in the Personal Services section below. The program is requesting an increase in FY 2018 and a decrease in FY 2019 in operating expenses which is due to statewide present law adjustments and one new proposal implementing the executive's reduction to the budget, which is based on the 5% reduction plan. The increase in FY 2018 is primarily because of audit fees.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 5

Governor's Office: 04 Office of Budget & Program Planning Personal Services Present Law Calculations			
PS Base: \$2,044,756			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$85,427)	(\$75,393)
Legislative	Statutory Personal Service Change	<u>16,803</u>	<u>25,604</u>
	Difference	(102,230)	(100,997)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(40,814)	(41,024)
	Broadband Pay Adjustments	12,289	12,289
	Benefits and Taxes on Pay Adjustment	2,523	2,523
	Other	(76,227)	(74,785)
	Total	(\$102,230)	(\$100,997)

Personal services were \$2.0 million or 88.2% of total FY 2017 appropriations. The executive proposes a decrease of \$85,427 in FY 2018 and \$75,393 in FY 2019. The executive proposal is approximately \$100,000 less than anticipated by LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is primarily due to the reclassification of positions into lower pay bands and the additional 2% vacancy savings implemented by the executive.

While overall personal services decreased, there were some pay adjustments that increased employee salaries in FY 2016. These adjustments were primarily due to career ladders, exempt employee raises and market adjustments. Adjustments totaled approximately \$12,000 during the fiscal year.

Funding

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

Governor's Office, 04-Office of Budget & Program Planning Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	4,455,465	0	0	0	4,455,465	100.00 %
02038 Governor's Office Ssr	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03001 Governors Office Federal Grnts	0	0	0	0	0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06510 PERSONAL SERVICES CONTINGENCY	0	0	0	0	0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$4,455,465	\$0	\$0	\$0	\$4,455,465	

In the 2017 biennium, the Office of Budget and Program Planning received state and federal special revenue and proprietary funds for the state employee pay plan, personal services base contingency, personal services contingency, and base contingency funding. However, proposed funding for the 2019 biennium only includes general fund.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	2,317,126	2,317,126	4,634,252	104.01 %	2,317,126	2,317,126	4,634,252	104.01 %
SWPL Adjustments	(8,566)	(57,733)	(66,299)	(1.49)%	(8,566)	(57,733)	(66,299)	(1.49)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(56,244)	(56,244)	(112,488)	(2.52)%	(56,244)	(56,244)	(112,488)	(2.52)%
Total Budget	\$2,252,316	\$2,203,149	\$4,455,465		\$2,252,316	\$2,203,149	\$4,455,465	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(85,427)	0	0	(85,427)	0.00	(75,393)	0	0	(75,393)
DP 2 - Fixed Costs	0.00	76,855	0	0	76,855	0.00	17,648	0	0	17,648
DP 3 - Inflation Deflation	0.00	6	0	0	6	0.00	12	0	0	12
Grand Total All Present Law Adjustments	0.00	(\$8,566)	\$0	\$0	(\$8,566)	0.00	(\$57,733)	\$0	\$0	(\$57,733)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(56,244)	0	0	(56,244)	0.00	(56,244)	0	0	(56,244)
Total	0.00	(\$56,244)	\$0	\$0	(\$56,244)	0.00	(\$56,244)	\$0	\$0	(\$56,244)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	341,806	319,246	(22,560)	(6.60)%
Operating Expenses	50,164	38,417	(11,747)	(23.42)%
Total Expenditures	\$391,970	\$357,663	(\$34,307)	(8.75)%
General Fund	391,970	357,663	(34,307)	(8.75)%
Total Funds	\$391,970	\$357,663	(\$34,307)	(8.75)%
Total Ongoing	\$391,970	\$357,663	(\$34,307)	(8.75)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program Highlights

Office of Indian Affairs Major Budget Highlights
- The Office of Indian Affairs 2019 biennium budget request is approximately \$34,000 or 8.8% lower than the 2017 biennium. Significant changes include: - Proposed decreases due to statewide present law adjustments for personal services - Proposed decreases to operating expenses due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	2.00	2.00	2.00	2.00	2.00
Personal Services	169,778	169,569	172,237	159,566	159,680
Operating Expenses	27,484	27,691	22,473	19,121	19,296
Total Expenditures	\$197,262	\$197,260	\$194,710	\$178,687	\$178,976
General Fund	197,262	197,260	194,710	178,687	178,976
Total Funds	\$197,262	\$197,260	\$194,710	\$178,687	\$178,976
Total Ongoing	\$197,262	\$197,260	\$194,710	\$178,687	\$178,976
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Coordinator of Indian Affairs expended 100.0% of its FY 2016 budget. Personal services were 100.1% expended and operating expenses were 99.3% expended.

Executive Request

The Office of Indian Affairs is requesting a decrease in personal services in FY 2018 and FY 2019 due to a statewide present law adjustment which will be discussed in further detail in the Personal Services section below. The Office of Indian Affairs is requesting a decrease in operating expenses which is due to a new proposal implementing the executive's reduction to the budget, which is based on the 5% reduction plan.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 6

Governor's Office: 05 Coordinator Of Indian Affairs Personal Services Present Law Calculations			
PS Base:	\$172,237		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$12,671)	(\$12,557)
Legislative	Statutory Personal Service Change	1,161	1,281
	Difference	(13,832)	(13,838)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(3,324)	(3,327)
	Broadband Pay Adjustments	1,040	1,040
	Benefits and Taxes on Pay Adjustment	177	177
	Other	(11,725)	(11,729)
	Total	(\$13,832)	(\$13,838)

Personal services were \$172,237 or 88.5% of total FY 2017 appropriations. The executive proposes a decrease of \$12,671 in FY 2018 and \$12,557 in FY 2019. The executive proposal is approximately \$14,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. While overall personal services decreased, there were some pay adjustments that increased employee salaries in FY 2016. These adjustments were primarily due to exempt employee raises and totaled \$1,040 during the fiscal year.

Funding

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

Governor's Office, 05-Office of Indian Affairs Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	357,663	0	0	0	357,663	100.00 %
02038 Governor's Office Ssr	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$357,663	\$0	\$0	\$0	\$357,663	

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	194,710	194,710	389,420	108.88 %	194,710	194,710	389,420	108.88 %
SWPL Adjustments	(10,579)	(10,290)	(20,869)	(5.83)%	(10,579)	(10,290)	(20,869)	(5.83)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(5,444)	(5,444)	(10,888)	(3.04)%	(5,444)	(5,444)	(10,888)	(3.04)%
Total Budget	\$178,687	\$178,976	\$357,663		\$178,687	\$178,976	\$357,663	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
DP 2 - Fixed Costs										
DP 3 - Inflation Deflation										
Grand Total All Present Law Adjustments	0.00	(\$10,579)	\$0	\$0	(\$10,579)	0.00	(\$10,290)	\$0	\$0	(\$10,290)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(5,444)	0	0	(5,444)	0.00	(5,444)	0	0	(5,444)
Total	0.00	(\$5,444)	\$0	\$0	(\$5,444)	0.00	(\$5,444)	\$0	\$0	(\$5,444)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	596,092	602,927	6,835	1.15 %
Operating Expenses	58,073	33,391	(24,682)	(42.50)%
Total Expenditures	\$654,165	\$636,318	(\$17,847)	(2.73)%
General Fund	654,165	636,318	(17,847)	(2.73)%
Total Funds	\$654,165	\$636,318	(\$17,847)	(2.73)%
Total Ongoing	\$654,165	\$636,318	(\$17,847)	(2.73)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program Highlights

Lieutenant Governor's Office Major Budget Highlights
- The Office of the Lieutenant Governor 2019 biennium budget request is approximately \$18,000 or 2.7% lower than the 2017 biennium. Significant changes include: - Proposed increases due to statewide present law adjustments for personal services. - Proposed decreases to operating expenses due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	3.00	3.00	3.00	3.00	3.00
Personal Services	299,061	301,542	294,550	301,350	301,577
Operating Expenses	35,346	33,846	24,227	16,587	16,804
Total Expenditures	\$334,407	\$335,388	\$318,777	\$317,937	\$318,381
General Fund	334,407	335,388	318,777	317,937	318,381
Total Funds	\$334,407	\$335,388	\$318,777	\$317,937	\$318,381
Total Ongoing	\$334,407	\$335,388	\$318,777	\$317,937	\$318,381
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Office of the Lieutenant Governor expended 99.7% of its FY 2016 budget. Personal services were 99.2% expended and operating expenses were 104.4% expended.

Executive Request

The Office of the Lieutenant Governor is requesting a slight increase in personal services FY 2018 and FY 2019 due to a statewide present law adjustment. The office is also requesting a slight increase in operating expenses due to statewide present law adjustments for fixed costs and inflation. However, this increase is offset by a new proposal implementing the executive's reduction to the budget, based on the 5% reduction plan, which ultimately results in a requested decrease in operating expenses.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 7

Governor's Office: 12 Lieutenant Governor's Office Personal Services Present Law Calculations			
PS Base:	\$294,550		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$6,800	\$7,027
Legislative	Statutory Personal Service Change	<u>2,273</u>	<u>2,505</u>
	Difference	4,527	4,522
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(3,899)	(3,902)
	Broadband Pay Adjustments	6,525	6,525
	Benefits and Taxes on Pay Adjustment	1,104	1,104
	Other	798	795
	Total	\$4,527	\$4,522

Personal services were \$294,550 or 92.4% of total FY 2017 appropriations. The executive proposes an increase of \$6,800 in FY 2018 and \$7,027 in FY 2019. The executive proposal is approximately \$4,500 higher than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is primarily related to pay adjustments that increased employee salaries in FY 2016. These adjustments were primarily due to exempt employee pay raises and totaled \$6,525 during the fiscal year.

Funding

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

Governor's Office, 12-Lt Governor's Office Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	636,318	0	0	0	636,318	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$636,318	\$0	\$0	\$0	\$636,318	

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	318,777	318,777	637,554	100.19 %	318,777	318,777	637,554	100.19 %
SWPL Adjustments	8,389	8,833	17,222	2.71 %	8,389	8,833	17,222	2.71 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(9,229)	(9,229)	(18,458)	(2.90)%	(9,229)	(9,229)	(18,458)	(2.90)%
Total Budget	\$317,937	\$318,381	\$636,318		\$317,937	\$318,381	\$636,318	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
DP 1 - Personal Services	0.00	6,800	0	0	6,800	0.00	7,027	0	0	7,027
DP 2 - Fixed Costs										
DP 2 - Fixed Costs	0.00	1,052	0	0	1,052	0.00	1,061	0	0	1,061
DP 3 - Inflation Deflation										
DP 3 - Inflation Deflation	0.00	537	0	0	537	0.00	745	0	0	745
Grand Total All Present Law Adjustments	0.00	\$8,389	\$0	\$0	\$8,389	0.00	\$8,833	\$0	\$0	\$8,833

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(9,229)	0	0	(9,229)		0.00	(9,229)	0	(9,229)
Total	0.00	(\$9,229)	\$0	\$0	(\$9,229)		0.00	(\$9,229)	\$0	(\$9,229)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	837,583	837,597	14	0.00 %
Operating Expenses	109,101	90,771	(18,330)	(16.80)%
Total Expenditures	\$946,684	\$928,368	(\$18,316)	(1.93)%
General Fund	946,684	928,368	(18,316)	(1.93)%
Total Funds	\$946,684	\$928,368	(\$18,316)	(1.93)%
Total Ongoing	\$946,684	\$928,368	(\$18,316)	(1.93)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

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

Program Highlights

Mental Disabilities Board of Visitors Major Budget Highlights
• The Mental Disabilities Board of Visitors 2019 biennium budget request is approximately \$18,000 or 1.9% lower than the 2017 biennium. Significant changes include: ◦ Proposed decreases due to statewide present law adjustments for personal services. ◦ Proposed decreases to operating expenses due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	5.00	5.00	5.00	5.00	5.00
Personal Services	410,647	415,767	421,816	418,131	419,466
Operating Expenses	59,831	54,794	54,307	45,276	45,495
Total Expenditures	\$470,478	\$470,561	\$476,123	\$463,407	\$464,961
General Fund	470,478	470,561	476,123	463,407	464,961
Total Funds	\$470,478	\$470,561	\$476,123	\$463,407	\$464,961
Total Ongoing	\$470,478	\$470,561	\$476,123	\$463,407	\$464,961
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Mental Disabilities Board of Visitors expended 100.0% of its FY 2016 budget. Personal services were 98.8% expended and operating expenses were 109.2% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are slight differences between FY 2016 and FY 2017 appropriations which are primarily in personal services. This difference is mainly due to the allocation of the pay plan.

Executive Request

The Mental Disabilities Board of Visitors is requesting a slight decrease in personal services FY 2018 and FY 2019 which will be discussed in further detail in the Personal Services section below. The program is requesting an increase in operating expenses due to statewide present law adjustments for fixed costs and inflation. However, this increase is offset by a new proposal implementing the executive's reduction to the budget, based on the 5% reduction plan, which ultimately results in a requested decrease in operating expenses.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 8

Governor's Office: 20 Mental Disabilities Board of Visitors Personal Services Present Law Calculations			
PS Base:	\$421,816		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$3,685)	(\$2,350)
Legislative	Statutory Personal Service Change	<u>8,120</u>	<u>9,456</u>
	Difference	(11,805)	(11,806)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(8,710)	(8,738)
	Broadband Pay Adjustments	1,040	1,040
	Benefits and Taxes on Pay Adjustment	209	209
	Other	(4,345)	(4,318)
	Total	(\$11,805)	(\$11,806)

Personal services were \$421,816 or 88.6% of total FY 2017 appropriations. The executive proposes a decrease of \$3,685 in FY 2018 and \$2,350 in FY 2019. The executive proposal is approximately \$12,000 lower than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is related to the additional 2% vacancy savings the executive is implementing on personal services.

Funding

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

Governor's Office, 20-Ment Disb Bd of Visitors/mh Ombudsman Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	928,368	0	0	0	928,368	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$928,368	\$0	\$0	\$0	\$928,368	

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	476,123	476,123	952,246	102.57 %	476,123	476,123	952,246	102.57 %
SWPL Adjustments	267	1,821	2,088	0.22 %	267	1,821	2,088	0.22 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(12,983)	(12,983)	(25,966)	(2.80)%	(12,983)	(12,983)	(25,966)	(2.80)%
Total Budget	\$463,407	\$464,961	\$928,368		\$463,407	\$464,961	\$928,368	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(3,685)	0	0	(3,685)	0.00	(2,350)	0	0	(2,350)
DP 2 - Fixed Costs	0.00	3,798	0	0	3,798	0.00	3,955	0	0	3,955
DP 3 - Inflation Deflation	0.00	154	0	0	154	0.00	216	0	0	216
Grand Total All Present Law Adjustments	0.00	\$267	\$0	\$0	\$267	0.00	\$1,821	\$0	\$0	\$1,821

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(12,983)	0	0	(12,983)	0.00	(12,983)	0	0	(12,983)
Total	0.00	(\$12,983)	\$0	\$0	(\$12,983)	0.00	(\$12,983)	\$0	\$0	(\$12,983)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

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

AGENCY CODE & NAME: 31010 - GOVERNOR'S OFFICE

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 321,569	
		General Fund Annual Savings	State Special Revenue Annual Savings
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED		
1	Eliminate the Mental Health Ombudsman Office	\$ 123,247	
2	Across the Board Reduction among remaining programs	\$ 198,322	
3			
4			
5			
6			
7			
8			
9			
10			
11			
	TOTAL SAVINGS	\$ 321,569	\$ -
	DIFFERENCE	0	0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010 - GOVERNOR'S OFFICE

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

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

#2 THE SAVINGS THAT ARE EXPECTED:

\$123,247 in FY 2018 and \$123,377 in FY 2019.

#3

THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

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

#4

HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Services provided by the MHO could be transferred to the Mental Health Board of Visitors Office (BOV). Because of existing workloads within the BOV, it is possible that some constituents requesting assistance may not receive as thorough help as they would like. A BOV staff member might also serve as the ombudsman. If MHO tasks are assigned to staff within the BOV office, their staff may experience an intense overload of work tasks, and there is the potential that their staff numbers might need to be increased in the future in order to provide staff to maintain the telephone and email connections necessary with the MHO's clients.

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

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

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

31010 - GOVERNOR'S OFFICE

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

Across the Board Reduction to Remaining Programs

#2 THE SAVINGS THAT ARE EXPECTED:

198322 annually

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

All other areas of the Governor's Office would be affected. Items affected could be staffing, travel, contracted services, personal services, supplies, and others.

#4

HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Areas of concern are with timely responses to requests from constituents, making appointments to the states boards and commissions, maintaining relationships with Montana's Indian tribes, managing the state's budget and financial issues, and developing economic opportunities for Montana businesses

#5

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

Primary authority is Article VI, Montana Constitution

Form B

FY 2017 Fund Appropriation Transactions - Governor's Office							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Executive Office Program							
01100 General Fund	\$2,639,118	\$68,378	\$200,514		\$2,908,010	10.2%	10.2 %
Program Total	2,639,118	68,378	200,514		2,908,010	10.2%	10.2 %
02 Executive Residence Operations							
01100 General Fund	149,036	5,908			154,944	4.0%	4.0 %
Program Total	149,036	5,908			154,944	4.0%	4.0 %
03 Air Transportation Program							
01100 General Fund	330,146	5,782			335,928	1.8%	1.8 %
Program Total	330,146	5,782			335,928	1.8%	1.8 %
04 Ofc Budget & Program Planning							
01100 General Fund	24,094,440	(22,130,705)	353,391		2,317,126	-90.4%	-90.4 %
02038 Governor's Office SSR	17,138,266	(17,138,266)			0	-100.0%	-100.0 %
02249 Governor's Operations	1,959,152	(1,959,152)			0	-100.0%	-100.0 %
03001 Governors Office Federal Grnts	13,817,655	(13,817,655)			0	-100.0%	-100.0 %
06510 Personal Services Contingency	335,237	(335,237)			0	-100.0%	-100.0 %
Program Total	57,344,750	(55,381,015)	353,391		2,317,126	-96.0%	-96.0 %
05 Coordinator Of Indian Affairs							
01100 General Fund	188,025	6,685			194,710	3.6%	3.6 %
Program Total	188,025	6,685			194,710	3.6%	3.6 %
06 Centralized Services Program							
01100 General Fund	408,523	13,368	(421,891)		0	-100.0%	-100.0 %
Program Total	408,523	13,368	(421,891)		0	-100.0%	-100.0 %
12 Lieutenant Governor'S Office							
01100 General Fund	310,557	8,220			318,777	2.6%	2.6 %
Program Total	310,557	8,220			318,777	2.6%	2.6 %
16 Citizens' Advocate Office							
01100 General Fund	125,329	6,685	(132,014)		0	-100.0%	-100.0 %
Program Total	125,329	6,685	(132,014)		0	-100.0%	-100.0 %
20 Mental Disabilities Bd Visitors							
01100 General Fund	457,877	18,246			476,123	4.0%	4.0 %
Program Total	457,877	18,246			476,123	4.0%	4.0 %
Grand Total	\$61,953,361	(\$55,247,743)	\$0		\$6,705,618	-89.2%	-89.2%

FY 2017 Fund Appropriation Transactions - Governor's Office							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01100 General Fund	\$28,703,051	(\$21,997,433)	\$0		\$6,705,618	-76.6%	0.0%
02038 Governor's Office SSR	17,138,266	(17,138,266)			0	-100.0%	0.0%
02249 Governor's Operations	1,959,152	(1,959,152)			0	-100.0%	0.0%
03001 Governors Office Federal Grnts	13,817,655	(13,817,655)			0	-100.0%	0.0%
06510 Personal Services Contingency	335,237	(335,237)			0	-100.0%	0.0%
Grand Total	\$61,953,361	(\$55,247,743)	\$0		\$6,705,618	-89.2%	0.0%

2019 BIENNIUM BASE BUDGET

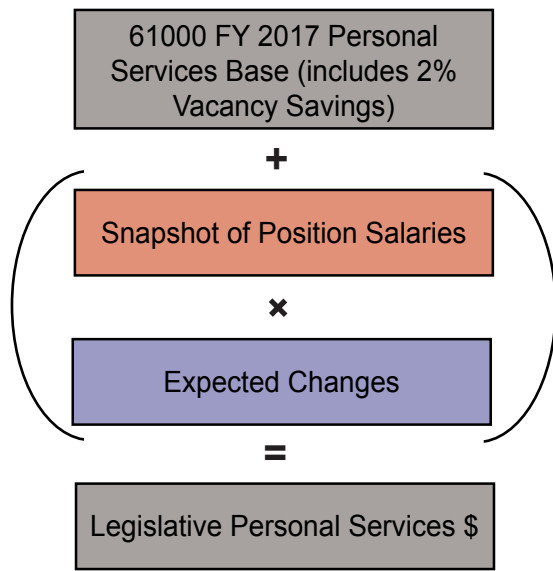
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

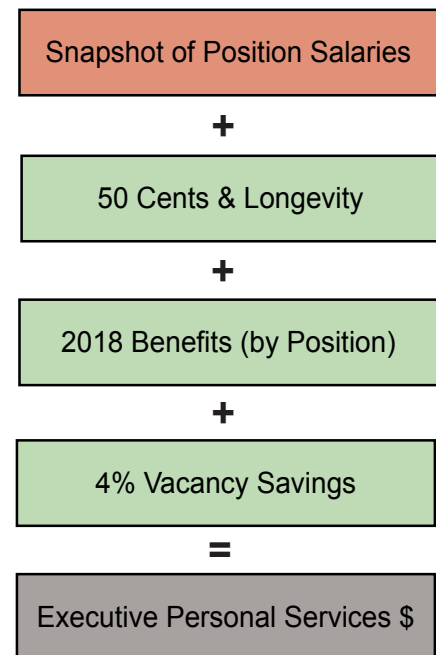
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

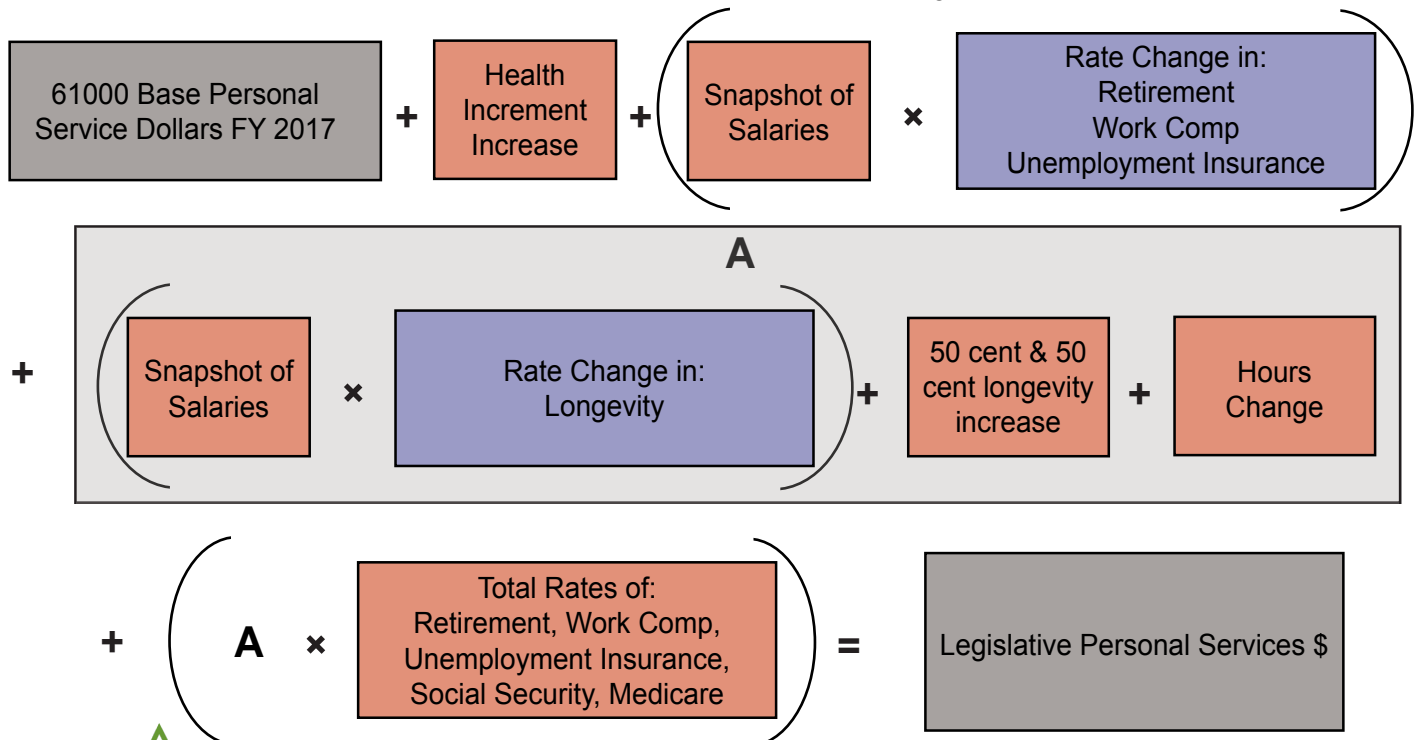
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



SECRETARY OF STATE

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016



INTRODUCTION

The Secretary of State provides services to Montana's voters, business community, and governmental agencies. The Secretary of State exists under authority granted in Article VI of the Montana Constitution. The primary statutory reference defining duties and responsibilities of the office is found in Title 2, Chapter 15, Part 4 of the Montana Code Annotated.

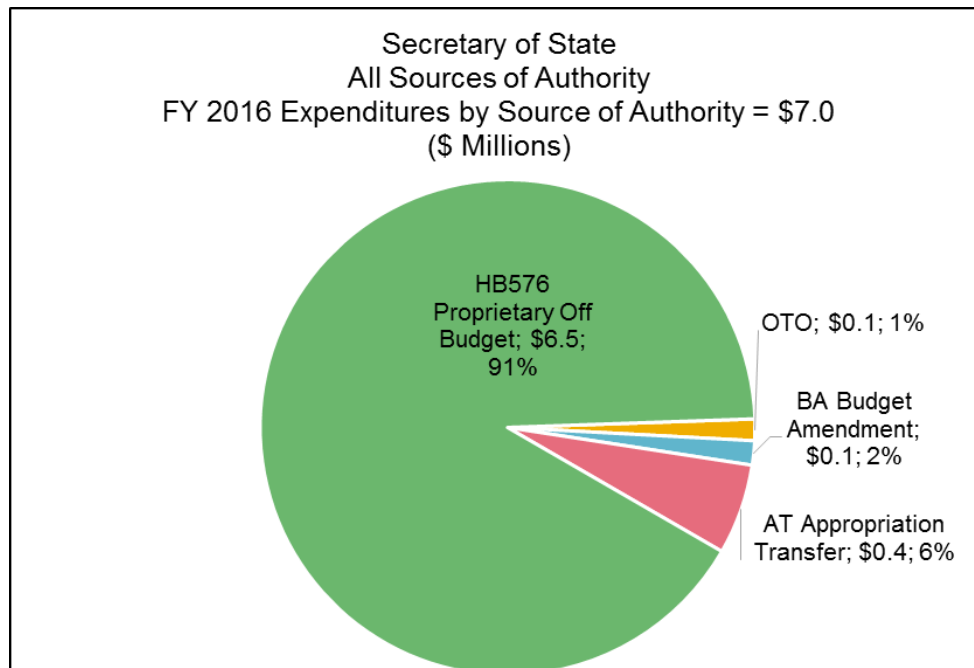
HOW SERVICES ARE PROVIDED

The office is comprised of one program, the Business and Government Services Program, which consists of five divisions. Services provided within the office include:

- Interpreting state election laws and overseeing state and federal elections
- Maintaining the official records of the executive branch and the acts of the legislature
- Reviewing, maintaining, and distributing public interest records of businesses and nonprofit organizations
- Publishing administrative rules adopted by state departments, boards, and agencies
- Attesting to the governor's signature on executive orders, proclamations, resolutions, extradition papers, and appointments
- Preserving the state seal
- Filing and maintaining records of secured financial transactions, such as liens
- Serving on the state Board of Land Commissioners and the Board of Examiners
- Serving on the Capital Finance Advisory Council
- Commissioning notaries
- Providing public records management guidance and technical assistance

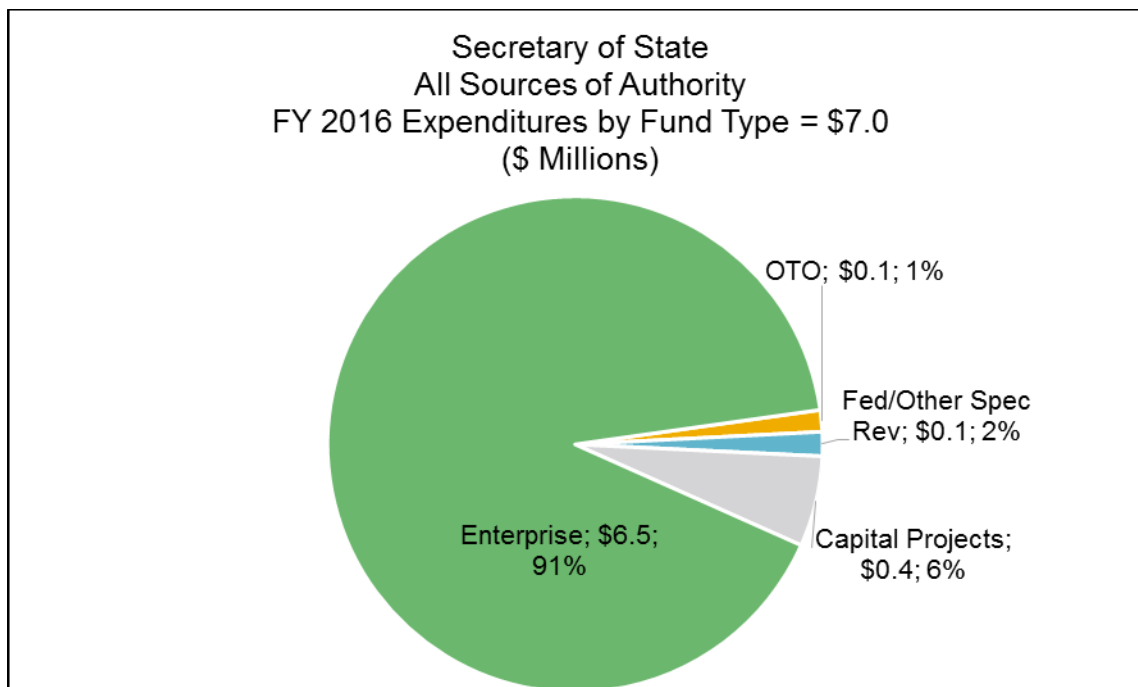
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Secretary of State that were expended in FY 2016. The office receives the majority of its spending authority from proprietary funds derived from fees for services, document sales, and other fees established in statute.



FUNDING

As stated above, the Secretary of State is primarily funded through proprietary funds. The table below shows FY 2016 actual expenditures by fund type for all sources of authority.



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

EXPENDITURES

The office did not have HB 2 authority for expenditures that are considered base costs; therefore, the office does not have an expenditure table in this profile

HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

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

MAJOR COST DRIVERS

Expenditures incurred by the office are driven by:

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

Element	FY 2008	FY 2014	FY 2016
Documents processed for registration of new Montana domestic corporations	5,625	2,788	2,720
Documents processed for registration of new Montana foreign corporations	1,652	1,678	1,635
Documents processed for registration of new Montana domestic limited liability corporations	8,840	9,241	11,342
Documents processed for registration of new Montana foreign limited liability corporations	1,072	1,486	1,635
Total Annual Reports	96,411	121,868	131,131
Average document processing turnaround time	10 days	2-5 days	7 days
Customer services telephone wait time	3 minutes	20 seconds	1.50 minutes
Online services available	17	14	14

FUNDING/EXPENDITURE HISTORY

Since HAVA funding provided for the office has been one-time-only appropriation by the 2009, 2011, 2013 and 2015 Legislatures, a table showing the last six years of funding and expenditures is not included in this profile.

For more information on the agency, please visit their website, here: <http://sos.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	8,619,634	8,409,903	(209,731)	(2.43)%
Operating Expenses	4,223,548	3,963,733	(259,815)	(6.15)%
Equipment & Intangible Assets	41,116	0	(41,116)	(100.00)%
Debt Service	21,066	21,066	0	0.00 %
Total Expenditures	\$12,905,364	\$12,394,702	(\$510,662)	(3.96)%
Proprietary Funds	12,905,364	12,394,702	(510,662)	(3.96)%
Total Funds	\$12,905,364	\$12,394,702	(\$510,662)	(3.96)%
Total Ongoing	\$12,905,364	\$12,394,702	(\$510,662)	(3.96)%
Total OTO	\$0	\$0	\$0	0.00 %

Mission Statement

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

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/3201-00agency-profile.pdf.

Agency Highlights

Secretary of State Major Budget Highlights
- The Secretary of State is funded entirely with non-budgeted proprietary funds in the 2019 biennium budget, and is therefore not appropriated in HB 2. - Funding shown in the 2017 biennium is federal grant funds associated with the Help America Vote Act (HAVA). All HAVA funds requiring appropriation in HB 2 will be spent in FY 2017, so there are no funds associated with the Secretary of State needing appropriation in HB 2 for the 2019 biennium.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	57.25	57.25	57.25	54.50	54.50
Personal Services	4,316,837	4,316,850	4,302,784	4,198,611	4,211,292
Operating Expenses	2,092,037	2,215,188	2,008,360	2,001,697	1,962,036
Equipment & Intangible Assets	41,116	41,116	0	0	0
Debt Service	5,051	10,533	10,533	10,533	10,533
Total Expenditures	\$6,455,041	\$6,583,687	\$6,321,677	\$6,210,841	\$6,183,861
Proprietary Funds	6,455,041	6,583,687	6,321,677	6,210,841	6,183,861
Total Funds	\$6,455,041	\$6,583,687	\$6,321,677	\$6,210,841	\$6,183,861
Total Ongoing	\$6,455,041	\$6,583,687	\$6,321,677	\$6,210,841	\$6,183,861
Total OTO	\$0	\$0	\$0	\$0	\$0

Agency Discussion

The Help America Vote Act (HAVA) was passed by Congress in the wake of the controversial 2000 presidential election in Florida. The funds were used to provide grants to counties for voting equipment improvements, purchase voting equipment that allows voters with disabilities to vote independently, improve accessibility to county polling places, replace punch-card voting systems, create and maintain a statewide database of all registered voters that can be updated by local election officials on an ongoing basis, and educate voters, poll workers, and election officials about the requirements of the act. All available HAVA funds requiring appropriation in HB 2 will be used in FY 2017; therefore, there are no funds that require appropriation in HB 2 for the 2019 biennium.

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Secretary of State's Office expenditures for FY 2016 were slightly below the legislative appropriation. Appropriations of approximately \$105,000 were 95.2% expended.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The HB 2 funding for the Secretary of State was one-time-only funding in FY 2017; therefore, there is no base budget for the office.

Funding

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

Total Secretary of State Funding by Source of Authority 2019 Biennium Budget Request - Secretary of State						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	0	0	0	0	0	0.00 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	12,394,702	0	12,394,702	100.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$0	\$0	\$12,394,702	\$0	\$12,394,702	
Percent - Total All Sources	0.00 %	0.00 %	100.00 %	0.00 %		

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

In recent years, the federal Help America Vote Act of 2002 has provided federal revenues for election reform initiatives. All available funds requiring appropriation in HB 2 will be used by the end of FY 2017 so there are no funds to appropriate in the 2019 biennium.

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	6,321,677	6,321,677	12,643,354	102.01 %
SWPL Adjustments	0	0	0	0.00 %	193,636	166,656	360,292	2.91 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	(304,472)	(304,472)	(608,944)	(4.91)%
Total Budget	\$0	\$0	\$0		\$6,210,841	\$6,183,861	\$12,394,702	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
Fiscal 2018						Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	99,267	0.00	0	0	0	112,088
DP 2 - Fixed Costs	0.00	0	0	0	99,863	0.00	0	0	0	59,757
DP 3 - Inflation Deflation	0.00	0	0	0	(5,494)	0.00	0	0	0	(5,189)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$193,636	0.00	\$0	\$0	\$0	\$166,656

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
Fiscal 2018						Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	(2.75)	0	0	0	(304,472)	(2.75)	0	0	0	(304,472)
Total	(2.75)	\$0	\$0	\$0	(\$304,472)	(2.75)	\$0	\$0	\$0	(\$304,472)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA most state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget, specifically proprietary funds, based on the 5% reduction plans.

**LFD
COMMENT**

The Secretary of State's office is not required to submit a 5% plan because the office is funded by proprietary funds. The executive is requesting a reduction in spending from the Secretary of State's proprietary funds and a reduction of 2.75 FTE. Secretary McCulloch does not support DP 555. The legislature may want to consider the following options:

- Ask for specific actions the Secretary of State's Office will take to implement the proposed reductions to spending
- Decline to adopt the executive's appropriation rebase proposal (DP 555) for this proprietary program

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

The Secretary of State conducts its daily operations through a single program, the Business and Government Services Program. It provides the following major functions:

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

Program Discussion
Expenses

While for budgeting purposes the Secretary of State only has one program, office does have five divisions, one for each of the functions outlined in the program description. The figure below shows the expenses and revenues in FY 2016 for each of the divisions as recorded on the state's accounting system.

Secretary of State Revenue and Expenditures by Division FY 2016					
	Centralized Services	Administrative Rule Service	Business Services	Election Government Services	Records and Information Management
Revenues	\$80,980	\$300,450	\$5,717,620	\$107,963	\$293,979
Expenditures					
Personal Services					
Salaries	1,412,703	236,944	852,683	291,488	349,178
Benefits	482,281	95,621	336,540	97,017	162,380
Total Personal Services	1,894,984	332,565	1,189,223	388,506	511,558
Operating Expenses					
Other Services	74,205	69,627	688,517	534,277	14,446
Supplies and Materials	45,824	10,762	41,724	11,319	30,965
Communications	25,157	13,053	91,534	10,954	21,553
Travel	17,467	4,323		3,805	147
Rent	52,801	12,168	37,432	11,697	124,188
Utilities	40				5,357
Repair and Maintenance	7,365	699	6,868	1,866	4,195
Other Expenses	50,253	24,690	1,072	30,989	1,463
Goods Purchased for Resale	-	-	-	-	9,233
Total Operating Expenses	273,113	135,323	867,148	604,907	211,546
Equipment					
Equipment	-	-	-	-	41,116
Total Equipment	-	-	-	-	41,116
Debt Service					
Capital Leases	5,051	-	-	-	-
Total Debt Service	5,051	-	-	-	-
Total Expenditures	2,173,148	467,889	2,056,371	993,412	764,220
Net Income (Loss)	<u>(\$2,092,168)</u>	<u>(\$167,439)</u>	<u>\$3,661,249</u>	<u>(\$885,450)</u>	<u>(\$470,241)</u>

**LFD
COMMENT**

In FY 2016 the Secretary of State's Office operated four of its five divisions at a loss. The income from registration and document filing fees paid by Montana businesses provided the income to offset these losses. Two of the functions within the office provide services to other state agencies: administrative rules (ARMs) and records management.

Revenues

Revenues are received from fees charged to:

- Businesses and corporations for corporate filings, registration of assumed business names, and trademarks
- State agencies and users of ARMs for publishing and distributing the ARMs, the Montana Administrative Register (MAR), and storage and management of public documents
- Candidates who file for elections
- Montana citizens who apply to be notaries

The 2019 Biennium Report on Internal Services and Proprietary Funds below show Secretary of State projections for revenues and expenditures.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 32010	Agency Name: Secretary of State			Program Name: Business & Government Services			
	Fund	Fund Name					
	06053	Sec of St Business Services					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		5,020,724	5,288,971	6,329,573	6,321,677	6,103,492	6,076,512
Fee Revenue B		95,163	77,463	91,186	-	-	-
Other Operating Revenue		4,229	3,478	10,176	-	700	700
Total Operating Revenues		5,120,116	5,369,912	6,430,935	6,321,677	6,104,192	6,077,212
Expenses:							
Personal Services		3,342,875	3,818,062	4,293,439	4,302,784	4,198,611	4,211,292
Other Operating Expenses		1,100,099	1,999,181	1,970,750	2,008,575	1,222,570	1,248,794
Expense B		34,662	840,998	151,754	45,000	789,660	723,775
Total Operating Expenses		4,477,636	6,658,241	6,415,943	6,356,359	6,210,841	6,183,861
Operating Income (Loss)		642,480	(1,288,329)	14,992	(34,682)	(106,649)	(106,649)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		642,480	(1,288,329)	14,992	(34,682)	(106,649)	(106,649)
Change in Net Position		642,480	(1,288,329)	14,992	(34,682)	(106,649)	(106,649)
Beginning Net Position - July 1		5,114,693	5,757,173	3,853,632	3,868,653	3,833,971	3,727,322
Prior Period Adjustments		-	(615,212)	29	-	-	-
Change in Net Position		642,480	(1,288,329)	14,992	(34,682)	(106,649)	(106,649)
Ending Net Position - June 30		5,757,173	3,853,632	3,868,653	3,833,971	3,727,322	3,620,673
Net Position (Fund Balance) Analysis							
Unrestricted Net Position		5,757,173	3,853,632	3,868,653	3,833,971	3,727,322	3,620,673

Revenue A and Revenue B, in the figure above, are revenues from fees. Other Operating Revenue are revenues from investment earnings. Expense B is for the Montana Secretary of State Information Management System (SIMS).

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

COMMISSIONER OF POLITICAL PRACTICES

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016



INTRODUCTION

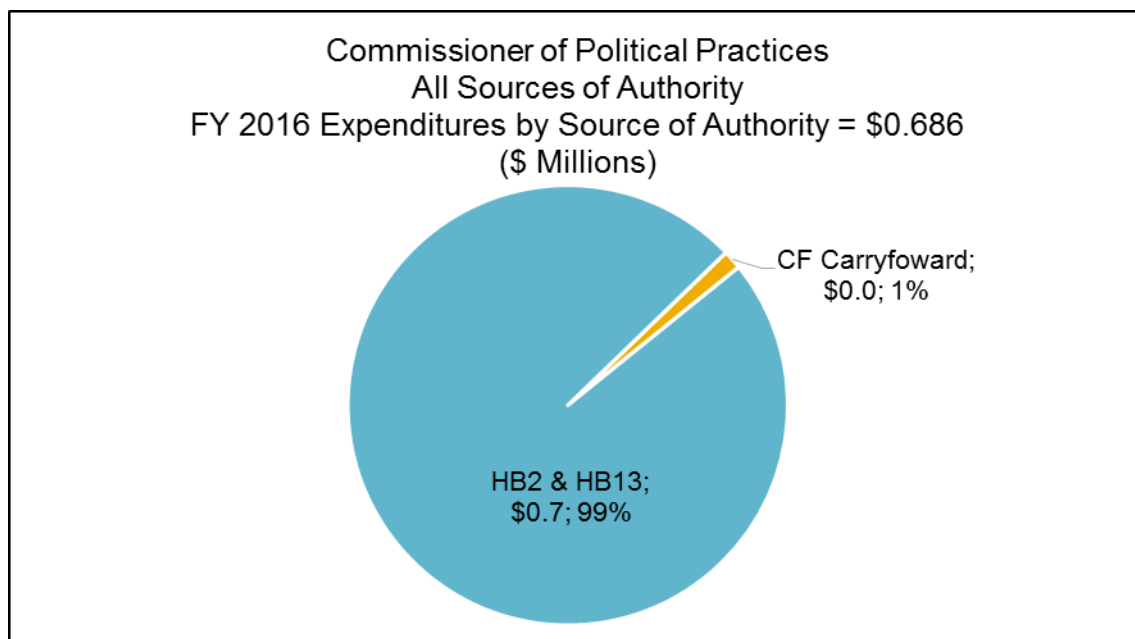
The Commissioner of Political Practices (COPP) has responsibilities that were defined by a legislative initiative in 1980 requiring disclosure of acts by lobbyists and business interests of elected officials. COPP also has the responsibility for the ethical standards of conduct for legislators, public officers, and state employees pursuant to Title 2, Chapter 2 of the Montana Code Annotated. The primary statutory reference defining the duties and responsibilities of COPP are found in Title 13, Chapter 37, Part 1 of the Montana Code Annotated.

HOW SERVICES ARE PROVIDED

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

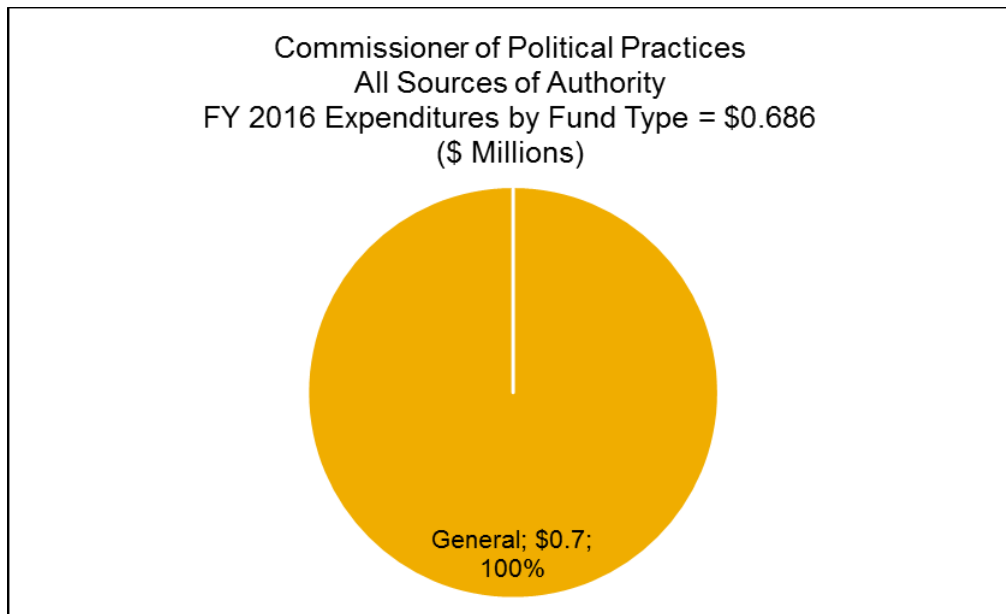
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Commissioner of Political Practices that were expended in FY 2016. The office receives nearly all of its spending authority from HB 2 and the pay plan.

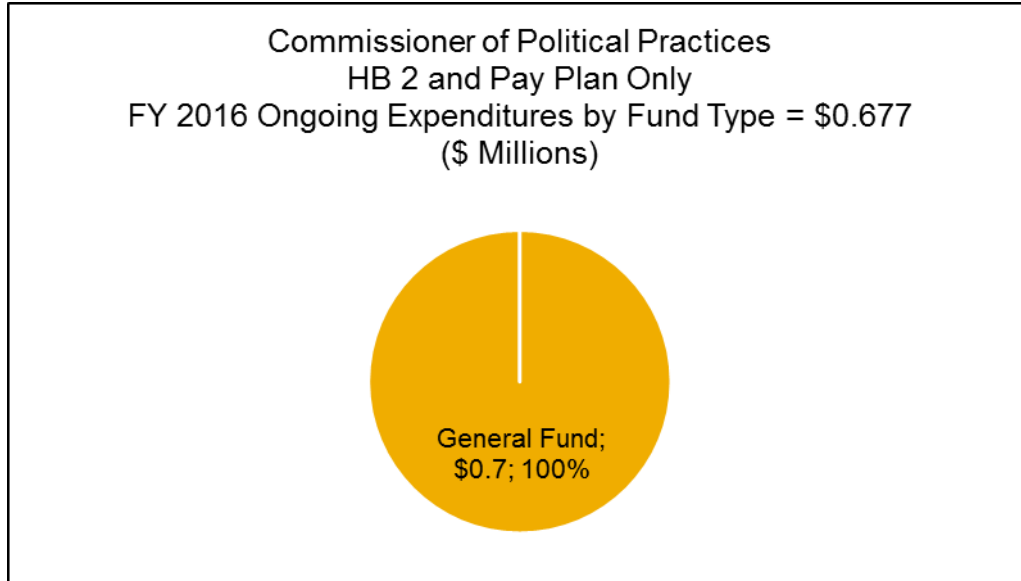


FUNDING

The Commissioner of Political Practices is funded with general fund. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

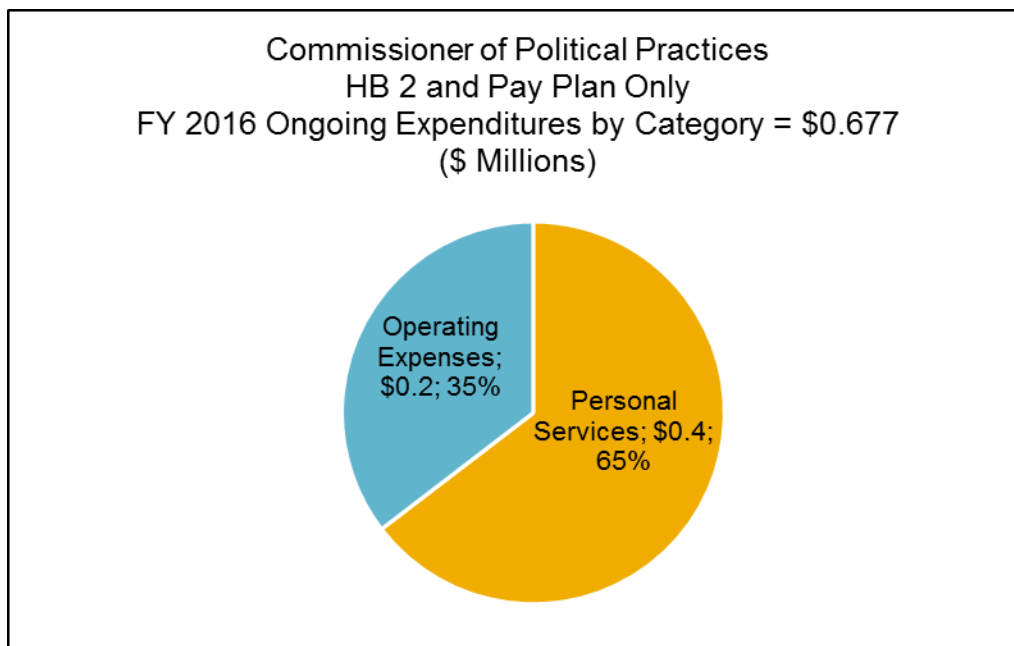


The chart below shows the Commission of Political Practices HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The chart below explains how HB2 and pay plan authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

- Laws governing lobbyists and candidates such as filing and reporting processes and fees charged
- The Montana Code of Ethics for public officers, public employees, and legislators

The legislature is less likely to have the ability to effect change regarding:

- The number of formal complaints and related complaint dockets
- Federal legislation or decisions by the Supreme Court or lower courts impacting COPP

MAJOR COST DRIVERS

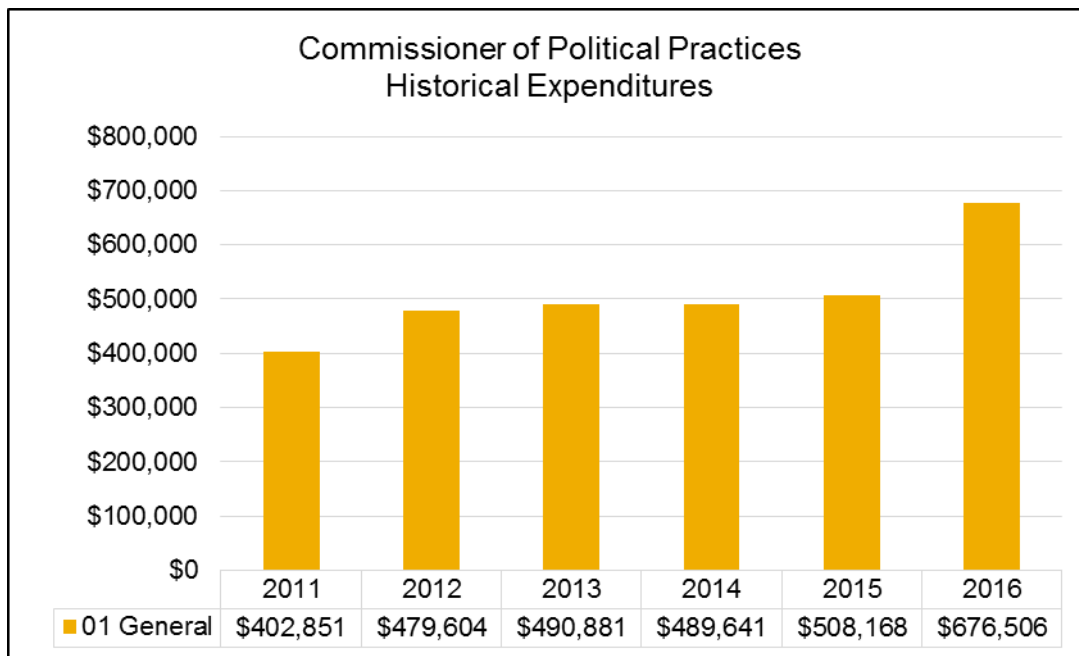
Activities for the Commissioner of Political Practices varies depending on:

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

Element	2014	2016
Number of lobbyists	432	421
Number of principals	442	443
Political practice complaints	83	41
Advisory opinions	16	14
Campaign finance form inspections	4,296	4,437

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's funding and expenditures. The major reason for changes is due to variations in the amount of legal costs incurred as a result of the number of complaints.



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2015 – The Legislature revised how the Commissioner of Political Practices is appointed and revised the qualifications for the office
- 2013 – The Legislature increased the authority of the Commissioner of Political Practices to enforce laws pertaining to anonymous election materials
- 2013 – The Legislature revised campaign finance and disclosure laws
- 2009 – The Legislature provided COPP with a supplemental appropriation for additional legal expenses and for the settlement of a lawsuit
- 2007 – The Legislature provided for the establishment of constituent services accounts by persons elected to statewide or legislative office or as a public service commissioner. Surplus campaign funds may be deposited into the account. The bill requires the office holder to file a form establishing the account with the COPP and quarterly reports relating to the account
- 2007 – The Legislature allowed certain broadcast campaign advertising material and an affidavit about the truth of the content of the material to be voluntarily filed with COPP

For more information, please visit the agency website, here:

<http://www.politicalpractices.mt.gov/default.mcp.x>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	942,429	1,010,585	68,156	7.23 %
Operating Expenses	429,300	523,246	93,946	21.88 %
Total Expenditures	\$1,371,729	\$1,533,831	\$162,102	11.82 %
General Fund	1,371,729	1,533,831	162,102	11.82 %
Total Funds	\$1,371,729	\$1,533,831	\$162,102	11.82 %
Total Ongoing	\$1,371,729	\$1,533,831	\$162,102	11.82 %
Total OTO	\$0	\$0	\$0	0.00 %

Mission Statement

The mission of the Commissioner of Political Practices is to monitor and to enforce: campaign practices and campaign finance disclosure, lobbying disclosure, business interest disclosure of statewide and state district candidates, elected state officials, and state department directors, ethical standards of conduct for legislators, public officers, and state employees, and to investigate complaints that arise concerning any of the above.

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/3202-00agency-profile.pdf.

Agency Highlights

Commissioner of Political Practices Major Budget Highlights
The Commissioner of Political Practices 2019 biennium budget request is \$162,000 or 11.8% higher than the 2017 biennium. Proposed increases are due to statewide present law adjustments for personal services and fixed costs.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	7.00	7.00	7.00	7.00	7.00
Personal Services	436,989	461,653	480,776	505,114	505,471
Operating Expenses	239,515	219,472	209,828	266,381	256,865
Total Expenditures	\$676,504	\$681,125	\$690,604	\$771,495	\$762,336
General Fund	676,504	681,125	690,604	771,495	762,336
Total Funds	\$676,504	\$681,125	\$690,604	\$771,495	\$762,336
Total Ongoing	\$676,504	\$681,125	\$690,604	\$771,495	\$762,336
Total OTO	\$0	\$0	\$0	\$0	\$0

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

There are slight variances between FY 2016 actual operating expenditures and FY 2016 appropriations. Legal costs were higher than anticipated and costs for storage and administration for a new online service for candidate and committee reporting contributed to higher operating expenses.

Executive Request

COPP is requesting an increase in personal services and operating expenses in FY 2018 and FY 2019. Requested adjustments for personal services will be discussed in further detail in the Personal Services section below and requested operating expenses will be discussed in further detail in the Present Law Adjustments section below.

5% Plans

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

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 1

Commissioner Of Political Practices: 01 Administration Personal Services Present Law Calculations				
PS Base:	\$480,776			
			FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services		\$24,338	\$24,695
Legislative	Statutory Personal Service Change		<u>4,085</u>	<u>4,438</u>
	Difference		20,253	20,257
Management Choices Explaining the Difference				
	Additional 2% Vacancy Savings		-	-
	Broadband Pay Adjustments		3,762	3,762
	Benefits and Taxes on Pay Adjustment		716	716
	Other		15,775	15,779
	Total		\$20,253	\$20,257

Personal services were \$480,776 or 69.6% of total FY 2017 appropriations. The executive proposes an increase of \$24,338 in FY 2018 and \$24,695 in FY 2019. The executive proposal is approximately \$20,000 higher than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is partly due to broadband pay adjustment made in FY 2016. Adjustments made in the program were due to exempt employee raises, performance adjustments, and reclassifications.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 2

FY 2017 Appropriation Transactions - Commissioner of Political Practices					
	Leg Approp	Allocations	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Administration					
Personal Services	\$352,570	\$128,206	\$480,776	36.4%	0.0%
Operating Expenses	209,828		209,828	0.0%	0.0%
Program Total	562,398	128,206	690,604	22.8%	0.0%
Grand Total	\$562,398	\$128,206	\$690,604	22.8%	0.0%
Leg Approp = Legislative Appropriations					
Allocations = include Contingency Base & Pay Plan					

The Commissioner of Political Practices budget increased 22.8% from FY 2017 legislative appropriation in HB 2. The Commissioner of Political Practices received personal services base contingency funding for the 2017 biennium. This included \$105,000 general fund for each fiscal year and 1.00 FTE for a full-time attorney on staff. This position was

appropriated as one-time-only in the 2015 biennium. For the 2017 biennium, HB 2 as passed by the legislature included a provision to fund attorney services by restricting the Commissioner of Political Practices to engage services with an attorney from the Attorney General's Office. The Governor vetoed this line-item in HB 2, and instead funded the position out of the personal services base contingency funding provided in HB 2 by the legislature.

Funding

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

Total Commissioner of Political Practices Funding by Source of Authority 2019 Biennium Budget Request - Commissioner of Political Practices						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	1,533,831	0	0	0	1,533,831	100.00 %
State Special Total	0	0	0	0	0	0.00 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$1,533,831	\$0	\$0	\$0	\$1,533,831	
Percent - Total All Sources	100.00 %	0.00 %	0.00 %	0.00 %		

The Office of the Commissioner of Political Practices is funded entirely with general fund. A small amount of revenue is generated from nominal fees for printing and distribution, as well as civil fines for violations of campaign laws. Both are deposited into the general fund. In addition, COPP collects a \$150 lobbyist filing fee. Of this amount, \$50 is deposited into the general fund and \$100 is transferred to a state special revenue account. This state special revenue account is used for the development, operation, and maintenance of the state broadcasting system (TVMT).

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	690,604	690,604	1,381,208	90.05 %	690,604	690,604	1,381,208	90.05 %
SWPL Adjustments	80,891	71,732	152,623	9.95 %	80,891	71,732	152,623	9.95 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$771,495	\$762,336	\$1,533,831		\$771,495	\$762,336	\$1,533,831	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	24,338	0	0	24,338	0.00	24,695	0	0	24,695
DP 2 - Fixed Costs	0.00	56,715	0	0	56,715	0.00	47,189	0	0	47,189
DP 3 - Inflation Deflation	0.00	(162)	0	0	(162)	0.00	(152)	0	0	(152)
Grand Total All Present Law Adjustments	0.00	\$80,891	\$0	\$0	\$80,891	0.00	\$71,732	\$0	\$0	\$71,732

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

FY 2017 Fund Appropriation Transactions - Commissioner of Political Practices							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01100 General Fund	\$562,398	\$128,206			\$690,604	22.8%	0.0%
Grand Total	\$562,398	\$128,206			\$690,604	22.8%	0.0%

2019 BIENNIUM BASE BUDGET

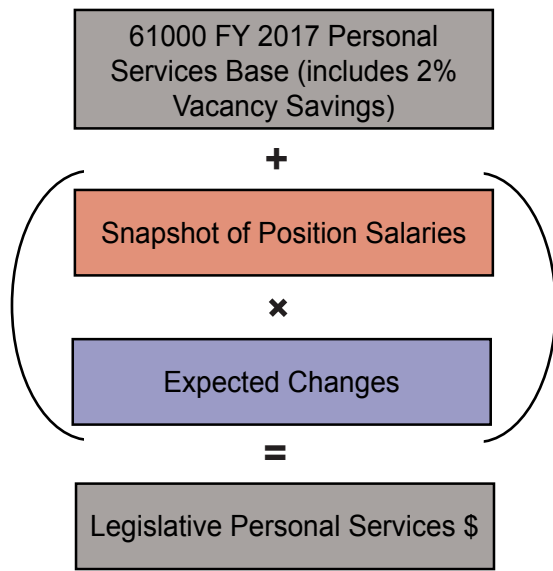
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

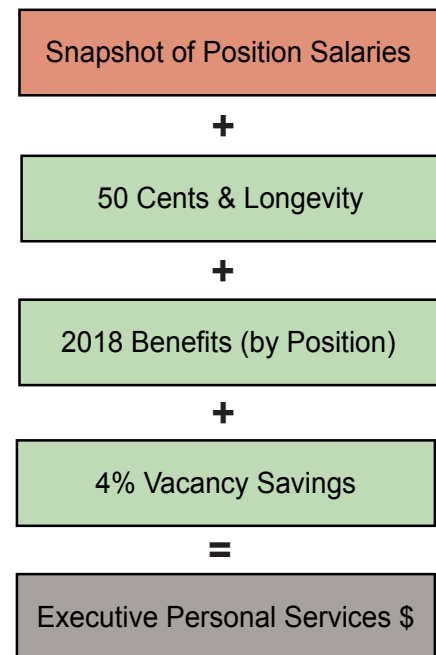
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

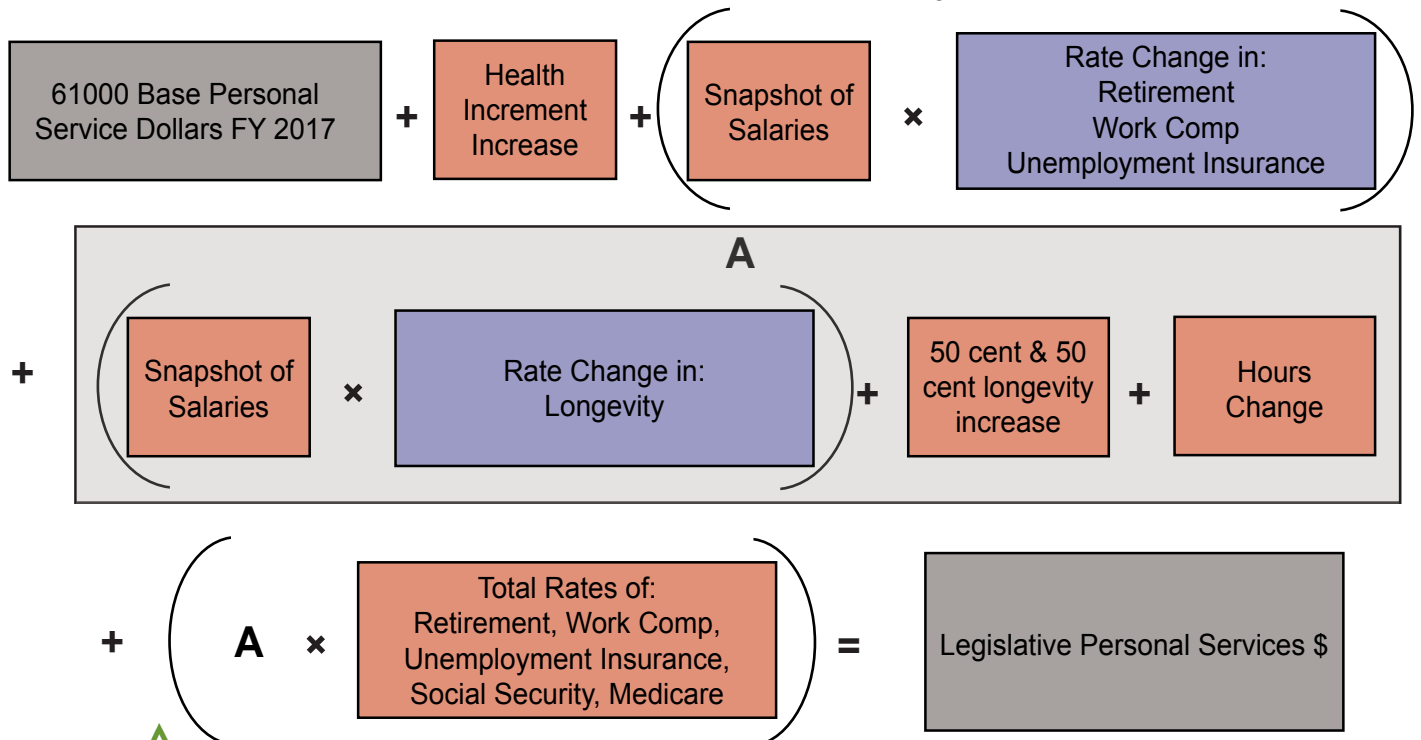
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



STATE AUDITOR'S OFFICE

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016



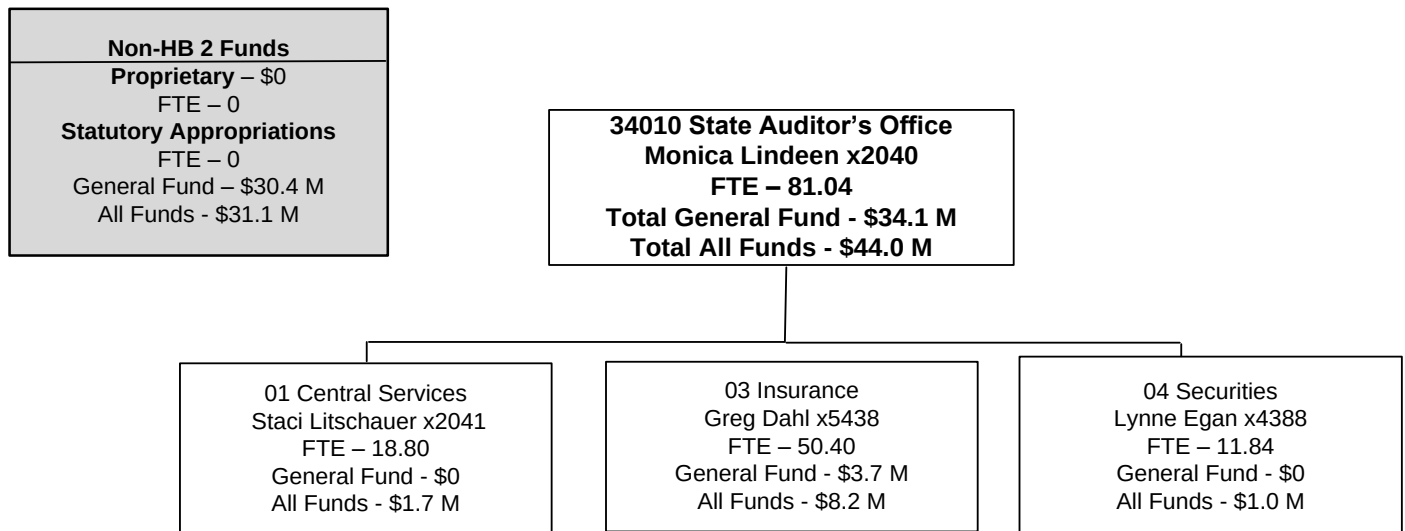
INTRODUCTION

The mission of the State Auditor's Office is to assure compliance with the Montana insurance and securities laws, promote captive insurance formations, support capital formation in the state, and assist consumers with complaints involving the securities and insurance industries. The Auditor is charged with licensing, registering, and regulating insurance companies and producers, securities issuers, salespeople, broker-dealers, investment advisors, and investment adviser representatives within the state. The State Auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board.

The Office of the State Auditor is authorized under Article VI of the Montana Constitution and is designated the Commissioner of Securities in 2-15-1901, MCA and the Commissioner of Insurance in 2-15-1903, MCA. In those capacities, the State Auditor's duties are generally defined in Title 30, Part 10 and Title 33 of the Montana Code Annotated. Other statutes related to the State Auditor's Office include:

- State special revenue generated by fees and taxes that support the office are identified and defined in 33-2-705 through 708, MCA
- Unspent collections from securities licenses and permits are deposited into the general fund in accordance with 30-10-115, MCA
- The office manages the Fire and Police Retirement Program (33-2-705, MCA and 50-3-109, MCA)

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



HOW SERVICES ARE PROVIDED

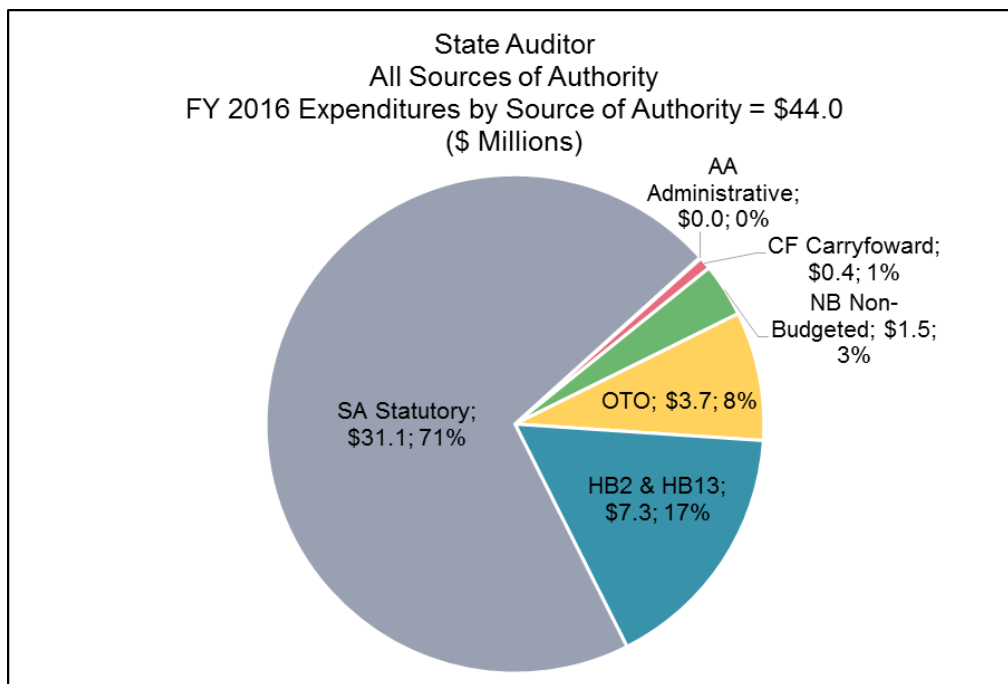
The State Auditor's Office consists of three divisions with the following functions:

- Central Management
 - Provides administrative, personnel, budgeting and accounting functions
 - Provides support in fulfilling the duties as a member of the state land and hail insurance boards
 - Acts as conduit for the distribution of a “pass through” program: the Fire and Police Retirement program.
- Insurance Division
 - Resolves insurance consumer inquiries and complaints involving agents, coverage, and companies

- Investigates insurance code and rules violations, including possible criminal violations, and refers cases to the county attorneys for prosecution
- Monitors the financial solvency of insurance companies operating in Montana through financial analysis and financial examination
- Collects premium taxes and company fees paid by insurance companies operating in Montana
- Reviews rate and form filings to ensure compliance with applicable insurance code
- Licenses and provides continuing education to insurance agents, agencies, and adjusters
- Securities Division
 - Registers security issuers, sales people, broker-dealers, investment advisers, and investment adviser representatives
 - Investigates unregistered and fraudulent securities transactions

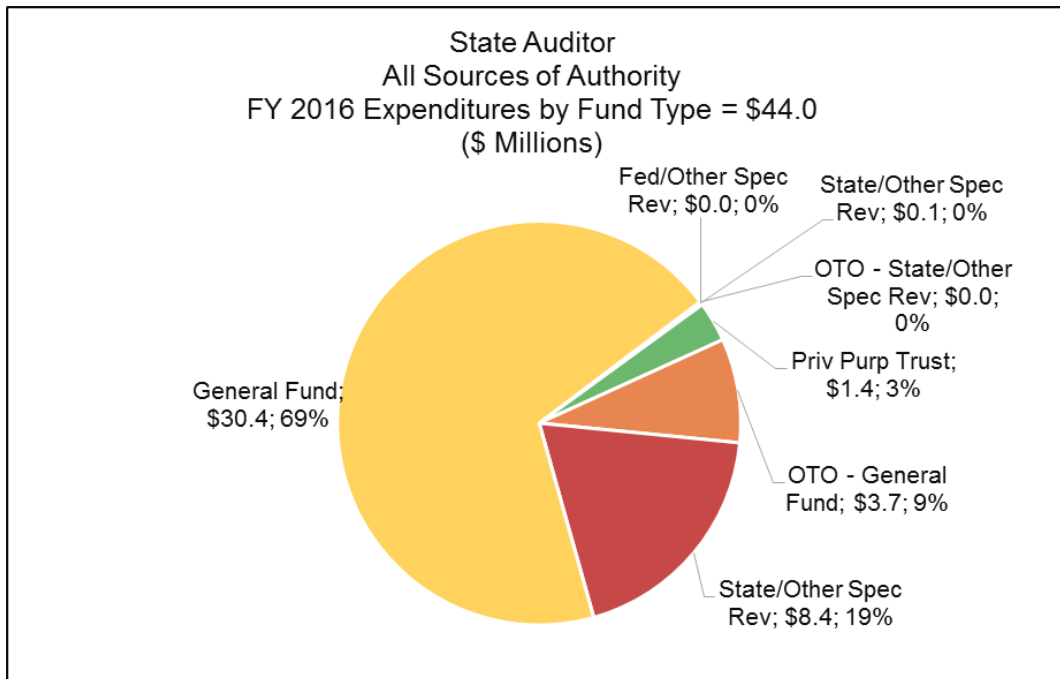
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the State Auditor's Office that were expended in FY 2016. The office receives the majority of its spending authority from statutory appropriations.

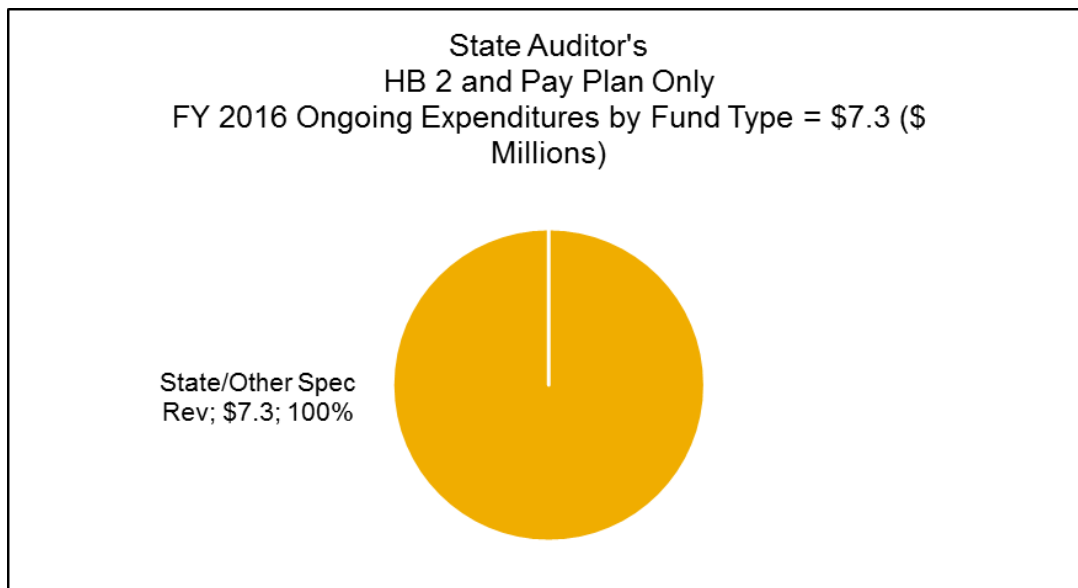


FUNDING

The operations of the State Auditor's Office is funded with state special revenue funds. The State Auditor's Office is responsible for passing through the general fund it receives to police and firefighter retirement programs. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

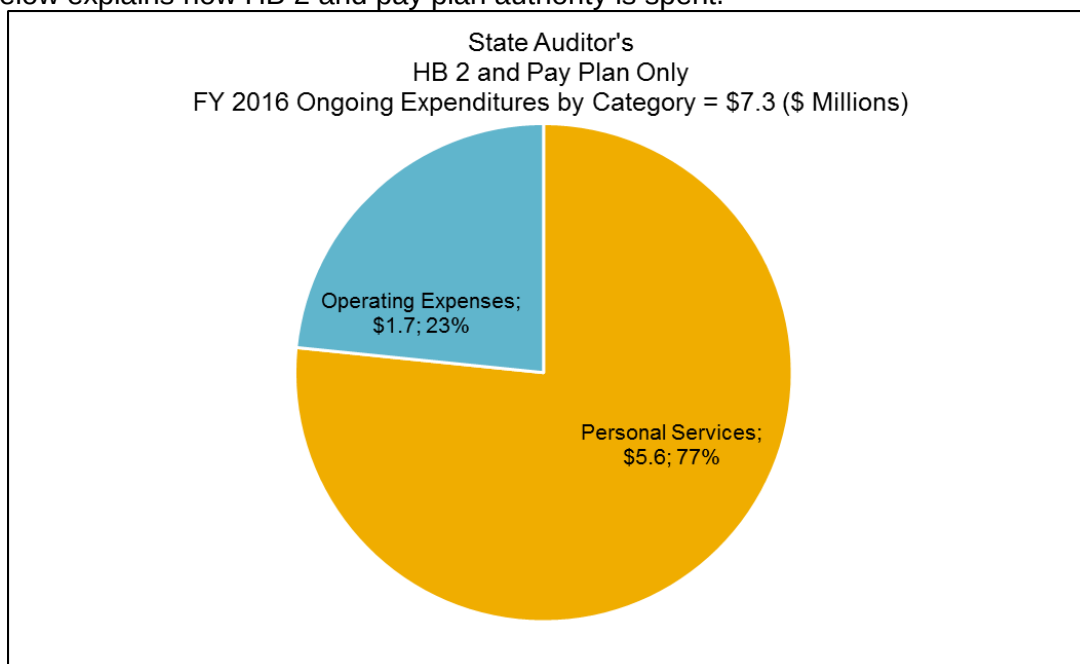


The chart below shows the State Auditor's Office HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The chart below explains how HB 2 and pay plan authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

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

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

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

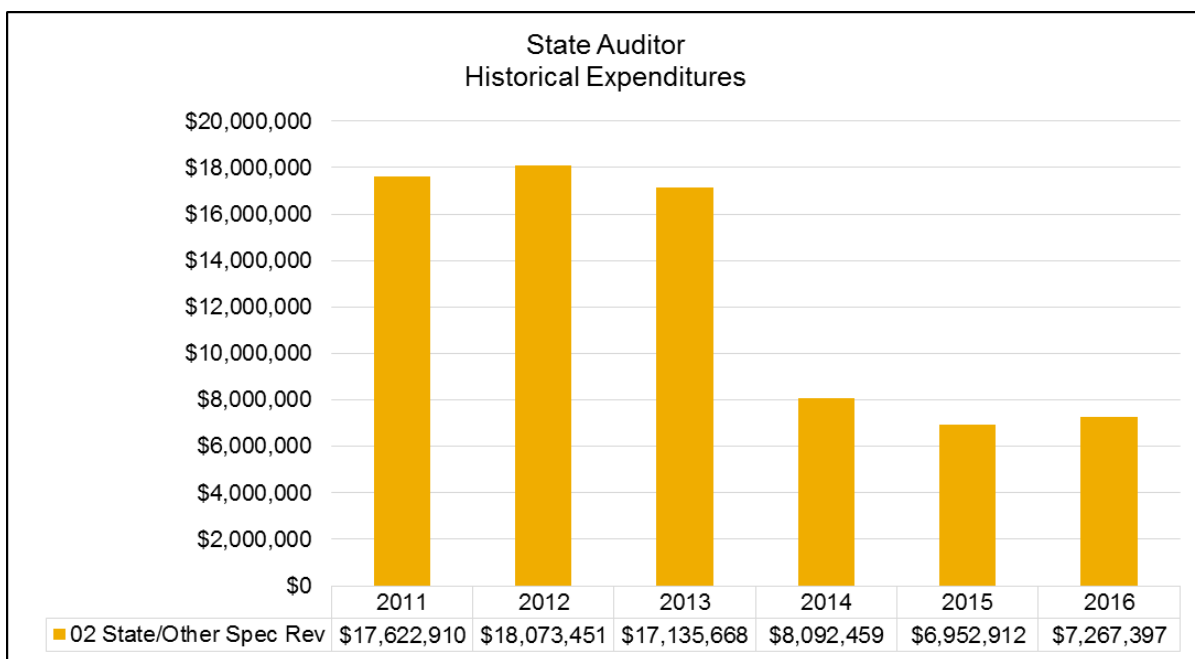
MAJOR COST DRIVERS

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

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

FUNDING/EXPENDITURE HISTORY

The State Auditor's Office budget decreased significantly in FY 2014 due to a change in appropriations for the Insure Montana program. Through 2013, the Insure Montana program was funded from ongoing HB 2 appropriations. In FY 2014, it was funded with a one-time-only appropriation, which is not included in the table below. The legislature used one-time-only funds because the Affordable Care Act (ACA) provides opportunities for small businesses to shop for insurance through the federal exchange and because the major funding source for the program – health and Medicaid initiatives state special revenue – was inadequate to cover ongoing appropriations. The program received one-time-only funding to continue the program through the first half of FY 2016.



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2015 Legislature
 - The legislature removed funds to account for the expiration of the Montana Comprehensive Health Association (MCHA), as defined in statute. The MCHA was the high risk pool for the state. Since insurance policies can no longer be denied based on pre-existing health conditions, the MCHA was no longer necessary.
 - The legislature added \$4.5 million general fund to continue the Insure Montana program through December 31, 2015, which allowed funding to continue through calendar year 2015. Since most health policies held by Insure Montana program participants expire at the end of a calendar year, this one-time-only funding provided a full year of support and allowed program participants to plan to obtain insurance in other venues.
- 2013 Legislature
 - The legislature funded the Insure Montana program from a one-time-only appropriation, based eligibility for premium assistance provided by the Insure Montana program on household income rather than an individual employee's salary, and limited premium assistance to households earning no more than 400% of the federal poverty level (about \$94,000 for a family of 4 in 2013).
 - The legislature required insurers to file health insurance rates with the State Auditor's Office to provide documentation supporting the development of the rates. The office is required to

review rate filings for each health insurance insurer and consider whether the proposed premium rate is excessive, inadequate, unjustified, or unfairly discriminatory, and provide a notice of deficiencies if any are found to exist.

- 2011 Legislature

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

For more information on the agency, please visit their website here: <http://csimt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	12,953,835	13,145,382	191,547	1.48 %
Operating Expenses	4,374,427	3,493,113	(881,314)	(20.15)%
Equipment & Intangible Assets	55,988	15,988	(40,000)	(71.44)%
Benefits & Claims	4,637,242	0	(4,637,242)	(100.00)%
Total Expenditures	\$22,021,492	\$16,654,483	(\$5,367,009)	(24.37)%
General Fund	4,500,000	0	(4,500,000)	(100.00)%
State/Other Special Rev. Funds	17,521,492	16,654,483	(867,009)	(4.95)%
Total Funds	\$22,021,492	\$16,654,483	(\$5,367,009)	(24.37)%
Total Ongoing	\$17,481,492	\$16,654,483	(\$827,009)	(4.73)%
Total OTO	\$4,540,000	\$0	(\$4,540,000)	(100.00)%

Mission Statement

The mission of the State Auditor's Office is to assure compliance with Montana insurance and securities laws, promote captive insurance formations, support capital formation in the state and assist consumers with complaints involving the securities and insurance industries. In addition, the office strives to keep apprised of regional and national developments in those industries in order to inform state policy makers about needed statutory changes.

For more information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/3401-00agency-profile.pdf.

Agency Highlights

State Auditor's Office Major Budget Highlights
- The State Auditor's Office 2019 biennium budget request is approximately \$5.4 million or 24.4% lower than the 2017 biennium. Significant changes include: - The Insure Montana program, which had a one-time-only appropriation of \$4.5 million, ending during FY 2016. - Proposed decreases in state special revenue due to the executive's implementation of a reduction to the budget and a reduction to information technology costs.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	81.04	81.04	81.04	81.04	81.04
Personal Services	5,703,595	6,474,938	6,478,897	6,564,574	6,580,808
Operating Expenses	1,722,410	2,260,560	2,113,867	1,770,161	1,722,952
Equipment & Intangible Assets	9,500	27,994	27,994	7,994	7,994
Benefits & Claims	3,509,945	4,637,242	0	0	0
Total Expenditures	\$10,945,450	\$13,400,734	\$8,620,758	\$8,342,729	\$8,311,754
General Fund	3,668,563	4,500,000	0	0	0
State/Other Special Rev. Funds	7,276,887	8,900,734	8,620,758	8,342,729	8,311,754
Total Funds	\$10,945,450	\$13,400,734	\$8,620,758	\$8,342,729	\$8,311,754
Total Ongoing	\$7,267,387	\$8,880,734	\$8,600,758	\$8,342,729	\$8,311,754
Total OTO	\$3,678,063	\$4,520,000	\$20,000	\$0	\$0

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

There are variances between FY 2016 actual expenditures and FY 2016 appropriations. Personal services expenditures were lower than budgeted due to the use of carryforward authority and vacancy savings. Operating expenses were overall lower than budgeted due to a decrease in market exams and rate review costs as well as the Insure Montana program ending during the fiscal year.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Differences between FY 2016 and FY 2017 appropriations are primarily attributable to the Insure Montana program and the Montana Comprehensive Health Association (MCHA) ending during FY 2016. The budget for operating expenses decreased by \$80,000 and benefits and claims decreased by \$4.6 million.

Executive Request

The State Auditor's Office is requesting an increase in personal services and a decrease in operating expenses in FY 2018 and FY 2019. These changes will be discussed in further detail in the individual program narratives.

5% Plans

A 5% plan was not submitted.

LFD COMMENT

The State Auditor's Office did not submit a 5% plan to the Budget Director in the Governor's Office. The executive is proposing a reduction to the State Auditor's budget. The legislature may wish to ask for specific actions the State Auditor's Office will take to implement the proposed reductions to spending.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - State Auditor's Office							
	Leg Approp	Allocations	Program Transfers	OP Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Central Management							
Personal Services	\$1,490,484	\$64,955	(\$74,000)		\$1,481,439	-0.6%	-4.8%
Operating Expenses	670,994				670,994	0.0%	0.0%
Equipment & Intangible Assets	1,683				1,683	0.0%	0.0%
Program Total	2,163,161	64,955	(74,000)		2,154,116	-0.4%	-3.3%
03 Insurance							
Personal Services	3,808,301	174,729		0	3,983,030	4.6%	0.0%
Operating Expenses	1,305,233			(18,133)	1,287,100	-1.4%	-1.4%
Equipment & Intangible Assets	5,109				5,109	0.0%	0.0%
Benefits & Claims	(18,133)			18,133	0	-100.0%	-100.0%
Program Total	5,100,510	174,729		0	5,275,239	3.4%	0.0%
04 Securities							
Personal Services	900,438	39,990	74,000	0	1,014,428	12.7%	7.9%
Operating Expenses	155,773				155,773	0.0%	0.0%
Equipment & Intangible Assets	1,202				1,202	0.0%	0.0%
Program Total	1,057,413	39,990	74,000	0	1,171,403	10.8%	6.7%
Grand Total	\$8,321,084	\$279,674	\$0	\$0	\$8,600,758	3.4%	0.0%
Leg Approp = Legislative Appropriations							
Allocations = include Contingency Program Base & Pay Plan							
OP = Operating Plan Changes							

Significant budget changes adopted by the executive include:

- An allocation of the state employee pay plan.
- A transfer from the Central Management Division to the Securities Division of \$74,000 in personal services and 1.00 FTE. This FTE is working on financial examinations conducted on the various entities reviewed by the Securities Division.

Funding

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

Total State Auditor's Office Funding by Source of Authority 2019 Biennium Budget Request - State Auditor's Office						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	64,936,845	64,936,845	79.56 %
State Special Total	16,654,483	0	0	26,678	16,681,161	20.44 %
Federal Special Total	0	0	0	0	0	0.00 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$16,654,483	\$0	\$0	\$64,963,523	\$81,618,006	
Percent - Total All Sources	20.41 %	0.00 %	0.00 %	79.59 %		

The State Auditor's Office is funded from state special revenue. There are two state special revenue funds that account for the majority of the funding for the office: Insurance Fee Account and Securities Fee Account. These funds will be discussed in further detail in the individual programs that utilize these funds.

The statutory general fund appropriation occurs because the State Auditor is responsible for passing through funding for local police and firefighter retirement programs. The retirement programs are funded from general insurance (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA). Because these funds are statutorily appropriated, the expenditures are not included in the general appropriations act.

Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	8,600,758	8,600,758	17,201,516	103.28 %	
SWPL Adjustments	0	0	0	0.00 %	125,365	94,390	219,755	1.32 %	
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %	
New Proposals	0	0	0	0.00 %	(383,394)	(383,394)	(766,788)	(4.60)%	
Total Budget	\$0	\$0	\$0		\$8,342,729	\$8,311,754	\$16,654,483		

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	2,919,152	3,073,278	154,126	5.28 %
Operating Expenses	1,349,877	1,195,707	(154,170)	(11.42)%
Equipment & Intangible Assets	43,366	3,366	(40,000)	(92.24)%
Total Expenditures	\$4,312,395	\$4,272,351	(\$40,044)	(0.93)%
State/Other Special Rev. Funds	4,312,395	4,272,351	(40,044)	(0.93)%
Total Funds	\$4,312,395	\$4,272,351	(\$40,044)	(0.93)%
Total Ongoing	\$4,272,395	\$4,272,351	(\$44)	0.00 %
Total OTO	\$40,000	\$0	(\$40,000)	(100.00)%

Program Description

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

Program Highlights

Central Management Division Major Budget Highlights
- The Central Management Division 2019 biennium budget request is approximately \$40,000 or 0.9% lower than the 2017 biennium. Significant changes include: - The elimination of a one-time-only appropriation for equipment. - Proposed increases due to personal services, information technology fixed costs, and audit fees. - Proposed decreases due to the executive's implementation of a reduction to the budget and a reduction to information technology costs.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	18.80	18.80	18.80	18.80	18.80
Personal Services	1,257,889	1,437,713	1,481,439	1,534,700	1,538,578
Operating Expenses	445,229	678,883	670,994	603,333	592,374
Equipment & Intangible Assets	9,500	21,683	21,683	1,683	1,683
Total Expenditures	\$1,712,618	\$2,138,279	\$2,174,116	\$2,139,716	\$2,132,635
State/Other Special Rev. Funds	1,712,618	2,138,279	2,174,116	2,139,716	2,132,635
Total Funds	\$1,712,618	\$2,138,279	\$2,174,116	\$2,139,716	\$2,132,635
Total Ongoing	\$1,703,118	\$2,118,279	\$2,154,116	\$2,139,716	\$2,132,635
Total OTO	\$9,500	\$20,000	\$20,000	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

There are variances between FY 2016 actual expenditures and FY 2016 appropriations. The lower spending in personal services is partly due to underutilization of positions during the fiscal year. The lower spending in operating expenses is related to a reduction in expenditures for education and training costs, minor software, office supplies, and minor equipment between FY 2016 and FY 2014 (FY 2014 expenditures established the base for the 2017 biennium).

Executive Request

The Central Management Division is requesting an increase in personal services and decrease in operating expenses in FY 2018 and FY 2019. The increases in personal services will be discussed further in the Personal Services section below. The decrease in operating expenses is primarily due to new proposals and will be discussed in further detail in the New Proposals section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 2

State Auditor's Office: 01 Central Management Personal Services Present Law Calculations			
PS Base:	\$1,481,439		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$53,261	\$57,139
Legislative	Statutory Personal Service Change	<u>15,071</u>	<u>19,176</u>
	Difference	38,190	37,964
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(29,376)	(29,455)
	Broadband Pay Adjustments	21,581	21,581
	Benefits and Taxes on Pay Adjustment	3,985	3,985
	Other	42,001	41,852
	Total	\$38,190	\$37,964

Personal services were \$1.5 million or 68.1% of total FY 2017 appropriations. The executive proposes an increase of \$53,000 in FY 2018 and \$57,000 in FY 2019. This request is approximately \$38,000 more than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is primarily due to broadband pay adjustments. Broadband pay adjustments for reclassifications and exempt employee raises are included in the chart above for FY 2016. The State Auditor's Office also had exempt employee increases in previous fiscal years that are contributing to the overall increase in personal services.

Funding

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

State Auditor's Office, 01-Central Management Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02235 Insurance Fee Account	3,480,468	0	0	0	3,480,468	81.46 %
02283 Securities Fee Account	791,883	0	0	0	791,883	18.54 %
State Special Total	\$4,272,351	\$0	\$0	\$0	\$4,272,351	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$4,272,351	\$0	\$0	\$0	\$4,272,351	

The Centralized Management Division is funded entirely from state special revenue. Insurance and securities fee income are the two sources of funding, with insurance fee income supporting the majority of total division costs and the balance coming from security fee income.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	2,154,116	2,154,116	4,308,232	100.84 %	
SWPL Adjustments	0	0	0	0.00 %	91,542	84,461	176,003	4.12 %	
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %	
New Proposals	0	0	0	0.00 %	(105,942)	(105,942)	(211,884)	(4.96)%	
Total Budget	\$0	\$0	\$0		\$2,139,716	\$2,132,635	\$4,272,351		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
DP 1 - Personal Services	0.00	0	53,261	0	53,261	0.00	0	57,139	0	57,139
DP 2 - Fixed Costs										
DP 2 - Fixed Costs	0.00	0	38,578	0	38,578	0.00	0	27,543	0	27,543
DP 3 - Inflation Deflation										
DP 3 - Inflation Deflation	0.00	0	(297)	0	(297)	0.00	0	(221)	0	(221)
Grand Total All Present Law Adjustments	0.00	\$0	\$91,542	\$0	\$91,542	0.00	\$0	\$84,461	\$0	\$84,461

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase										
0.00	0	(84,942)	0	(84,942)	0.00	0	(84,942)	0	(84,942)	
DP 556 - IT Convergence Savings										
0.00	0	(21,000)	0	(21,000)	0.00	0	(21,000)	0	(21,000)	
Total	0.00	\$0	(\$105,942)	\$0	(\$105,942)	0.00	\$0	(\$105,942)	\$0	(\$105,942)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

DP 556 - IT Convergence Savings -

The executive proposes reductions to agency information technology costs for savings generated by migrating information technology assets to the state data center and other enterprise IT solutions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	8,033,674	7,922,817	(110,857)	(1.38)%
Operating Expenses	2,703,899	2,084,279	(619,620)	(22.92)%
Equipment & Intangible Assets	10,218	10,218	0	0.00 %
Benefits & Claims	4,637,242	0	(4,637,242)	(100.00)%
Total Expenditures	\$15,385,033	\$10,017,314	(\$5,367,719)	(34.89)%
General Fund	4,500,000	0	(4,500,000)	(100.00)%
State/Other Special Rev. Funds	10,885,033	10,017,314	(867,719)	(7.97)%
Total Funds	\$15,385,033	\$10,017,314	(\$5,367,719)	(34.89)%
Total Ongoing	\$10,885,033	\$10,017,314	(\$867,719)	(7.97)%
Total OTO	\$4,500,000	\$0	(\$4,500,000)	(100.00)%

Program Description

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

Program Highlights

Insurance Division Major Budget Highlights
- The Insurance Division 2019 biennium budget request is approximately \$5.4 million or 34.9% lower than the 2017 biennium. Significant changes include: - The Insure Montana program ending during FY 2016. This program received a \$4.5 million one-time-only general fund appropriation in FY 2016. - Proposed decreases due to statewide present law adjustments personal services, fixed costs, and inflation/deflation. - Proposed decreases due to the executive's implementation of a reduction to the budget.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	50.40	50.40	50.40	50.40	50.40
Personal Services	3,657,806	4,050,644	3,983,030	3,956,472	3,966,345
Operating Expenses	1,023,549	1,416,799	1,287,100	1,056,815	1,027,464
Equipment & Intangible Assets	0	5,109	5,109	5,109	5,109
Benefits & Claims	3,509,945	4,637,242	0	0	0
Total Expenditures	\$8,191,300	\$10,109,794	\$5,275,239	\$5,018,396	\$4,998,918
General Fund	3,668,563	4,500,000	0	0	0
State/Other Special Rev. Funds	4,522,737	5,609,794	5,275,239	5,018,396	4,998,918
Total Funds	\$8,191,300	\$10,109,794	\$5,275,239	\$5,018,396	\$4,998,918
Total Ongoing	\$4,522,737	\$5,609,794	\$5,275,239	\$5,018,396	\$4,998,918
Total OTO	\$3,668,563	\$4,500,000	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

There are variances between FY 2016 actual expenditures and FY 2016 appropriations. The lower spending in personal services was primarily due to the division using \$222,671 in 2014 carryforward authority for personal services. Operating expenses also underran due to a decrease in market conduct exams, a decrease in rate review costs, and the end of the Insure Montana program.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Differences between FY 2016 and FY 2017 appropriations are primarily attributable to the Insure Montana program and the Montana Comprehensive Health Association (MCHA) ending during FY 2016. Operating expenses decreased by \$80,000 and Benefits and Claims decreased by \$4.6 million.

Executive Request

The Insurance Division is requesting a decrease in personal services and operating expenses FY 2018 and FY 2019. This decrease in personal services will be discussed further in the Personal Services section below. The decrease in operating expenses is primarily due to a new proposal that will be discussed below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 3

State Auditor's Office: 03 Insurance Personal Services Present Law Calculations			
PS Base:	\$3,983,030		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$26,558)	(\$16,685)
Legislative	Statutory Personal Service Change	<u>29,030</u>	<u>39,290</u>
	Difference	(55,588)	(55,975)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(82,415)	(82,619)
	Broadband Pay Adjustments	30,767	30,767
	Benefits and Taxes on Pay Adjustment	6,450	6,450
	Other	(10,391)	(10,574)
	Total	(\$55,588)	(\$55,975)

Personal services were \$4.0 million or 75.5% of total FY 2017 appropriations. The executive proposes a decrease of \$27,000 in FY 2018 and \$17,000 in FY 2019. This request is approximately \$56,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is partly due to the additional 2% vacancy savings the executive is implementing on personal services. The division also had broadband pay increases. Broadband pay adjustments for supervisory promotions, promotion due to additional duties and a reclassification were made in FY 2016.

Funding

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

State Auditor's Office, 03-Insurance Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	0	0	0	0	0	0.00 %
02235 Insurance Fee Account	9,964,004	0	0	0	9,964,004	99.47 %
02528 Captive Account	53,310	0	0	0	53,310	0.53 %
02769 Prem Assist for Small Employer	0	0	0	0	0	0.00 %
02789 6901-CHIP/MCHA Tobacco Sett Fd	0	0	0	0	0	0.00 %
State Special Total	\$10,017,314	\$0	\$0	\$0	\$10,017,314	100.00 %
03502 Buyer's Guide	0	0	0	0	0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$10,017,314	\$0	\$0	\$0	\$10,017,314	

The Insurance Division is funded with state special revenue. The majority of funding is from the insurance fee account, which is supported by insurance licensure fees, examination fees, and penalties. The Insurance Division also receives funding from the captive account which allows the commissioner to administer the captive insurance program. Fees and assessments are deposited in this account, while fines and penalties are deposited in the general fund. At the end of the fiscal year, the balance of the captive account is transferred to the general fund.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	5,275,239	5,275,239	10,550,478	105.32 %	
SWPL Adjustments	0	0	0	0.00 %	(31,339)	(50,817)	(82,156)	(0.82)%	
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %	
New Proposals	0	0	0	0.00 %	(225,504)	(225,504)	(451,008)	(4.50)%	
Total Budget	\$0	\$0	\$0		\$5,018,396	\$4,998,918	\$10,017,314		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	(26,558)	0	(26,558)	0.00	0	(16,685)	0	(16,685)
DP 2 - Fixed Costs	0.00	0	(3,734)	0	(3,734)	0.00	0	(33,303)	0	(33,303)
DP 3 - Inflation Deflation	0.00	0	(1,047)	0	(1,047)	0.00	0	(829)	0	(829)
Grand Total All Present Law Adjustments	0.00	\$0	(\$31,339)	\$0	(\$31,339)	0.00	\$0	(\$50,817)	\$0	(\$50,817)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	0	(225,504)	0	(225,504)	0.00	0	(225,504)	0	(225,504)
Total	0.00	\$0	(\$225,504)	\$0	(\$225,504)	0.00	\$0	(\$225,504)	\$0	(\$225,504)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	2,001,009	2,149,287	148,278	7.41 %
Operating Expenses	320,651	213,127	(107,524)	(33.53)%
Equipment & Intangible Assets	2,404	2,404	0	0.00 %
Total Expenditures	\$2,324,064	\$2,364,818	\$40,754	1.75 %
State/Other Special Rev. Funds	2,324,064	2,364,818	40,754	1.75 %
Total Funds	\$2,324,064	\$2,364,818	\$40,754	1.75 %
Total Ongoing	\$2,324,064	\$2,364,818	\$40,754	1.75 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program Highlights

Securities Division Major Budget Highlights	
- The Securities Division 2019 biennium budget request is approximately \$41,000 or 1.8% higher than the 2017 biennium. Significant changes include: - Proposed increases to personal services due to statewide present law adjustments. - Proposed decreases in operating expenses due to the executive's implementation of a reduction to the budget.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	11.84	11.84	11.84	11.84	11.84
Personal Services	787,900	986,581	1,014,428	1,073,402	1,075,885
Operating Expenses	253,632	164,878	155,773	110,013	103,114
Equipment & Intangible Assets	0	1,202	1,202	1,202	1,202
Total Expenditures	\$1,041,532	\$1,152,661	\$1,171,403	\$1,184,617	\$1,180,201
State/Other Special Rev. Funds	1,041,532	1,152,661	1,171,403	1,184,617	1,180,201
Total Funds	\$1,041,532	\$1,152,661	\$1,171,403	\$1,184,617	\$1,180,201
Total Ongoing	\$1,041,532	\$1,152,661	\$1,171,403	\$1,184,617	\$1,180,201
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

There are variances between FY 2016 actual expenditures and FY 2016 appropriations. The decreased expenditures in personal services was, in part, due to the Division using \$100,000 in 2014 carryforward authority for personal services. Operating expenses were greater than budgeted due to the accrual of a new contract in FY 2016.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is mainly in personal services. This difference is due to the allocation of the pay plan.

Executive Request

The Securities Division is requesting an increase in personal services and decrease in operating expenses in FY 2018 and FY 2019. This increase in personal services will be discussed further in the Personal Services section below. The decrease in operating expenses is primarily due to a new proposal that will be discussed below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 4

State Auditor's Office: 04 Securities Personal Services Present Law Calculations			
PS Base:	\$1,014,428		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$58,974	\$61,457
Legislative	Statutory Personal Service Change	<u>11,997</u>	<u>14,539</u>
	Difference	46,977	46,918
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(22,360)	(22,411)
	Broadband Pay Adjustments	19,852	19,852
	Benefits and Taxes on Pay Adjustment	3,816	3,816
	Other	45,670	45,662
	Total	\$46,977	\$46,918

Personal services were \$1.0 million or 86.6% of total FY 2017 appropriations. The executive proposes an increase of \$59,000 in FY 2018 and \$61,000 in FY 2019. This request is approximately \$47,000 more than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is mainly due to broadband pay adjustments. Broadband pay adjustments for reclassifications and exempt employee raises are included in the chart above. The State Auditor's Office also had exempt employee increases and market adjustments in previous fiscal years that are contributing to the overall increase in personal services.

Funding

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

State Auditor's Office, 04-Securities Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02091 Securities Restitution Fund	0	0	0	26,678	26,678	1.12 %
02283 Securities Fee Account	2,364,818	0	0	0	2,364,818	98.88 %
State Special Total	\$2,364,818	\$0	\$0	\$26,678	\$2,391,496	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$2,364,818	\$0	\$0	\$26,678	\$2,391,496	

The Securities Division is funded with state special revenue. The majority of funding is from the Securities Fee Account, which is supported by portfolio notice filing fees and examination charges. The State Auditor pays for expenses associated with the regulation of portfolio activities.

LFD COMMENT

The revenues collected in the Security Fee Account are driven by what is happening in the financial markets and the economy. According to the office, in the past five years there has been strong growth in the financial markets, which has doubled the number of investment products being made available to investors. Many of

these investment products are required to pay a fee with the Securities Division. Since these products are dependent on the financial markets, if the economy softens and the number of products retract, revenues would decrease.

There are two transfers of excess revenues from the Security Fee Account. The first transfer is 4.5% of portfolio fees to the Security Restitution Fund. These funds are used to reimburse victims of fraud. The remaining excess revenues are transferred to the general fund throughout the year as a non-budgeted transfer. The figure below provides additional details on these transfers.

Figure 5

State Auditor's Office Transfers of Excess Security Fee Account Revenues		
Fiscal Year	Security Restitution Fund Transfer	General Fund Transfer
2013	\$289,922	\$4,950,208
2014	\$310,979	\$5,187,950
2015	\$362,174	\$6,163,976
2016	\$380,194	\$6,697,766

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	1,171,403	1,171,403	2,342,806	99.07 %
SWPL Adjustments	0	0	0	0.00 %	65,162	60,746	125,908	5.32 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	(51,948)	(51,948)	(103,896)	(4.39)%
Total Budget	\$0	\$0	\$0		\$1,184,617	\$1,180,201	\$2,364,818	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	58,974	0	58,974	0.00	0	61,457	0	61,457
DP 2 - Fixed Costs	0.00	0	6,387	0	6,387	0.00	0	(562)	0	(562)
DP 3 - Inflation Deflation	0.00	0	(199)	0	(199)	0.00	0	(149)	0	(149)
Grand Total All Present Law Adjustments	0.00	\$0	\$65,162	\$0	\$65,162	0.00	\$0	\$60,746	\$0	\$60,746

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	0	(51,948)	0	(51,948)	0.00	0	(51,948)	0	(51,948)
Total	0.00	\$0	(\$51,948)	\$0	(\$51,948)	0.00	\$0	(\$51,948)	\$0	(\$51,948)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

FY 2017 Fund Appropriation Transactions - State Auditor's Office							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Central Management							
02235 Insurance Fee Account	\$1,768,088	\$51,964	(\$60,420)		\$1,759,632	-0.5%	-0.5 %
02283 Securities Fee Account	395,073	12,991	(13,580)		394,484	-0.1%	-0.1 %
Program Total	2,163,161	64,955	(74,000)		2,154,116	-0.4%	-0.4 %
03 Insurance							
02235 Insurance Fee Account	5,067,903	174,729		5,952	5,248,584		3.6 %
02283 Securities Fee Account	5,952			(5,952)	0	-100.0%	-100.0 %
02528 Captive Account	26,655				26,655	0.0%	0.0 %
02789 6901-CHIP/MCHA Tobacco	0				0		100.0 %
Program Total	5,100,510	174,729		0	5,275,239	3.4%	3.4 %
04 Securities							
02091 Securities Restitution Fund	16,393			(16,393)	0	-100.0%	-100.0 %
02283 Securities Fee Account	1,041,020	39,990	74,000	16,393	1,171,403	12.5%	12.5 %
Program Total	1,057,413	39,990	74,000	0	1,171,403	10.8%	10.8 %
Grand Total	\$8,321,084	\$279,674	\$0	\$0	\$8,600,758	3.4%	3.4%

FY 2017 Fund Appropriation Transactions - State Auditor's Office							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
02091 Securities Restitution Fund	\$16,393			(\$16,393)	\$0	-100.0%	-100.0 %
02235 Insurance Fee Account	6,835,991	226,693	(60,420)	5,952	7,008,216	2.5%	-0.8 %
02283 Securities Fee Account	1,442,045	52,981	60,420	10,441	1,565,887	8.6%	4.7 %
02528 Captive Account	26,655				26,655	0.0%	0.0 %
02789 6901-CHIP/MCHA Tobacco St	0				0		0.0 %
Grand Total	\$8,321,084	\$279,674	\$0	\$0	\$8,600,758	3.4%	0.0%

2019 BIENNIUM BASE BUDGET

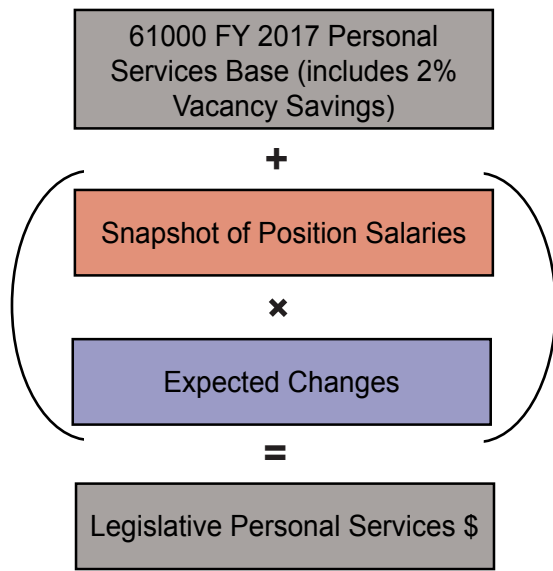
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

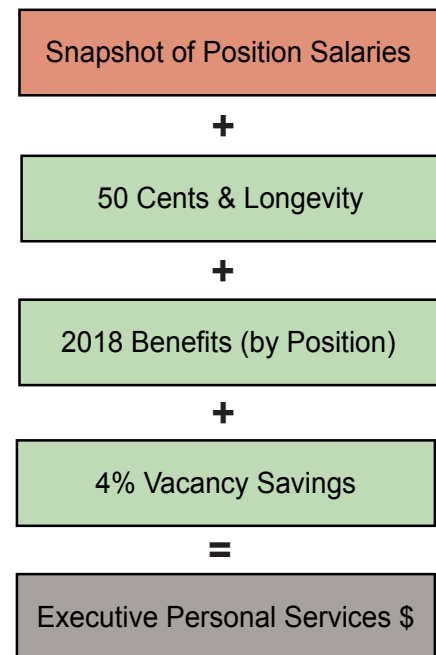
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

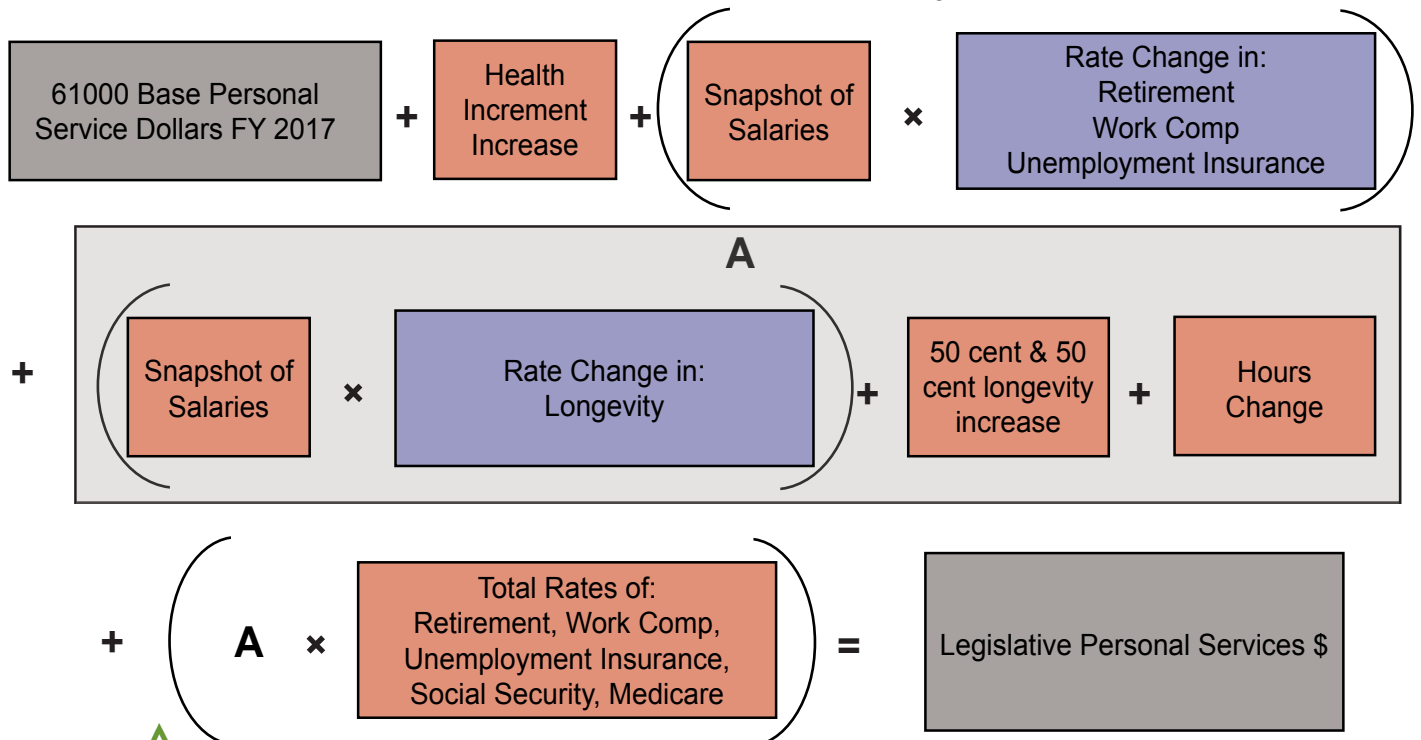
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



DEPARTMENT OF REVENUE

An Agency Profile Prepared by the
Legislative Fiscal Division

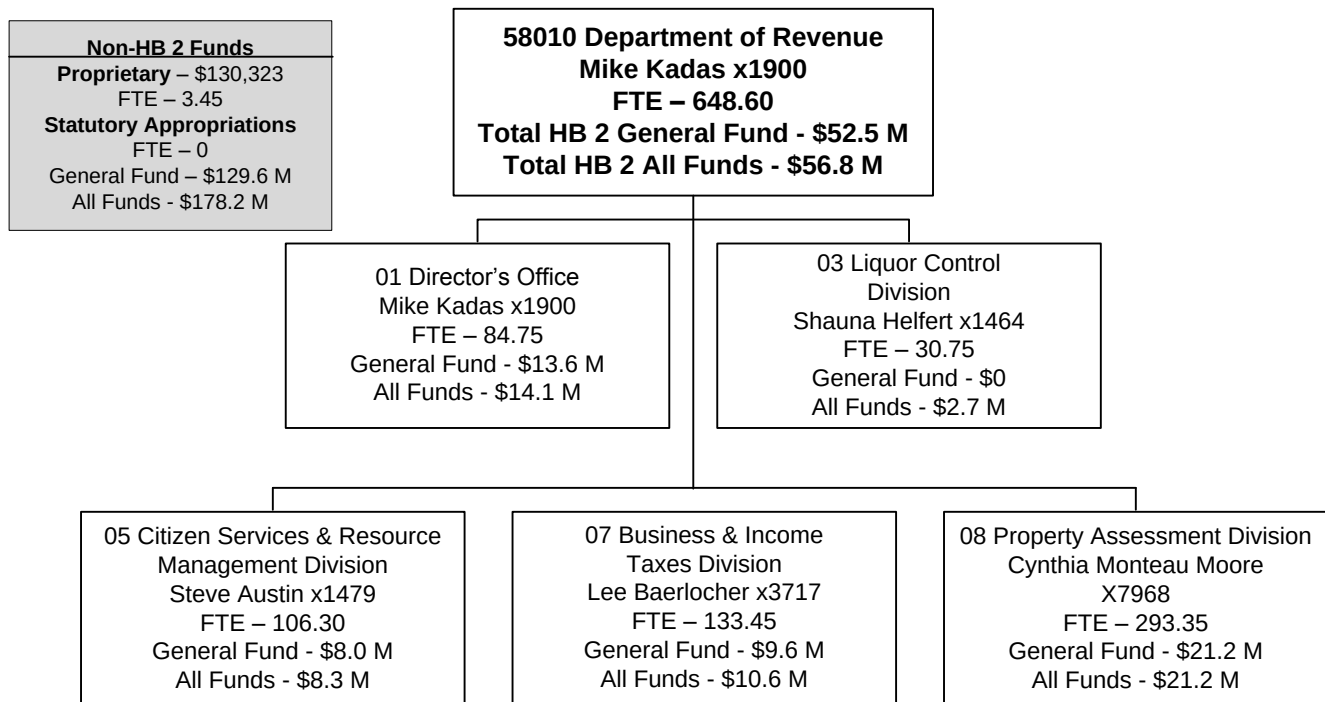
November, 2016



INTRODUCTION

The Department of Revenue administers state taxes except for gasoline and motor fuel taxes administered by the Department of Transportation, insurance taxes administered by the State Auditor, and video gaming tax administered by the Department of Justice. The department administers and enforces Montana's tax laws, appraises all property subject to state and local property taxes, administers the Montana Alcoholic Beverage Code, enforces the Montana Cigarette Sales Act, and administers abandoned property. The primary statutory references defining duties and responsibilities of the department are found in [2-15-1301, MCA](#), [15-1-201, MCA](#), and Title 15, MCA.

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



HOW SERVICES ARE PROVIDED

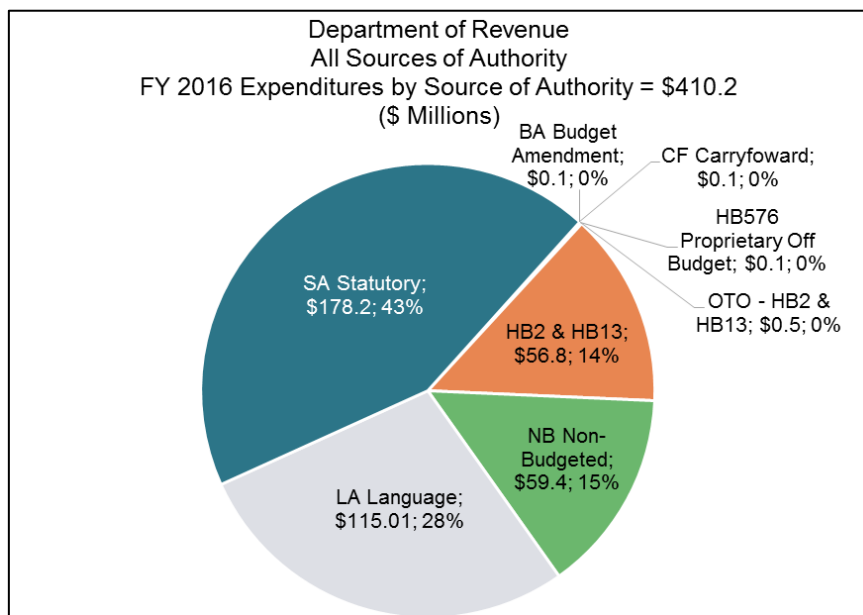
The Department of Revenue collects and distributes revenue from and enforces regulations for 40 state taxes and fees through five divisions. The department also regulates the sale and distribution of alcoholic beverages in the state. In doing so, the department buys, imports, stores, sells, and delivers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

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

SOURCES OF SPENDING AUTHORITY

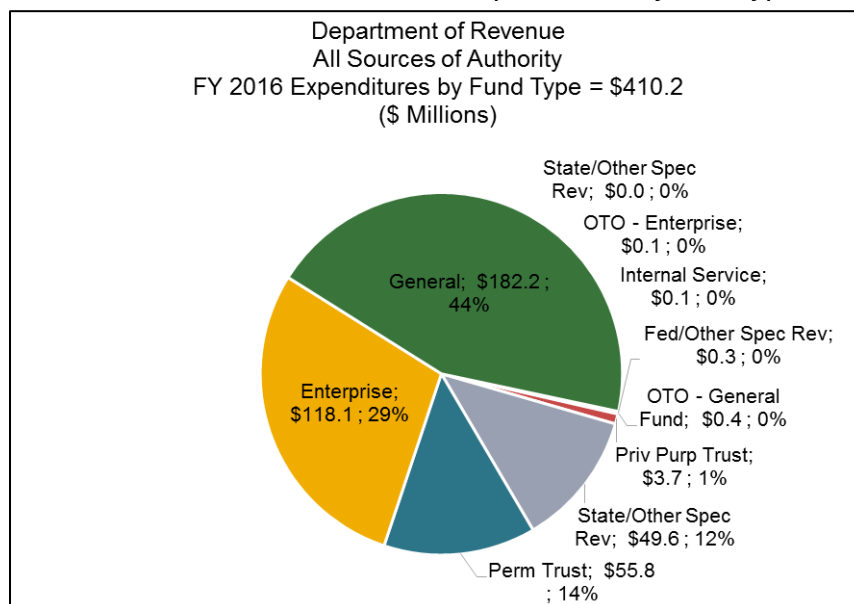
The chart on the following page shows the sources of authority for the Department of Revenue that were expended in FY 2016. The department receives funding through statutory appropriations, proprietary funds, HB 2, and non-budgeted transfers.

- HB 2 & Pay Plan – all HB 2 & Pay Plan authority including the budgeted proprietary expenditures of the Liquor Control Division
- Statutory - primarily distributions of tax revenues to tribal and local governments
- Proprietary - the internal service Collection Services operations
- Language – primarily language appropriations for the Liquor Control Division (authorized up to \$138 million in FY 2016)
- Non-budgeted transfers (\$59.4 million)



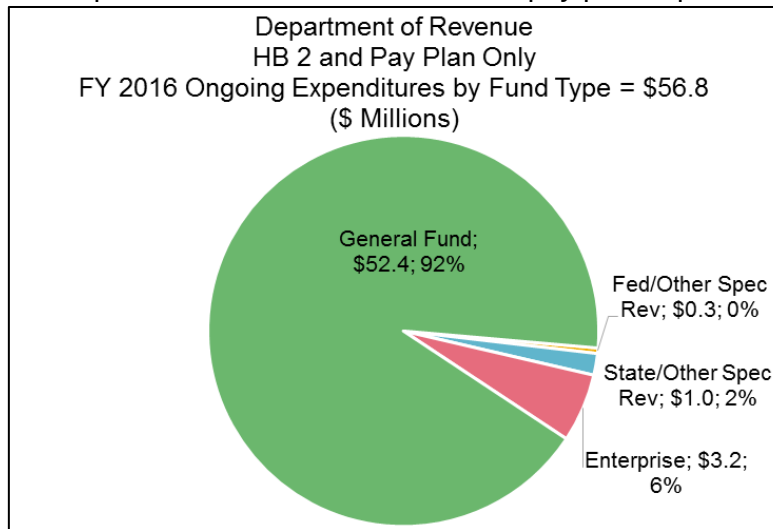
FUNDING

The Department of Revenue is funded with general fund, special revenues, proprietary and statutory appropriations. The chart below shows FY 2016 actual expenditures by fund types.



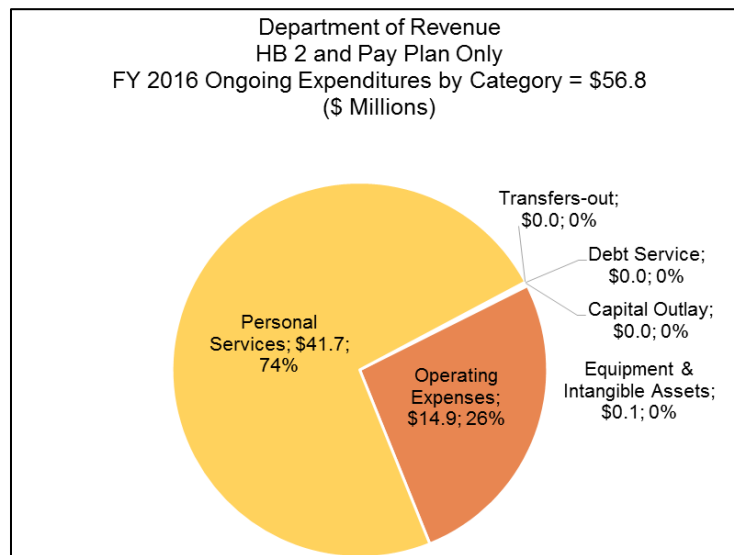
HB 2 FUNDING

The chart below shows the Department of Revenue's HB 2 and pay plan expenditures by fund type.



HB 2 EXPENDITURES

The chart below explains how HB 2 and pay plan authority is spent.



MAJOR COST DRIVERS

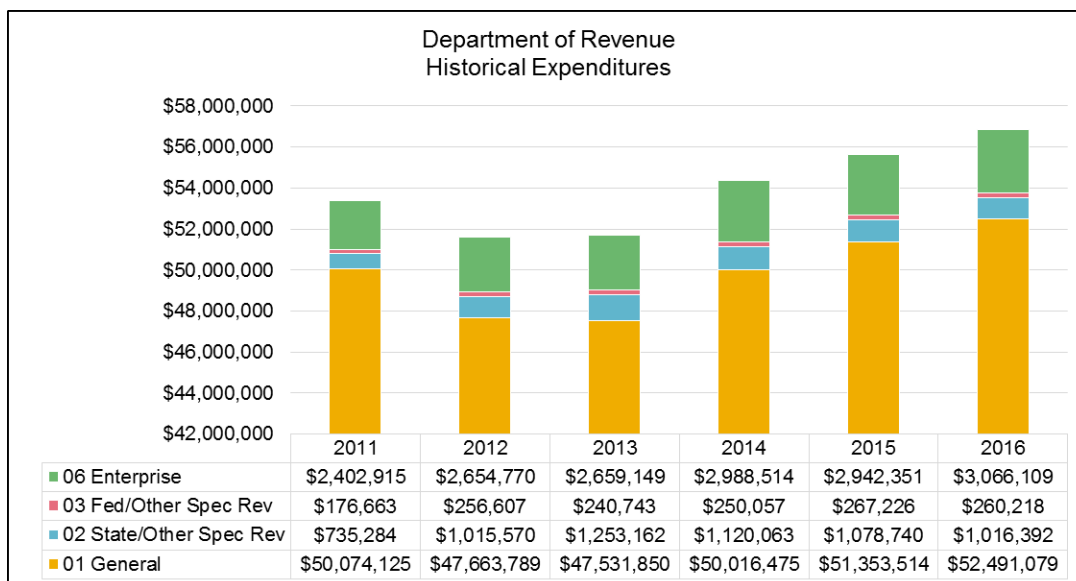
The following figure reflects some of the cost drivers of the department. In addition to the times shown, changes in population, economic conditions, and the number of businesses operating in the state will drive workload changes for the department.

Major Cost Drivers			
Cost Driver	CY 2006	CY 2013	Significance of Data
Number of income tax returns processed	572,256	626,655	Estimate of workload for income tax processing
Number of income tax returns with refunds	311,789	348,137	Estimate of workload to process income tax data
Number of corporation tax returns processed* (TY 2012 instead of CY 2013)	36,233	46,632	Estimate of workload to process corporation tax data
	FY 2004	FY 2014	
Total retail liquor licenses	3,295	3,334	Estimate of workload to process liquor licenses
Number of wholesaler liquor licenses issued	35	45	Estimate of workload to process liquor licenses
Number of manufacturers liquor licenses (breweries, wineries & distillers) issue	563	1,201	Estimate of workload to process liquor licenses

Source: Biennial Report of the Montana Department of Revenue & LFD historical agency profiles

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's HB 2 funding and expenditures. Major reasons for change are:



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

2015 Legislature

- The legislature approved the reorganization of the Information Management and Technology into the Director's Office and Citizen Services and Resource Management Division
- The legislature approved the addition of 3.00 FTE to replace contracted IT workers in the Director's Office

2013 Legislature

- The legislature added a total of 16.00 FTE to the department: 5.00 FTE were in the Property Assessment Division as a one-time-only
- There was a \$1.0 million increase in GenTax maintenance and development costs
- The Legislature adopted an additional 2% vacancy savings for the department

2009 Legislature

- The legislature added a total of 21.30 FTE to the department: 9.30 FTE for the property tax reappraisal as a one-time-only appropriation (HB 658), 12.00 FTE to continue tax compliance activities
- HB 10 provided \$3.4 million of general fund for an electronic imaging system

2007 Legislature

- The legislature added a total of 36.75 FTE in present law and new proposals, 16.00 FTE for tax compliance activities and 8.00 FTE for new legislation
- Developed free electronic tax filing with \$4.7 million in general fund
- HB 9 (SS) provided a \$400 rebate for property taxes and supported the related DOR activities with \$1.0 million of general fund

2005 Legislature

- The legislature added a net 6.00 FTE to the department
- Funded a new property tax information system with \$5.5 million in general fund
- Increased tax types administered through the Integrated Revenue Information System (IRIS) with \$4.0 million in general fund and added vendor service costs to the base budget

For additional agency information, please view the website at: <http://revenue.mt.gov/>

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	86,909,674	87,308,639	398,965	0.46 %
Operating Expenses	31,667,302	31,234,213	(433,089)	(1.37)%
Equipment & Intangible Assets	591,029	61,108	(529,921)	(89.66)%
Capital Outlay	39,980	0	(39,980)	(100.00)%
Transfers	268	0	(268)	(100.00)%
Debt Service	89,360	84,728	(4,632)	(5.18)%
Total Expenditures	\$119,297,613	\$118,688,688	(\$608,925)	(0.51)%
General Fund	110,125,565	109,367,123	(758,442)	(0.69)%
State/Other Special Rev. Funds	2,033,941	2,022,541	(11,400)	(0.56)%
Federal Spec. Rev. Funds	545,524	534,484	(11,040)	(2.02)%
Proprietary Funds	6,592,583	6,764,540	171,957	2.61 %
Total Funds	\$119,297,613	\$118,688,688	(\$608,925)	(0.51)%
Total Ongoing	\$118,163,301	\$118,413,688	\$250,387	0.21 %
Total OTO	\$1,134,312	\$275,000	(\$859,312)	(75.76)%

Mission Statement

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

Agency Highlights

Department of Revenue Major Budget Highlights
- The Department of Revenue's 2019 biennium budget request is approximately \$609,000 or 0.5% lower than the 2017 biennium. Significant changes include: - Proposed decreases due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation - Proposed decreases in general fund spending due to funds no longer being necessary to implement the provision of SB 405 (2015 Session) - Increases in general fund spending due to requests for FTE currently in modified positions

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	648.60	648.55	648.55	660.55	660.55
Personal Services	41,710,433	42,648,116	44,261,558	43,570,741	43,737,898
Operating Expenses	14,949,065	15,573,564	16,093,738	15,681,969	15,552,244
Equipment & Intangible Assets	560,431	560,475	30,554	30,554	30,554
Capital Outlay	39,980	39,980	0	0	0
Transfers	268	268	0	0	0
Debt Service	44,626	46,550	42,810	42,364	42,364
Total Expenditures	\$57,304,803	\$58,868,953	\$60,428,660	\$59,325,628	\$59,363,060
General Fund	52,867,941	54,314,344	55,811,221	54,671,799	54,695,324
State/Other Special Rev. Funds	1,016,393	1,016,392	1,017,549	1,009,346	1,013,195
Federal Spec. Rev. Funds	260,222	273,262	272,262	266,927	267,557
Proprietary Funds	3,160,247	3,264,955	3,327,628	3,377,556	3,386,984
Total Funds	\$57,304,803	\$58,868,953	\$60,428,660	\$59,325,628	\$59,363,060
Total Ongoing	\$56,833,816	\$58,336,797	\$59,826,504	\$59,200,628	\$59,213,060
Total OTO	\$470,987	\$532,156	\$602,156	\$125,000	\$150,000

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

At the end of FY 2016, the Department of Revenue (DOR) had expended \$57.3 million or 97.3% of its budgeted \$58.9 million in HB 2 authority. This is in line with historical expenditures. Of this total, DOR had expended 42.6 million, or 97.8% of the \$42.6 million personal services budget and \$14.9 million, or 96.0% of the \$15.6 million operating expenses budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services and some in equipment and intangible assets authority being transferred to operating expenses. The main reason for the personal services change is the allocation of the pay plan contributing to an increase in personal services.

Executive Request

Overall, the executive is requesting a decrease in FY 2018 and FY 2019 from FY 2017. These adjustments will be discussed in further detail at the program level.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Montana Department of Revenue								
	Leg	Approp	Allocations	Program Transfers	OP Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Director's Office								
Personal Services	\$7,061,288	\$288,233	\$42,388			\$7,391,909	4.7%	0.6%
Operating Expenses	7,012,098	285,928			(4,500)	7,293,526	4.0%	-0.1%
Debt Service					4,500	4,500	100.0%	100.0%
Program Total	14,073,386	574,161	42,388		-	14,689,935	4.4%	0.3%
03 Liquor Control Division								
Personal Services	2,011,786	151,138				2,162,924	7.5%	0.0%
Operating Expenses	537,243					537,243	0.0%	0.0%
Equip & Intangible Assets	30,554					30,554	0.0%	0.0%
Debt Service	31,925					31,925	0.0%	0.0%
Program Total	2,611,508	151,138	-	-	-	2,762,646	5.8%	0.0%
05 Citizen Servs & Resource Mgmt Div								
Personal Services	5,936,958	366,004	(42,388)			6,260,574	5.5%	-0.7%
Operating Expenses	2,874,648					2,874,648	0.0%	0.0%
Program Total	8,811,606	366,004	(42,388)	-	-	9,135,222	3.7%	-0.5%
07 Business & Income Taxes Div								
Personal Services	9,073,202	670,810			(12,000)	9,732,012	7.3%	-0.1%
Operating Expenses	1,487,319				12,000	1,499,319	0.8%	0.8%
Program Total	10,560,521	670,810	-	-	-	11,231,331	6.4%	0.0%
08 Property Assessment Div								
Personal Services	17,240,082	1,299,057				18,539,139	7.5%	0.0%
Operating Expenses	3,468,231				(6,385)	3,461,846	-0.2%	-0.2%
Debt Service					6,385	6,385	100.0%	100.0%
Program Total	20,708,313	1,299,057	-	-	-	22,007,370	6.3%	0.0%
Grand Total	\$56,765,334	\$3,061,170	-	-	-	\$59,826,504	5.4%	0.0%

Significant budget changes adopted by the executive include:

- The Department moved one FTE from CSRM to the Director's Office. This included a program transfer of \$42,388 from CSRM to the Director's Office
- FY 2017 Allocations came from contingency base funding, personal services contingency base funding and pay plan allocations. The Director's Office received \$285,928 and Business and Income Taxes Division received \$214,750 in contingency base funding. Liquor Control Division received \$43,587 and Property Assessment Division received \$290,016 in personal services contingency base funding. All other allocations occurred due to the pay plan

Funding

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

Total Department of Revenue Funding by Source of Authority 2019 Biennium Budget Request - Department of Revenue						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	109,342,123	25,000	0	272,058,811	381,425,934	75.27 %
State Special Total	2,022,541	0	0	115,579,700	117,602,241	23.21 %
Federal Special Total	534,484	0	0	0	534,484	0.11 %
Proprietary Total	6,514,540	250,000	438,455	0	7,202,995	1.42 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$118,413,688	\$25,000	\$438,455	\$387,638,511	\$506,765,654	
Percent - Total All Sources	23.37 %	0.05 %	0.09 %	76.49 %		

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	55,364,366	55,364,366	110,728,732	101.24 %	59,826,504	59,826,504	119,653,008	100.81 %
SWPL Adjustments	327,540	274,942	602,482	0.55 %	350,658	311,940	662,598	0.56 %
PL Adjustments	(169,881)	(94,881)	(264,762)	(0.24)%	(44,881)	30,119	(14,762)	(0.01)%
New Proposals	(850,226)	(849,103)	(1,699,329)	(1.55)%	(806,653)	(805,503)	(1,612,156)	(1.36)%
Total Budget	\$54,671,799	\$54,695,324	\$109,367,123		\$59,325,628	\$59,363,060	\$118,688,688	

Language and Statutory Authority -

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

"Liquor Control Division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund to the department in the amounts not to exceed \$151 million in FY 2018 and \$158 million in FY 2019. These costs are used to maintain adequate inventories necessary to meet statutory requirements, to pay freight costs and to transfer profits and taxes to appropriate accounts."

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	14,813,644	15,616,962	803,318	5.42 %
Operating Expenses	14,838,226	14,126,443	(711,783)	(4.80)%
Equipment & Intangible Assets	477,070	0	(477,070)	(100.00)%
Transfers	268	0	(268)	(100.00)%
Debt Service	9,000	9,000	0	0.00 %
Total Expenditures	\$30,138,208	\$29,752,405	(\$385,803)	(1.28)%
General Fund	29,164,005	28,743,701	(420,304)	(1.44)%
State/Other Special Rev. Funds	234,222	251,785	17,563	7.50 %
Federal Spec. Rev. Funds	1,000	0	(1,000)	(100.00)%
Proprietary Funds	738,981	756,919	17,938	2.43 %
Total Funds	\$30,138,208	\$29,752,405	(\$385,803)	(1.28)%
Total Ongoing	\$29,314,498	\$29,727,405	\$412,907	1.41 %
Total OTO	\$823,710	\$25,000	(\$798,710)	(96.96)%

Program Description

The Director's Office is responsible for the overall management and leadership of the department. The Director's Office is composed of five primary sections that provide services across the department.

- The Executive Office is responsible for the general guidance and management of the agency, including administrative functions and communication to the public, other agencies and elected officials. The Executive Office is responsible for fiscal administration, contract management, taxpayer assistance, dispute resolution, human resources, and enterprise planning and analysis
- The Legal Services Office is responsible for the overall legal efforts of the department including legal representation, legislation development and review, filing bankruptcy claims, and management of the department's administrative rules
- The Security Office provides security and disclosure guidance to the department staff and citizens served by the department. The Security Office is responsible for ensuring compliance with federal and state confidentiality requirements, security requirements, and information exchanges. The Office is also responsible for ensuring the department safeguards the integrity of confidential taxpayer information
- Tax Policy, Research and Public Information provides information to the governor, the legislature, and Montana citizens including the compilation of basic tax data, fulfilling public information requests, and the publication of the statutory required biennial report
- The Information Technology Office is responsible for all aspects of the department's information technology functions. The Office supports all department staff with hardware and software solutions

Program Highlights

Director's Office Major Budget Highlights	
- The Directors Office's 2019 biennium budget request is approximately \$386,000 or 1.28% lower than the 2017 biennium. Significant changes include: - Proposed decreases due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation. - Proposed decreases in general fund spending due to funds no longer being necessary to implement the provision of SB 405 (2015).	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	84.75	84.75	84.75	84.75	84.75
Personal Services	7,349,674	7,351,735	7,461,909	7,781,986	7,834,976
Operating Expenses	6,673,883	7,167,845	7,670,381	7,129,198	6,997,245
Equipment & Intangible Assets	477,070	477,070	0	0	0
Transfers	268	268	0	0	0
Debt Service	4,458	4,500	4,500	4,500	4,500
Total Expenditures	\$14,505,353	\$15,001,418	\$15,136,790	\$14,915,684	\$14,836,721
General Fund	14,017,939	14,514,004	14,650,001	14,413,291	14,330,410
State/Other Special Rev. Funds	117,111	117,111	117,111	124,913	126,872
Federal Spec. Rev. Funds	1,000	1,000	0	0	0
Proprietary Funds	369,303	369,303	369,678	377,480	379,439
Total Funds	\$14,505,353	\$15,001,418	\$15,136,790	\$14,915,684	\$14,836,721
Total Ongoing	\$14,128,498	\$14,624,563	\$14,689,935	\$14,915,684	\$14,811,721
Total OTO	\$376,855	\$376,855	\$446,855	\$0	\$25,000

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

At the end of FY 2016, the Director's Office had expended \$14.5 million or 96.7% of its budgeted \$15.0 million in HB 2 authority. Of this total, the Director's Office had expended \$7.3 million, or 99.9% of the \$7.4 million personal services budget and \$6.7 million, or 93.1% of the \$7.2 million operating expenses budget. The Director's Office spent a smaller percentage of the operating budget due to not spending the allocated SB 405 (2015 session) funds. The department anticipates that it will also not need these funds in the coming years, this is laid out in Decision Package (DP) 103.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services and in equipment and intangible assets authority being transferred to operating expenses. The main reason for the personal services change is the allocation of the pay plan contributing to an increase in personal services.

Executive Request

Statewide present law changes for personal services, fixed costs, inflation/deflation, and the executive's reduction to the budget are causing the decrease in the requested appropriations for FY 2018 and FY 2019. These decreases will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Program Personal Services Narrative

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

The following table compares the executive budget for personal services to the legislative budget.

Figure 2

Department Of Revenue: 01 Director'S Office Personal Services Present Law Calculations			
PS Base:	\$7,391,909		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$390,077	\$418,067
Legislative	Statutory Personal Service Change	<u>96,024</u>	<u>125,174</u>
	Difference	294,053	292,893
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(162,103)	(162,686)
	Broadband Pay Adjustments	171,656	171,656
	Benefits and Taxes on Pay Adjustment	36,058	36,058
	Other	<u>248,443</u>	<u>247,866</u>
	Total	\$294,053	\$292,893

Personal services were \$7,461,909 or 49.3% of total base appropriations. The executive proposes an increase of \$390,077 in FY 2018 and \$418,067 in FY 2019. The executive proposal is approximately \$293,000 more per year than anticipated by the LFD based upon pay plan and statutory personal services adjustments.

Funding

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

Department of Revenue, 01-Directors Office Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	28,718,701	25,000	0	272,058,811	300,802,512	99.67 %	
02790 6901-Statewide Tobacco Sttlmnt	251,785	0	0	0	251,785	100.00 %	
State Special Total	\$251,785	\$0	\$0	\$0	\$251,785	0.08 %	
03928 Royalty Audit - NRCT	0	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06005 Liquor Division	756,919	0	0	0	756,919	100.00 %	
Proprietary Total	\$756,919	\$0	\$0	\$0	\$756,919	0.25 %	
Total All Funds	\$29,727,405	\$25,000	\$0	\$272,058,811	\$301,811,216		

Funding for the Director's Office HB 2 budget comes primarily from the general fund. State special revenue from tobacco settlement funds supports the dedicated attorney that supports tobacco tax compliance activities. Federal mineral royalty audit special revenue funds a portion of the Legislative Audit fixed cost allocation for the agency.

Proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Control Division share of Director's Office support costs. The allocation is calculated as a percentage of the program's budget. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted.

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	14,203,146	14,203,146	28,406,292	98.83 %	14,689,935	14,689,935	29,379,870	98.75 %
SWPL Adjustments	630,145	472,264	1,102,409	3.84 %	645,749	491,786	1,137,535	3.82 %
PL Adjustments	(200,000)	(125,000)	(325,000)	(1.13)%	(200,000)	(125,000)	(325,000)	(1.09)%
New Proposals	(220,000)	(220,000)	(440,000)	(1.53)%	(220,000)	(220,000)	(440,000)	(1.48)%
Total Budget	\$14,413,291	\$14,330,410	\$28,743,701		\$14,915,684	\$14,836,721	\$29,752,405	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	374,473	7,802	0	390,077	0.00	398,545	9,761	0	418,067
DP 2 - Fixed Costs	0.00	286,300	0	0	286,300	0.00	104,301	0	0	104,301
DP 3 - Inflation Deflation	0.00	(30,628)	0	0	(30,628)	0.00	(30,582)	0	0	(30,582)
DP 101 - GenTax Contract Increase	0.00	50,000	0	0	50,000	0.00	100,000	0	0	100,000
DP 102 - Fiscal Note Overtime	0.00	0	0	0	0	0.00	25,000	0	0	25,000
DP 103 - SB 405 Operating Reduction	0.00	(250,000)	0	0	(250,000)	0.00	(250,000)	0	0	(250,000)
Grand Total All Present Law Adjustments	0.00	\$430,145	\$7,802	\$0	\$445,749	0.00	\$347,264	\$9,761	\$0	\$366,786

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

DP 1 - Personal Services -

The budget includes a reduction of \$390,077 in FY 2018 and \$418,067 in FY 2019 to annualize various personal services costs include FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, longevity adjustments related to incumbents in each position at the time of the snapshot, and vacancy savings.

DP 2 - Fixed Costs -

The request includes \$286,300 in FY 2018 and \$104,301 in FY 2019 to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples of fixed costs include liability and property insurance, legislative audit, warrant writer, payroll processing, and others. The rates charged for these services are approved in a separate portion of the budget.

DP 3 - Inflation Deflation -

This change package includes a reduction of \$30,628 in FY 2018 and \$30,582 in FY 2019 to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, natural gas, electricity, gasoline, and others.

DP 101 - GenTax Contract Increase -

The Department of Revenue, Director's Office requests a maintenance contract increase of \$50,000 in FY 2018 and \$100,000 in FY 2019 for the integrated tax system. Virtually all of the 91 taxes administered by the department are managed using this system.

DP 102 - Fiscal Note Overtime -

The Department of Revenue, Director's Office requests \$25,000 in general fund in the 2019 biennium to cover necessary overtime expenditures in the Tax Policy and Research Office for fiscal note preparation during the 2019 legislative session.

DP 103 - SB 405 Operating Reduction -

The Department of Revenue, Director's Office has an operating reduction of \$250,000 in each year of the 2019 biennium. These funds are no longer necessary to implement the provision of SB 405 (2015 Session).

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 556 - IT Convergence Savings	0.00	(220,000)	0	0	(220,000)	0.00	(220,000)	0	0	(220,000)
Total	0.00	(\$220,000)	\$0	\$0	(\$220,000)	0.00	(\$220,000)	\$0	\$0	(\$220,000)

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

DP 556 - IT Convergence Savings -

In accordance with Executive Order 09-2016, state agencies have migrated information technology assets to the state data center and taken advantage of other enterprise IT solutions. The estimated savings for the Department of Revenue is \$220,000 per year.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	4,467,789	4,719,109	251,320	5.63 %
Operating Expenses	1,093,601	1,084,440	(9,161)	(0.84)%
Equipment & Intangible Assets	105,959	61,108	(44,851)	(42.33)%
Capital Outlay	39,980	0	(39,980)	(100.00)%
Debt Service	67,590	62,958	(4,632)	(6.85)%
Total Expenditures	\$5,774,919	\$5,927,615	\$152,696	2.64 %
Proprietary Funds	5,774,919	5,927,615	152,696	2.64 %
Total Funds	\$5,774,919	\$5,927,615	\$152,696	2.64 %
Total Ongoing	\$5,464,317	\$5,677,615	\$213,298	3.90 %
Total OTO	\$310,602	\$250,000	(\$60,602)	(19.51)%

Program Description

The Liquor Control Division provides administration of the Montana alcoholic beverage code. The division consists of the Liquor Distribution Bureau, which maintains a regulated channel of distribution to fulfill the public demand for distilled spirits and fortified wine through agency liquor stores; and the Liquor Licensing Bureau, which regulates liquor licensing laws.

Program Highlights

Liquor Control Division Major Budget Highlights	
- The Liquor Control Division's 2019 biennium budget request is approximately \$153,000 or 2.64% higher than the 2017 biennium. Significant changes include: - Proposed increases in spending due to changing a modified licensing specialist FTE to permanent position - Proposed increases in spending due to anticipated termination payouts and overtime	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	30.75	30.75	30.75	31.75	31.75
Personal Services	2,129,185	2,199,865	2,267,924	2,356,070	2,363,039
Operating Expenses	472,038	506,057	587,544	541,970	542,470
Equipment & Intangible Assets	75,397	75,405	30,554	30,554	30,554
Capital Outlay	39,980	39,980	0	0	0
Debt Service	35,664	35,665	31,925	31,479	31,479
Total Expenditures	\$2,752,264	\$2,856,972	\$2,917,947	\$2,960,073	\$2,967,542
Proprietary Funds	2,752,264	2,856,972	2,917,947	2,960,073	2,967,542
Total Funds	\$2,752,264	\$2,856,972	\$2,917,947	\$2,960,073	\$2,967,542
Total Ongoing	\$2,658,132	\$2,701,671	\$2,762,646	\$2,835,073	\$2,842,542
Total OTO	\$94,132	\$155,301	\$155,301	\$125,000	\$125,000

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

At the end of FY 2016, the Liquor Control Division had expended \$2.8 million or 96.3% of its budgeted \$2.9 million in HB 2 authority. Of this total, the Liquor Control Division had expended 2.1 million, or 96.8% of the \$2.2 million personal services budget and \$0.47 million, or 93.3% of the \$0.51 million operating expenses budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services. The main reason for this is the allocation of the pay plan contributing to an increase in personal services.

Executive Request

Personal services costs such as termination payouts, overtime, and the request for a new licensing specialist FTE is primarily what is driving the changes from the FY 2017 appropriation to the FY 2018 and FY 2019 requests. These changes will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Program Personal Services Narrative

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 3

Department Of Revenue: 03 Liquor Control Division Personal Services Present Law Calculations			
PS Base: \$2,162,924			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$24,573	\$31,515
Legislative	Statutory Personal Service Change	<u>46,185</u>	<u>53,434</u>
	Difference	(21,612)	(21,919)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(45,565)	(45,710)
	Broadband Pay Adjustments	30,300	30,300
	Benefits and Taxes on Pay Adjustment	7,283	7,283
	Other	<u>(13,630)</u>	<u>(13,792)</u>
	Total	(\$21,612)	(\$21,919)

Personal services were \$2,267,924 or 77.7% of total base appropriations. The executive proposes a decrease of \$24,573 in FY 2018 and \$31,515 in FY 2019. The executive proposal is approximately \$22,000 less per year than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is partly due to the additional 2% vacancy savings rate proposed by the executive.

Funding

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

Department of Revenue, 03-Liquor Control Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06005 Liquor Division	5,927,615	250,000	0	0	6,177,615	100.00 %
Proprietary Total	\$5,927,615	\$250,000	\$0	\$0	\$6,177,615	100.00 %
Total All Funds	\$5,927,615	\$250,000	\$0	\$0	\$6,177,615	

The division is funded with a direct appropriation of Liquor Control Division proprietary funds. Net revenues from liquor sales are transferred to the general fund after operating costs are deducted from gross revenues. Consequently, any proposals funded through this program are an indirect use of state general fund. The HB 2 OTO funding is for DPs 301 and 302 for anticipated termination payouts and overtime funding.

Executive Request

The budget proposal includes a language appropriation for up to \$309 million for liquor inventories, freight charges, and to transfer profits and taxes to appropriate accounts.

**LFD
COMMENT**

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

Program Budget Summary by Category

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

Budget Summary by Category								
-----General Fund-----					-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	2,762,646	2,762,646	5,525,292	93.21 %
SWPL Adjustments	0	0	0	0.00 %	28,854	36,296	65,150	1.10 %
PL Adjustments	0	0	0	0.00 %	125,000	125,000	250,000	4.22 %
New Proposals	0	0	0	0.00 %	43,573	43,600	87,173	1.47 %
Total Budget	\$0	\$0	\$0		\$2,960,073	\$2,967,542	\$5,927,615	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----					-----Fiscal 2019-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	24,573	0.00	0	0	0	31,515
DP 2 - Fixed Costs	0.00	0	0	0	9,157	0.00	0	0	0	8,636
DP 3 - Inflation Deflation	0.00	0	0	0	(4,876)	0.00	0	0	0	(3,855)
DP 301 - Termination Payouts Liquor Control Division	0.00	0	0	0	60,000	0.00	0	0	0	60,000
DP 302 - Overtime Liquor Control Division	0.00	0	0	0	65,000	0.00	0	0	0	65,000
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$153,854	0.00	\$0	\$0	\$0	\$161,296

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

DP 1 - Personal Services -

The budget includes \$24,573 in FY 2018 and \$31,515 in FY 2019 to annualize various personal services costs include FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, longevity adjustments related to incumbents in each position at the time of the snapshot, and vacancy savings.

DP 2 - Fixed Costs -

The request includes \$9,157 in FY 2018 and \$8,636 in FY 2019 to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples of fixed costs include liability and property insurance, warrant writer, payroll processing, and others. The rates charged for these services are approved in a separate portion of the budget.

DP 3 - Inflation Deflation -

This change package includes a reduction of \$4,876 in FY 2018 and \$3,855 in FY 2019 to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, natural gas, electricity, gasoline, and others.

DP 301 - Termination Payouts Liquor Control Division -

The Department of Revenue, Liquor Control Division is requesting \$60,000 in FY 2018 and \$60,000 in FY 2019 to payout accrued leave balances for employee's retiring and/or leaving the division. This request allows the division to efficiently distribute alcoholic beverages to the agency liquor stores and comply with the statutory requirement of 16-2-101(12), MCA, requiring the department to maintain a 97% monthly service level to the agency stores. If Liquor Control Division is required to use vacancy savings to pay for the termination payouts, they will not be able to meet this statutory requirement.

DP 302 - Overtime Liquor Control Division -

The Department of Revenue, Liquor Control Division is requesting \$65,000 in FY 2018 and \$65,000 in FY 2019. This funding is necessary to pay for overtime and temporary staff to meet the increase in demand for liquor products especially during peak periods, holiday weeks, and to back fill personnel while out on vacation or sick leave.

LFD COMMENT

The executive proposes overtime funding for staff within the Liquor Division as a present law adjustment. The 2015 Legislature provided funding for overtime as one-time-only in the 2017 biennium. Based on statutory requirements, items that are one-time-only are considered new proposals in the following budget.

New Proposals -

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

New Proposals	Fiscal 2018					Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 303 - LCD Restore 2017 Biennium Base Funding	1.00	0	0	0	43,573	1.00	0	0	0	43,600
Total	1.00	\$0	\$0	\$0	\$43,573	1.00	\$0	\$0	\$0	\$43,600

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

DP 303 - LCD Restore 2017 Biennium Base Funding -

The Liquor Control Division is requesting 1.00 FTE and personal services funding of \$43,587 in FY 2018 and \$43,600 in FY 2019. This funding was allocated to the Liquor Control Division from the personal services contingency base funding appropriated by the 2015 Legislature, but the position was modified at the time of the snapshot and therefore must be re-requested. This position is currently a licensing specialist working on the increase in direct shipment of wineries doing business in Montana.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	12,072,394	12,591,216	518,822	4.30 %
Operating Expenses	5,600,533	5,811,364	210,831	3.76 %
Total Expenditures	\$17,672,927	\$18,402,580	\$729,653	4.13 %
General Fund	17,177,381	17,905,736	728,355	4.24 %
State/Other Special Rev. Funds	416,863	416,838	(25)	(0.01)%
Proprietary Funds	78,683	80,006	1,323	1.68 %
Total Funds	\$17,672,927	\$18,402,580	\$729,653	4.13 %
Total Ongoing	\$17,672,927	\$18,402,580	\$729,653	4.13 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Citizen Services and Resource Management Division (CSRM) focuses on providing services to citizens, including the advancement of free electronic filing, and support services to the other divisions of the department. CSRM includes the Citizen Services/Financial and Asset Management Bureau, the Collections Bureau and the Information Management Bureau.

- Financial and Asset Management provides support services to the department by managing the department's accounting, purchasing, safety and security, and statewide facility functions. This bureau ensures state tax collections and department expenses are properly accounted for, supports the operation of department facilities, and conducts disaster and emergency preparedness and continuity of government activities.
- Citizen Services assists taxpayers by answering questions through the department's call center, coordinates the eStop business licensing program, returns unclaimed property that has been remitted to the state to the rightful owners, and strives to create tax forms and instructions that are thorough and understandable.
- The Collections Bureau collects the department's delinquent debts and includes the Bankruptcy Unit responsible for filing and recoveries of debt through bankruptcy proceedings. The bureau also provides collection services to other state agencies and local governments for recovery of bad debts.
- The Information Management Bureau ensures secure handling and processing of taxpayer information, payments, and data in electronic or paper form. The bureau is organized into four units including Account Maintenance and Cashiering, Information Capture, Electronic Services (E-Services), and Mail and Imaging.

Program Highlights

**Citizen Services & Resource Management
Major Budget Highlights**

- The Liquor Control Division's 2019 biennium budget request is approximately \$730,000 or 4.13% higher than the 2017 biennium. Significant changes include:
 - The personal services biennial increase appears large due to the pay plan allocation from FY 2016 to FY 2017. Personal services requests for FY 2018 and FY 2019 are \$26,814 and \$43,254 above the FY 2017 base respectively
 - Proposed increases due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	106.30	106.25	106.25	106.25	106.25
Personal Services	5,592,466	5,811,820	6,260,574	6,287,388	6,303,828
Operating Expenses	2,698,655	2,725,885	2,874,648	2,905,829	2,905,535
Total Expenditures	\$8,291,121	\$8,537,705	\$9,135,222	\$9,193,217	\$9,209,363
General Fund	8,043,997	8,290,581	8,886,800	8,944,795	8,960,941
State/Other Special Rev. Funds	208,444	208,444	208,419	208,419	208,419
Proprietary Funds	38,680	38,680	40,003	40,003	40,003
Total Funds	\$8,291,121	\$8,537,705	\$9,135,222	\$9,193,217	\$9,209,363
Total Ongoing	\$8,291,121	\$8,537,705	\$9,135,222	\$9,193,217	\$9,209,363
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

At the end of FY 2016, CSRM had expended \$8.3 million or 97.1% of its budgeted \$8.5 million in HB 2 authority. Of this total, CSRM had expended 5.6 million, or 96.2% of the \$5.8 million personal services budget and \$2.7 million, or 99.0% of the \$2.7 million operating expenses budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services. The main reason for this is the allocation of the pay plan contributing to an increase in personal services.

Executive Request

Statewide present law changes for personal services, fixed costs, and inflation/deflation are causing the increase in the requested appropriations for FY 2018 and FY 2019. These increases will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Program Personal Services Narrative

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 4

Department Of Revenue: 05 Citizen Services & Resource Management Division Personal Services Present Law Calculations			
PS Base:	\$6,260,574		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$26,814	\$43,254
Legislative	Statutory Personal Service Change	<u>72,176</u>	<u>89,428</u>
	Difference	(45,362)	(46,174)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(130,966)	(131,304)
	Broadband Pay Adjustments	44,527	44,527
	Benefits and Taxes on Pay Adjustment	8,981	8,981
	Other	<u>32,096</u>	<u>31,622</u>
	Total	(\$45,362)	(\$46,174)

Personal services were \$6,260,574 or 68.5% of total base appropriations. The executive proposes an increase of \$26,814 in FY 2018 and \$43,254 in FY 2019. The executive proposal is approximately \$46,000 less per year than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is partly due to the additional 2% vacancy savings rate proposed by the executive.

Funding

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

Department of Revenue, 05-Citizen Services & Resource Mgmt Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	17,905,736	0	0	0	17,905,736	13.32 %	
02008 Tobacco And Cig. Tribal Agree.	0	0	0	12,384,000	12,384,000	10.68 %	
02025 Unclaimed Property	323,912	0	0	0	323,912	0.28 %	
02083 Oil & Gas Local Assistance	0	0	0	6,311,000	6,311,000	5.44 %	
02088 SSR ADMINISTRATIVE FUNDS	92,926	0	0	0	92,926	0.08 %	
02168 MT Oil Production Tax	0	0	0	88,481,700	88,481,700	76.28 %	
02169 Bentonite Production Tax	0	0	0	3,000,000	3,000,000	2.59 %	
02511 Oil and Gas Natural Resource	0	0	0	3,827,000	3,827,000	3.30 %	
02966 Tribal Agreement - Alcohol	0	0	0	1,576,000	1,576,000	1.36 %	
State Special Total	\$416,838	\$0	\$0	\$115,579,700	\$115,996,538	86.29 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06005 Liquor Division	80,006	0	0	0	80,006	15.43 %	
06554 CSC Collection Services	0	0	438,455	0	438,455	84.57 %	
Proprietary Total	\$80,006	\$0	\$438,455	\$0	\$518,461	0.39 %	
Total All Funds	\$18,402,580	\$0	\$438,455	\$115,579,700	\$134,420,735		

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

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	8,886,800	8,886,800	17,773,600	99.26 %	9,135,222	9,135,222	18,270,444	99.28 %
SWPL Adjustments	57,995	74,141	132,136	0.74 %	57,995	74,141	132,136	0.72 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$8,944,795	\$8,960,941	\$17,905,736		\$9,193,217	\$9,209,363	\$18,402,580	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	26,814	0	0	26,814	0.00	43,254	0	0	43,254
DP 2 - Fixed Costs	0.00	29,599	0	0	29,599	0.00	29,313	0	0	29,313
DP 3 - Inflation Deflation	0.00	1,582	0	0	1,582	0.00	1,574	0	0	1,574
Grand Total All Present Law Adjustments	0.00	\$57,995	\$0	\$0	\$57,995	0.00	\$74,141	\$0	\$0	\$74,141

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

DP 1 - Personal Services -

The budget includes funding to annualize various personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, longevity adjustments related to incumbents in each position at the time of the snapshot, and vacancy savings.

DP 2 - Fixed Costs -

The request includes funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples of fixed costs include liability and property insurance, warrant writer, payroll processing, and others. The rates charged for these services are approved in a separate portion of the budget.

DP 3 - Inflation Deflation -

This change package includes funding to cover budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, natural gas, electricity, gasoline, and others.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	19,085,329	19,239,500	154,171	0.81 %
Operating Expenses	3,002,692	3,252,501	249,809	8.32 %
Total Expenditures	\$22,088,021	\$22,492,001	\$403,980	1.83 %
General Fund	20,188,061	20,632,201	444,140	2.20 %
State/Other Special Rev. Funds	1,355,436	1,325,316	(30,120)	(2.22)%
Federal Spec. Rev. Funds	544,524	534,484	(10,040)	(1.84)%
Total Funds	\$22,088,021	\$22,492,001	\$403,980	1.83 %
Total Ongoing	\$22,088,021	\$22,492,001	\$403,980	1.83 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Business and Income Taxes Division is responsible for the administration of and collection for 38 Montana taxes and fees including but not limited to corporation license, natural resource, withholding, individual income, lodging facilities, cigarette and tobacco products, contractor's gross receipts, and telecommunications taxes. The division also values all industrial and centrally assessed property in the state. Some of the duties associated with administration include: tax type expertise, taxpayer education, auditing, identification of nonfilers, and overall tax compliance. The Business Tax and Valuation Bureau and the Income and withholding Tax Bureau handle these functions for the department.

Program Highlights

Business & Income Taxes Division Major Budget Highlights	
- The Business and Income Taxes Division's 2019 biennium budget request is approximately \$404,000 or 1.83% higher than the 2017 biennium. Significant changes include: - Proposed increases due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation - Proposed increase in general fund spending due to the request of two FTE that are currently modified FTE positions	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	133.45	133.45	133.45	135.45	135.45
Personal Services	9,137,367	9,353,317	9,732,012	9,603,375	9,636,125
Operating Expenses	1,440,506	1,503,373	1,499,319	1,626,777	1,625,724
Total Expenditures	\$10,577,873	\$10,856,690	\$11,231,331	\$11,230,152	\$11,261,849
General Fund	9,640,932	9,906,710	10,281,351	10,301,512	10,330,689
State/Other Special Rev. Funds	677,719	677,718	677,718	661,713	663,603
Federal Spec. Rev. Funds	259,222	272,262	272,262	266,927	267,557
Total Funds	\$10,577,873	\$10,856,690	\$11,231,331	\$11,230,152	\$11,261,849
Total Ongoing	\$10,577,873	\$10,856,690	\$11,231,331	\$11,230,152	\$11,261,849
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

At the end of FY 2016, the Business and Income Taxes Division had expended \$10.6 million or 97.4% of its budgeted \$10.9 million in HB 2 authority. Of this total, the Business and Income Taxes Division had expended \$9.1 million, or 97.7% of the \$9.4 million personal services budget and \$1.4 million, or 95.8% of the \$1.5 million operating expenses budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services. The main reason for this is the allocation of the pay plan contributing to an increase in personal services.

Executive Request

The requests in FY 2018 and FY 2019 are very similar to the appropriation in FY 2017 this is the result of statewide present law changes for personal services, fixed costs, and inflation/deflation and a request to move two modified FTE to regular FTE. These changes will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Program Personal Services Narrative

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 5

Department Of Revenue: 05 Citizen Services & Resource Management Division Personal Services Present Law Calculations			
PS Base: \$9,732,012			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$266,795)	(\$235,225)
Legislative	Statutory Personal Service Change	<u>81,965</u>	<u>114,925</u>
	Difference	(348,760)	(350,150)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(197,156)	(197,813)
	Broadband Pay Adjustments	244,589	244,589
	Benefits and Taxes on Pay Adjustment	52,386	52,386
	Other	<u>(448,579)</u>	<u>(449,312)</u>
	Total	(\$348,760)	(\$350,150)

Personal services were \$9,732,012 or 86.7% of total base appropriations. The executive proposes a decrease of \$266,795 in FY 2018 and \$235,225 in FY 2019. The executive proposal is approximately \$350,000 less per year than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is partly due to the additional 2% vacancy savings rate proposed by the executive and to turnover in the program. These reductions were somewhat offset by payplan and statutory increases, as well as broadband pay adjustments.

Funding

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

Department of Revenue, 07-Business & Income Taxes Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	20,632,201	0	0	0	20,632,201	91.73 %
02025 Unclaimed Property	640,582	0	0	0	640,582	48.33 %
02110 Accommodation Tax Admin	285,602	0	0	0	285,602	21.55 %
02790 6901-Statewide Tobacco Sttlmnt	399,132	0	0	0	399,132	30.12 %
State Special Total	\$1,325,316	\$0	\$0	\$0	\$1,325,316	5.89 %
03928 Royalty Audit - NRCT	534,484	0	0	0	534,484	100.00 %
Federal Special Total	\$534,484	\$0	\$0	\$0	\$534,484	2.38 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$22,492,001	\$0	\$0	\$0	\$22,492,001	

The Business and Income Taxes Division is primarily funded with general fund, with some state special revenue and federal special revenue. State special revenue comes from the unclaimed property fund for program support, tobacco settlement funds that support tobacco tax compliance activities, and the accommodations tax which funds expenses for administering that tax. Federal special revenue comes from reimbursements for performing mineral royalty audits.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	10,281,351	10,281,351	20,562,702	99.66 %	11,231,331	11,231,331	22,462,662	99.87 %
SWPL Adjustments	(134,747)	(106,750)	(241,497)	(1.17)%	(156,087)	(125,570)	(281,657)	(1.25)%
PL Adjustments	16,750	16,750	33,500	0.16 %	16,750	16,750	33,500	0.15 %
New Proposals	138,158	139,338	277,496	1.34 %	138,158	139,338	277,496	1.23 %
Total Budget	\$10,301,512	\$10,330,689	\$20,632,201		\$11,230,152	\$11,261,849	\$22,492,001	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(245,455)	(16,005)	(5,335)	(266,795)	0.00	(216,405)	(14,115)	(4,705)	(235,225)
DP 2 - Fixed Costs	0.00	109,894	0	0	109,894	0.00	108,548	0	0	108,548
DP 3 - Inflation Deflation	0.00	814	0	0	814	0.00	1,107	0	0	1,107
DP 701 - Tobacco Stamps Increase BIT	0.00	16,750	0	0	16,750	0.00	16,750	0	0	16,750
Grand Total All Present Law Adjustments	0.00	(\$117,997)	(\$16,005)	(\$5,335)	(\$139,337)	0.00	(\$90,000)	(\$14,115)	(\$4,705)	(\$108,820)

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

DP 1 - Personal Services -

The budget includes a reduction of \$266,795 in FY 2018 and \$235,225 in FY 2019 to annualize various personal services costs include FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, longevity adjustments related to incumbents in each position at the time of the snapshot, and vacancy savings.

DP 2 - Fixed Costs -

The request includes \$109,894 in FY 2018 and \$108,548 in FY 2019 to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples of fixed costs include liability and property insurance, warrant writer, payroll processing, and others. The rates charged for these services are approved in a separate portion of the budget.

DP 3 - Inflation Deflation -

This change package includes an increase of \$814 in FY 2018 and \$1,107 in FY 2019 to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, natural gas, electricity, gasoline, and others.

DP 701 - Tobacco Stamps Increase BIT -

Montana law requires all cigarettes sold in the state to be taxed. Like all states, Montana enforces this taxation through affixing a tax stamp to each pack of cigarettes sold. The tax stamp informs customers, retailers, and the department that the appropriate amount of tax was collected on the cigarettes sold. The Business Income Taxes Division is requesting \$16,750 in FY 2018 and \$16,750 in FY2019 to accommodate the increased cost of cigarette stamps.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 702 - BIT Restore 2017 Biennium Base Funding	2.00	138,158	0	0	138,158	2.00	139,338	0	0	139,338
Total	2.00	\$138,158	\$0	\$0	\$138,158	2.00	\$139,338	\$0	\$0	\$139,338

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

DP 702 - BIT Restore 2017 Biennium Base Funding -

The Business Income Tax Division is requesting 2.00 FTE and personal services funding of \$138,158 in FY 2018 and \$139,338 in FY 2019. This funding was allocated to the Business & Income Tax Division from contingency base funding appropriated by the 2015 Legislature. The positions were modified at the time of the snapshot and therefore must be re-requested.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	36,470,518	35,141,852	(1,328,666)	(3.64)%
Operating Expenses	7,132,250	6,959,465	(172,785)	(2.42)%
Equipment & Intangible Assets	8,000	0	(8,000)	(100.00)%
Debt Service	12,770	12,770	0	0.00 %
Total Expenditures	\$43,623,538	\$42,114,087	(\$1,509,451)	(3.46)%
General Fund	43,596,118	42,085,485	(1,510,633)	(3.47)%
State/Other Special Rev. Funds	27,420	28,602	1,182	4.31 %
Total Funds	\$43,623,538	\$42,114,087	(\$1,509,451)	(3.46)%
Total Ongoing	\$43,623,538	\$42,114,087	(\$1,509,451)	(3.46)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Property Assessment Division administers the state's real and personal property tax laws. It accomplishes this through valuation and assessment regulations for residential, commercial, agricultural, forestland, and business equipment property. The division discovers, appraises, and assesses real and personal property for the local governing bodies that include about 1,400 levy districts and another 1,400 individual taxing jurisdictions. The division provides tax billing information to the local county treasurers for their generation of all classes of property. The division consists of the Central Office Bureau in Helena and 56 county offices divided into four regions. The Central Office Bureau primarily provides technical and administrative support to the department's 56 local revenue offices. The department's local office staff primarily meets with property taxpayers and provides customer service along with providing property tax information and assistance.

Program Highlights

Property Assessment Division Major Budget Highlights
- The Property Assessment Division's 2019 biennium budget request is approximately \$1.5 million or 3.5% lower than the 2017 biennium. Significant changes include: - Proposed decreases due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation as well as targeted executive decreases - Proposed increase in general fund spending due to the re-request of nine FTE for the two-year property reappraisal cycle (SB 157) that are currently modified FTE positions

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	293.35	293.35	293.35	302.35	302.35
Personal Services	17,501,741	17,931,379	18,539,139	17,541,922	17,599,930
Operating Expenses	3,663,983	3,670,404	3,461,846	3,478,195	3,481,270
Equipment & Intangible Assets	7,964	8,000	0	0	0
Debt Service	4,504	6,385	6,385	6,385	6,385
Total Expenditures	\$21,178,192	\$21,616,168	\$22,007,370	\$21,026,502	\$21,087,585
General Fund	21,165,073	21,603,049	21,993,069	21,012,201	21,073,284
State/Other Special Rev. Funds	13,119	13,119	14,301	14,301	14,301
Total Funds	\$21,178,192	\$21,616,168	\$22,007,370	\$21,026,502	\$21,087,585
Total Ongoing	\$21,178,192	\$21,616,168	\$22,007,370	\$21,026,502	\$21,087,585
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

At the end of FY 2016, the Property Assessment Division had expended \$21.2 million or 98.0% of its budgeted \$21.6 million in HB 2 authority. Of this total, the Property Assessment Division had expended \$17.5 million, or 97.6% of the \$17.9 million personal services budget and \$3.7 million, or 99.8% of the \$3.7 million operating expenses budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services. The main reason for this is the allocation of the pay plan contributing to an increase in personal services.

Executive Request

Statewide present law changes for personal services, fixed costs, inflation/deflation, the executive's reduction to the budget, and FTE requests are causing the overall decrease in the requested appropriations for FY 2018 and FY 2019. These changes will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Program Personal Services Narrative

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 6

Department Of Revenue: 05 Citizen Services & Resource Management Division Personal Services Present Law Calculations			
PS Base: \$18,539,139			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$311,087)	(\$253,022)
Legislative	Statutory Personal Service Change	<u>220,527</u>	<u>280,984</u>
	Difference	(531,614)	(534,006)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(379,670)	(380,892)
	Broadband Pay Adjustments	83,975	83,975
	Benefits and Taxes on Pay Adjustment	17,933	17,933
	Other	<u>(253,852)</u>	<u>(255,022)</u>
	Total	(\$531,614)	(\$534,006)

Personal services were \$18,539,139 or 84.2% of total base appropriations. The executive proposes a decrease of \$311,087 in FY 2018 and \$253,022 in FY 2019. The executive proposal is approximately \$533,000 less per year than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is partly due to the additional 2% vacancy savings rate proposed by the executive and to turnover in the program.

Funding

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

Department of Revenue, 08-Property Assessment Division Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	42,085,485	0	0	0	42,085,485	99.93 %	
02088 SSR ADMINISTRATIVE FUNDS	28,602	0	0	0	28,602	100.00 %	
State Special Total	\$28,602	\$0	\$0	\$0	\$28,602	0.07 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$42,114,087	\$0	\$0	\$0	\$42,114,087		

Funding for the Property Assessment Division is almost entirely from the general fund. State special revenue is for the administration of the livestock per capita fee.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	21,993,069	21,993,069	43,986,138	104.52 %	22,007,370	22,007,370	44,014,740	104.51 %
SWPL Adjustments	(225,853)	(164,713)	(390,566)	(0.93)%	(225,853)	(164,713)	(390,566)	(0.93)%
PL Adjustments	13,369	13,369	26,738	0.06 %	13,369	13,369	26,738	0.06 %
New Proposals	(768,384)	(768,441)	(1,536,825)	(3.65)%	(768,384)	(768,441)	(1,536,825)	(3.65)%
Total Budget	\$21,012,201	\$21,073,284	\$42,085,485		\$21,026,502	\$21,087,585	\$42,114,087	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(311,087)	0	0	(311,087)	0.00	(253,022)	0	0	(253,022)
DP 2 - Fixed Costs	0.00	67,275	0	0	67,275	0.00	62,989	0	0	62,989
DP 3 - Inflation Deflation	0.00	17,959	0	0	17,959	0.00	25,320	0	0	25,320
DP 801 - County Rent PAD	0.00	13,369	0	0	13,369	0.00	13,369	0	0	13,369
Grand Total All Present Law Adjustments	0.00	(\$212,484)	\$0	\$0	(\$212,484)	0.00	(\$151,344)	\$0	\$0	(\$151,344)

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

DP 1 - Personal Services -

The budget includes a reduction of \$311,087 in FY 2018 and \$253,022 in FY 2019 to annualize various personal services costs include FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, longevity adjustments related to incumbents in each position at the time of the snapshot, and vacancy savings.

DP 2 - Fixed Costs -

The request includes \$67,275 in FY 2018 and \$62,989 in FY 2019 to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples of fixed costs include liability and property insurance, warrant writer, payroll processing, and others. The rates charged for these services are approved in a separate portion of the budget.

DP 3 - Inflation Deflation -

This change package includes an increase of \$17,959 in FY 2018 and \$25,320 in FY 2019 to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, natural gas, electricity, gasoline, and others.

DP 801 - County Rent PAD -

The Property Assessment Division requests \$13,369 in FY 2018 and \$13,369 in FY 2019 to allow the division to pay for increased cost of office space leased from local governments located in various city-county buildings.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(1,058,254)	0	0	(1,058,254)	0.00	(1,058,254)	0	0	(1,058,254)
DP 802 - PAD Restore 2017 Biennium Base Funding	9.00	289,870	0	0	289,870	9.00	289,813	0	0	289,813
Total	9.00	(\$768,384)	\$0	\$0	(\$768,384)	9.00	(\$768,441)	\$0	\$0	(\$768,441)

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

DP 555 - Appropriation Rebase -

The executive proposal includes targeted budget reductions across most agencies. The executive proposes Property Assessment Division Appropriation Rebase totaling \$1,058,254 and was included in the agency reduction plan submitted in compliance with 17-7-111, MCA. This includes targeted reductions identified by the agency across the budget.

DP 802 - PAD Restore 2017 Biennium Base Funding -

The Property Assessment Division is requesting 9.00 FTE and personal services funding of \$289,870 in FY 2018 and \$289,813 in FY 2019. This funding was allocated to the Property Assessment Division from the personal services contingency base funding appropriated by the 2015 Legislature to address increased workload as a result of SB 157 from the 2015 session which changed the 6-year reappraisal cycle to a 2-year reappraisal cycle. At the time of the snapshot the positions were modified and therefore must be re-requested.

5% Base Budget Reduction Form
17-7-111-3(f)

AGENCY CODE & NAME: 5801 Department of Revenue

	Minimum Requirement	
	General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET	\$ 2,620,043	\$ 50,820
Priority	General Fund Annual Savings	State Special Revenue Annual Savings
SERVICE(S) TO BE ELIMINATED OR REDUCED		
1 Operating Reduction SB 405- Directors Office	\$ 250,000	\$ -
2 SITSD Operating Convergence Savings-Directors Office	\$ 110,000	
3 4% Vacancy Savings-Directors Office	\$ 317,543	\$ 5,856
4 4% Vacancy Savings- Citizen Services and Resource Management	\$ 251,631	\$ 10,422
5 Operating Reduction - Citizen Services and Resource Management	\$ 150,569	\$ -
6 4% Vacancy Savings - Business and Income Taxes	\$ 360,426	\$ 33,886
7 PS Reduction SB 405 - Business and Income Taxes	\$ 95,157	\$ -
8 Operating Reduction- Business and Income Taxes	\$ 26,464	\$ -
9 4% Vacancy Savings - Property Assessment	\$ 759,339	\$ -
10 PS reduction - Property Assessment	\$ 216,004	\$ 656
11 Operating Reduction - Property Assessment	\$ 82,910	\$ -
12	\$ -	\$ -
13	\$ -	\$ -
14	\$ -	\$ -
15	\$ -	\$ -
16	\$ -	\$ -
17	\$ -	\$ -
18	\$ -	
TOTAL SAVINGS	\$ 2,620,043	\$ 50,820
DIFFERENCE	\$ (0)	\$ (0)

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

PS 4% Reduction of \$323,399 and \$360,000 in Operating. \$250,000 of operating is related to SB 405 OTO system changes. \$110,000 savings in IT is projected due to the convergence of state IT services. Because the Director's Office is a central services provider for the agency, a reduction in its funding will cause an inability to provide critical services, thereby negatively impacting the entire department, the public, local governments, tax preparers, and businesses. These reductions will adversely affect Montana citizens by slowing the processing of tax returns, putting IT software systems at higher risk of security breaches and instability, and diminishing the overall efficiency of tax administration to the public, including online/electronic tax filing services.

#2 THE SAVINGS THAT ARE EXPECTED:

\$683,399

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

Anticipated revenue loss: \$1 million
Additional delays in the hiring process due to vacancy savings in the Director's Office will result in slower response to information requests, put the state's legal position at risk, and negatively impact the soundness of our tax information systems. Slower response to information requests will adversely affect the public's, legislators', and state and local governments' expectation of timely and accurate information. Fewer legal staff will have a direct impact on the revenue collections that come through the department's compliance program. Legal staff support the department's compliance; this work generates \$5 to \$8 of revenue for every \$1 spent. This ratio applied to the 5% reduction creates an estimated revenue loss of roughly \$1 million. A reduction in the legal staff will also impact the department's timeliness in litigation, which impacts taxpayers and local and state governments dependent on timely resolution of litigation. Fewer IT staff will directly affect tax revenues due to the inability to resolve systems errors, implement enhancements, and counteract increased security risks. The department currently has a bare bones IT staff. The loss of any positions in this unit will jeopardize the state's financial position and increase potential for security breaches. The department is unable to quantify the negative impacts of the reductions on voluntary compliance but expects the impacts to be substantial.

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

Reduce the expectations for promptness of replies to information requests;
Convey that there will be a reduction in revenues due to the lack of prosecution and the timeliness of litigation matters;
Convey that there will be a higher risk associated with not timely fixing and enhancing the department's IT systems.

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

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

Reduction of \$262,053 in personal services and \$150,569 in operating. Citizen Services and Resource Management Division operating expenses includes a reduction of temporary services.

#2 THE SAVINGS THAT ARE EXPECTED:

\$412,622

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

Anticipated revenue loss: \$2.6 million

Additional delays in the hiring process due to vacancy saving will delay key statutory-mandated distributions of tax revenue to state funds, local governments, and tribal governments; negatively impact the payment of department expenses on a timely basis; and will prevent the department from meeting its obligations in closing the state's accounting records at fiscal year-end. The reductions will also jeopardize development and support of electronic filing services currently offered by the department. The reductions will result in delays in capturing data used for tax compliance and reduce time-sensitive service to e-file vendors, taxpayers, tax preparers, and state and local governing bodies. Reductions in the Collections Bureau will result in a loss of revenue to the state of approximately \$2.6 million annually per FTE. A reduction in the service levels provided would negatively impact tax compliance; frustrate taxpayers interacting with the department; delay income tax return and refund processing; and ultimately slow the deposit and distribution of state, local, and tribal government revenues. The department is unable to quantify the negative impacts of the reductions on voluntary compliance but expects the impacts to be substantial.

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

Lower the public's expectation of timely income tax refunds and personal customer service. Communicate to individuals and businesses that they will experience slower service than they have been accustomed to due to reduction in staffing and operating expenses. Communicate to the public and staff that the department will not be as responsive to the constantly-changing environment of electronic filing and payment services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL

No statutory programs would be cut, but public expectations for service levels extend well beyond statutory requirements.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

Vacancy savings reduction of \$394,312 in personal services and \$95,157 SB 405 PS reduction. \$26,464 in operating reduction. Budget reductions in the Business and Income Taxes Division will decrease state and local revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds to taxpayers and timeliness and accuracy of distributions to local governments and school districts.

#2 THE SAVINGS THAT ARE EXPECTED:

\$515,933

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

Anticipated revenue loss: \$3.9 million
Additional delays in the hiring process due to vacancy saving will have a negative impact upon the department's ability to collect revenue for the state's general fund and for local governments. Based on the past activity within the Business and Income Taxes Division, the lost revenue that would occur is estimated to be 7 times the value of the budget reduction or approximately a \$3.9 million revenue loss per year. The department is unable to quantify the negative impacts of the reductions on voluntary compliance but expects the impacts to be substantial.

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

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work; and delay efforts to modify existing business processes to meet the demands of evolving information technology services and providing electronic filing services.

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

No statutory programs would be cut, but public expectations for service levels extend well beyond the statutory services.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 5801 Department of Revenue

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

Vacancy Savings reduction of \$759,339 in personal services and an additional PS reduction of \$216,660.

#2 THE SAVINGS THAT ARE EXPECTED:

\$1,058,909

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

Anticipated revenue loss: \$52 million

Additional delays in the hiring process due to vacancy saving will impact the Property Assessment Division (PAD) ability to generate nearly \$1.5 billion in annual revenue for state, schools, and local governments. About 20% is annually deposited in the state's general fund and the remaining 80% is for local government operations.

PAD certifies taxable values to over 1,400 taxing jurisdictions and generates the appraisals for the 800,000 tax bills generated by county treasurers. A reduction of this magnitude severely impacts the division's work for the state, schools, and local governments. PAD manages an office in every county. Local governments will be primarily impacted by our reduction in staff. Especially with a two year reappraisal and annual certification of values taking place every other year. The following are examples of the risks to our work and the impact of not having enough staff to complete our work: 1) Less time to add new construction on the tax rolls results in less newly-taxable property for local government operations; 2) Less time to verify sales impacts the quality and quantity of sales that are imperative for an accurate mass appraisal; 3) Less time to complete ownership changes and land splits before tax billing results in the property tax bill being mailed to the wrong party, which increases the potential for delinquent property taxes; and 4) Impacts the department's services to other agencies, which will be less of a priority; for example, water rights clean up to DNRC; DNRC cabin site values for their leases; MonTax mill levy data; MT Association of Soil Conservation; and, Department of Livestock per capita fee data. Reducing PAD's resources will limit the implementation of new technology that enhances parcel identification and maintenance. This will adversely impact state and federal agencies, nonprofits, local organizations, citizens, and private companies that use and depend on this data.

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

Reduce expectations of taxpayers and local governments for the timeliness and accuracy they have become accustomed to. Extend the current two-year reappraisal cycle and deadlines for certified values.

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

Yes. Statutorily required. Property tax is the primary source of revenue for state and local governments.

FY 2017 Fund Appropriation Transactions - Montana Department of Revenue							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
58010 Department of Revenue							
01100 General Fund	\$52,454,334	\$2,910,032	\$0		\$55,364,366	5.5%	0.0%
02025 Unclaimed Property	487,267				487,267	0.0%	0.0%
02088 SSR Administrative Funds	60,764				60,764	0.0%	0.0%
02110 Accommodation Tax Admin	147,821				147,821	0.0%	0.0%
02790 6901-Statewide Tobacco Sttlmnt	321,697				321,697	0.0%	0.0%
03928 Royalty Audit - NRCT	272,262				272,262	0.0%	0.0%
06005 Liquor Division	3,021,189	151,138			3,172,327	5.0%	0.0%
Grand Total	\$56,765,334	\$3,061,170	\$0		\$59,826,504	5.4%	0.0%

2019 BIENNIUM BASE BUDGET

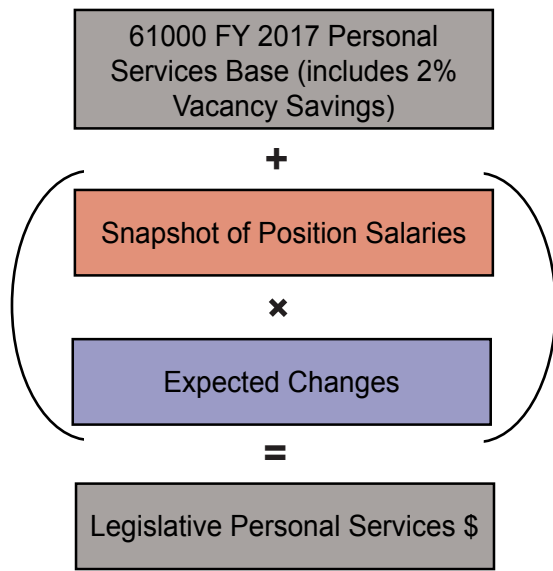
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

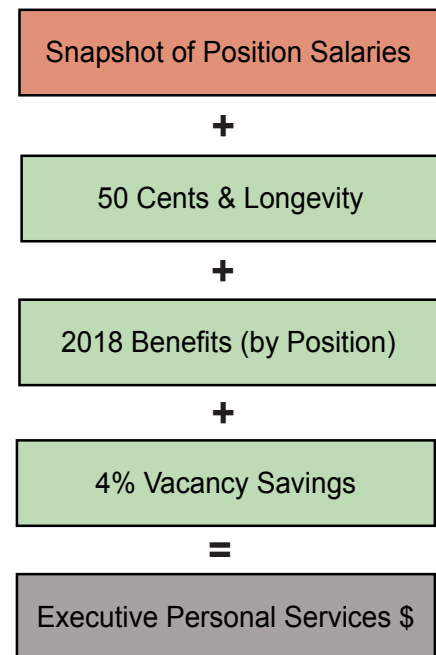
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

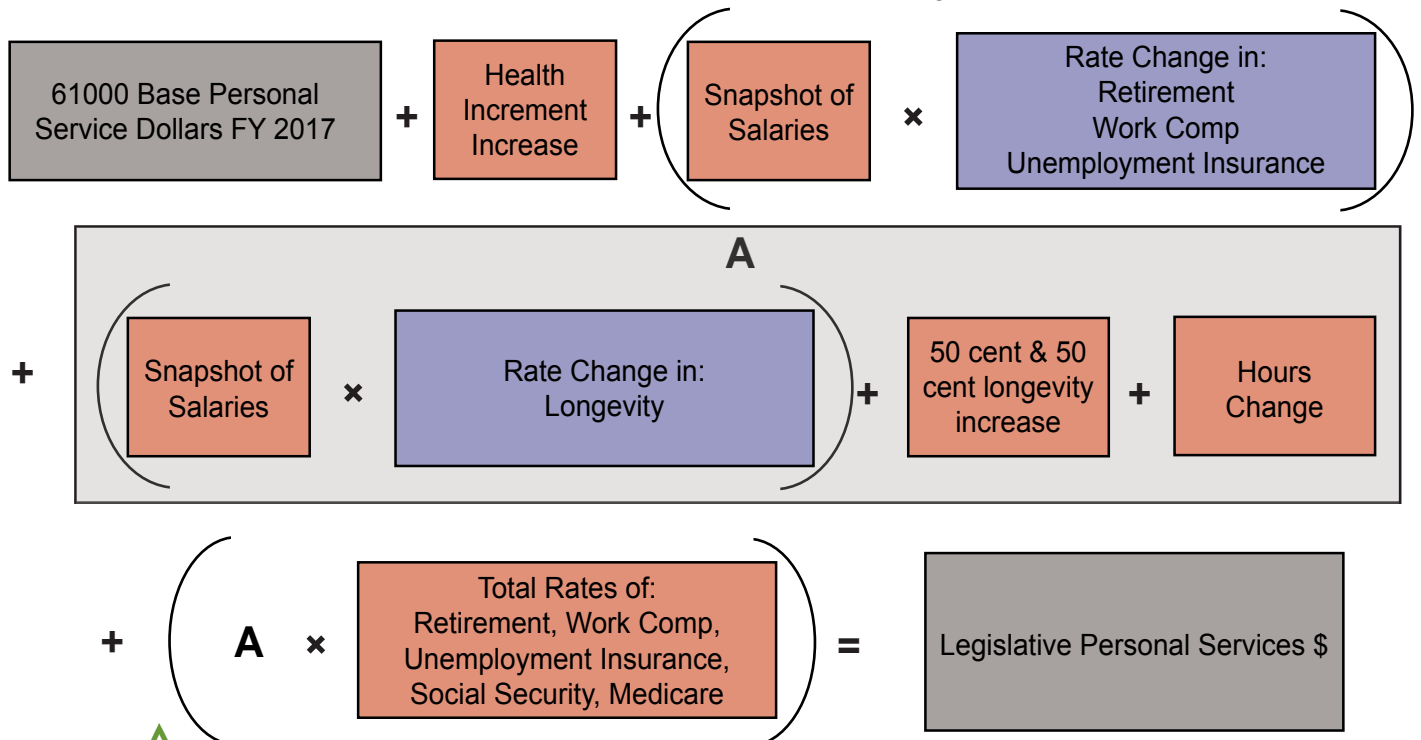
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



DEPARTMENT OF ADMINISTRATION

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016

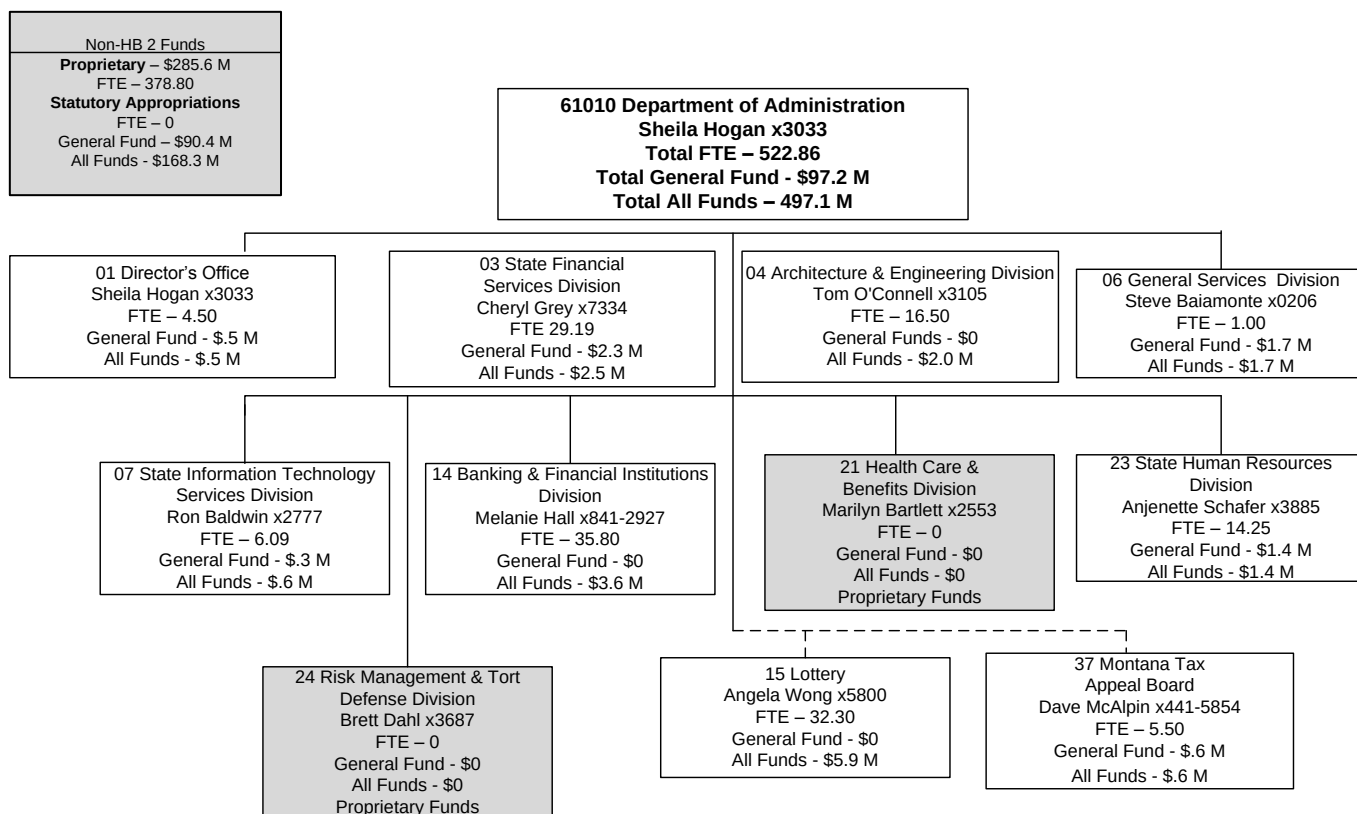
INTRODUCTION

The Department of Administration provides services to state agencies, local governments, and Montana citizens in the following areas:

- Human resource management, workforce development, labor relations, and policy development
- Information systems service hosting, telecommunications, 9-1-1 program management, tax revenue distribution to Public Safety Answering Points (PSAPS), data processing, public safety radio communications, and continuity planning
- Statewide Information Technology (IT) policies and standards development
- State financial institution oversight and regulation
- Insurance procurement/administration and risk management services
- Property/casualty claims administration and tort litigation services
- Accounting, financial reporting, warrant writing, and policy development
- State treasury services
- Federal Social Security Section 218 program administration
- State bonded indebtedness administration
- Capitol complex building and grounds maintenance and security
- Procurement, surplus property administration and policy development
- Printing, mail, and messenger services
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- Long-Range Building Program
- State employee group benefits
- Workers' compensation management

The Board of Examiners, Burial Preservation Board, Information Technology Board, State Banking Board, State Board of County Printing, State Compensation Insurance Board (Montana State Fund), State Tax Appeal Board, Office of the State Public Defender, Public Employee Retirement Board, Teachers' Retirement Board, and the Montana State Lottery are attached to the department for administrative purposes only.

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



HOW SERVICES ARE PROVIDED

The department's budget consists of 9 major programs and two administratively attached agencies with the following functions:

Director's Office – provides the overall supervision and coordination of agency programs. The office provides legal, IT management, financial, budgeting, accounting, human resource management, and payroll services for the department and some of its attached agencies. The Offices of Labor Relations, representing the Governor's Office in all matters relating to collective bargaining, and Continuity and Emergency Management providing oversight and management in case of a catastrophic event are also part of the Director's Office

Governor-Elect – provides the Governor-elect and necessary staff with office space in the capitol complex, together with furnishings, supplies, equipment, and telephone service for the period between the general election and the inauguration. The program is funded only for one year every other biennium.

State Financial Service – provides the statewide functions of the state treasury, payment processing, and accounting and financial reporting policies. Treasury functions include the performance of the central banking function for state agencies, reconciliation of state bank accounts, and oversight of bank account collateralization. The division manages the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS). It establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, prepares and negotiates the Statewide Cost Allocation Plan (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). The division also administers the warrant writer program, which provides check writing and automatic-deposit services for most agencies, along with the replacement, cancellation, and stale date processing for all agencies. The division provides technical assistance and training to local government accounting and financial personnel, and the audit review function for local governments. It administers the federal Social Security Section 218 program for the state and local governments. The division also administers the

purchasing function for state agencies.

Architecture and Engineering – manages remodeling and construction of state buildings. The division's functions include: planning new projects and remodeling projects; advertising, bidding and awarding construction contracts; administering contracts with architects and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration.

General Services – provides facilities and grounds maintenance and security for state property in the state capitol area. The division also manages printing and the photocopy pool, mail distribution, surplus property, central stores, statewide leasing, the statewide fueling network, and energy procurement.

State Information Technology Services – manages the central computing and telecommunications services for state government. The division provides central mainframe and mid-tier computers, data center, and hosting services; manages the statewide data network SummitNet; provides local and long-distance telephone network services; provides the statewide video network services; coordinates electronic government services; and manages the state's Internet presence at mt.gov. In addition, the division manages the Public Safety Services Office including the state's 911 and public safety communications programs; develops the statewide IT strategic plan and coordinates agency IT strategic plans; develops and oversees state IT standards and policies; and reviews and approves IT equipment and software acquisitions, including an IT project management office.

Banking and Financial Institutions – licenses, charters, supervises, regulates, and examines a variety of financial institutions operating in Montana. These institutions include: state-chartered banks and trust companies; savings and loans and credit unions; consumer loan and sales finance companies; title loan companies; escrow companies; deferred deposit loan companies; and mortgage brokers, mortgage loan originators, mortgage lenders, and mortgage loan originators.

Health Care and Benefits—administers employee benefit plans that include health, life, dental, prescription drugs, long-term disability, long-term care insurance, vision insurance, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. The Workers' Compensation Management Program provides a central resource for agencies in working to enhance safety, loss prevention, and return to work programs, and, works with the workers' compensation insurer to coordinate workers' compensation coverage and policy management issues.

State Human Resources – provides state agencies with a variety of human resource management programs. These programs include: human resource rules, policies, and standards for the Executive Branch agencies; training and other professional development services to state agencies; the human resource portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS); and human resource information services, supplying payroll and other human resource information systems for all branches of state government.

Risk Management and Tort Defense – administers a comprehensive plan of property and casualty insurance protection on behalf of state agencies and universities. The division insures state agencies/universities against risk of loss related to aircraft, airports, boilers and machinery, cyber information security, fidelity bond, fine art, Health Insurance Portability and Accountability Act (HIPAA), professional liability, property, surety bond, and vehicles. In addition, the division provides risk management training, on-site hazard inspections, consulting services, and claims administration. The division also investigates, evaluates, and resolves property/casualty claims, and coordinates the adjudication and settlement of tort claims involving personal injury/property damage.

Attached-to Agencies in the DOA budget:

Montana State Lottery – designs, markets, and administers lottery games operating in Montana. The

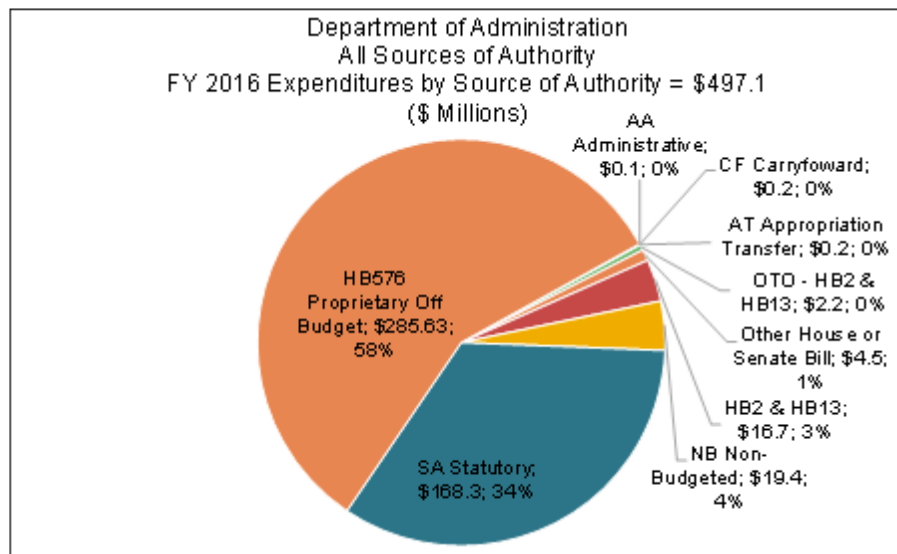
lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. The net revenue is deposited in the state general fund on a quarterly basis, after prizes, sales commissions, and operating expenses are taken out.

State Tax Appeal Board – provides a tax appeal system for all actions of the Department of Revenue. The Board hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, motor fuel taxes, vehicle taxes, and cabin site leases.

SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of appropriation authority. For a more detailed description of accounting terminology, please refer to the definition of terms. A significant portion of the divisions within the agency are supported by proprietary funds, including the operations of the Director's Office, State Financial Services Division, General Services Division, State Information Technology Division, Health Care and Benefits Division, State Human Resource Division, Risk Management and Tort Division and the Montana State Lottery. The funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and other games of chance by the Montana State Lottery; or from human service-related activities, such as group benefit premiums. Funding for common areas of the State Capitol, the Governor's Mansion, and the Montana Historical Society was provided from the general fund as one-time-only.

The majority of the funds are derived from proprietary rates including: 1) Benefits and claims for state employee health insurance, \$190.1 million; 2) State information technology services, \$45.9 million; 3) General services for rent, grounds maintenance, mail, and printing, \$20.8 million; 4) Insurance and tort claims \$9.9 million.



The above chart shows the sources of authority for the Department of Administration that were expended in FY 2016.

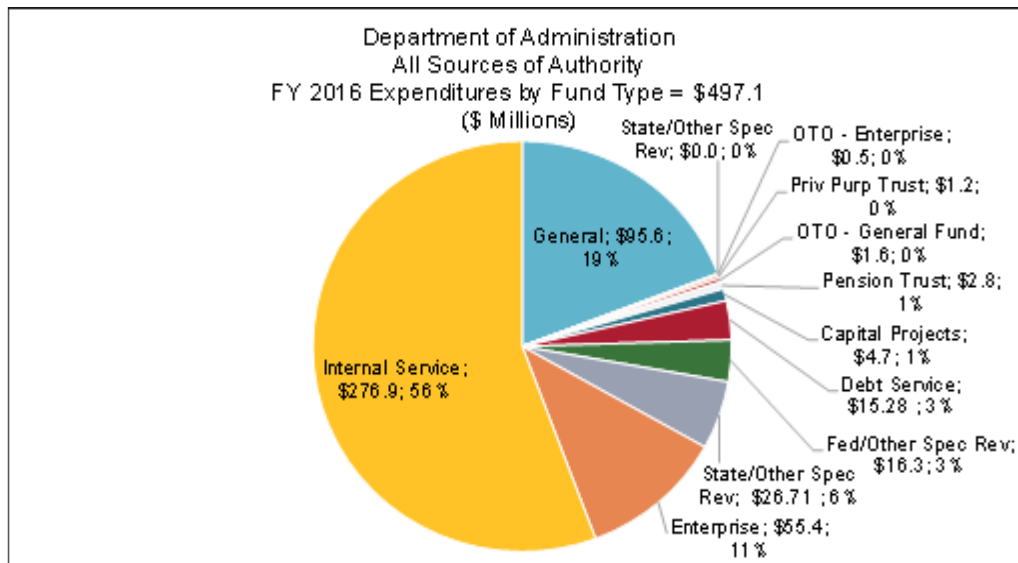
FUNDING

Of the total authority shown on the following page, 8.3% was spent on personal services costs to support 522.86 FTE and 24.9% provided for operating expenses, 37.5% supported benefits and claims with the majority for state employee health claims, and 9.0% for transfers to pensions and the Old Fund providing for injured workers' claims for accidents occurring prior to July 1, 1990.

Proprietary funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and

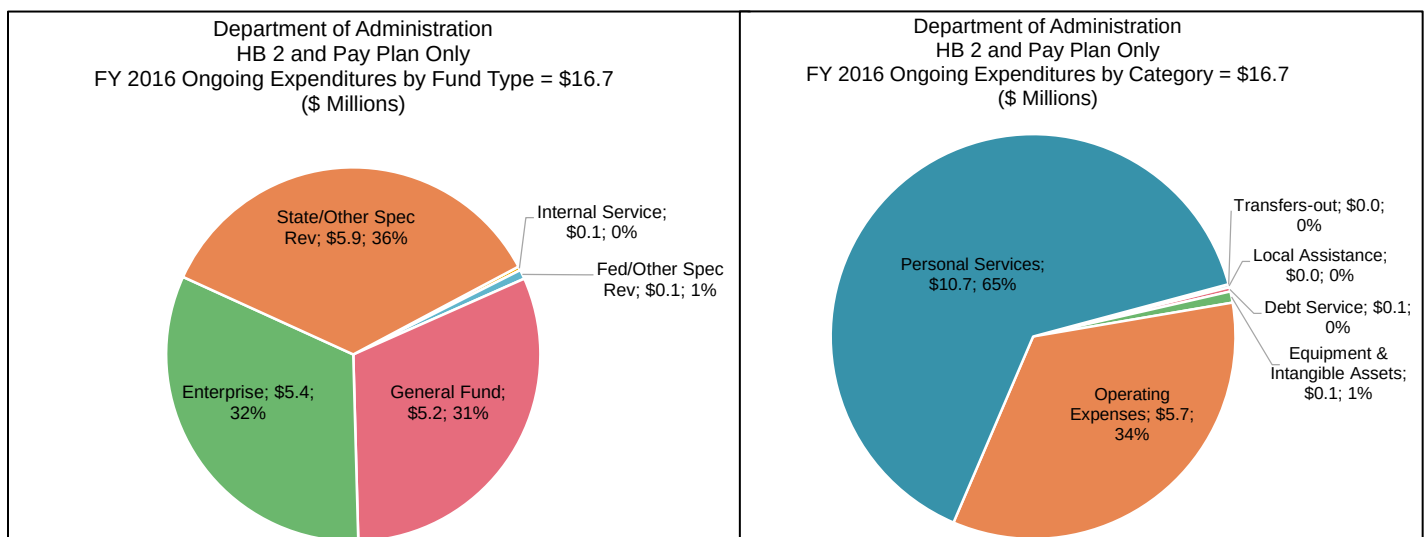
other games of chance by the Montana State Lottery; or from human service-related activities such as group benefit contributions.

Debt service funds provide for Long-Range Building Program bond payments, and capital project funds are used to support capital building projects and communications programs for interoperability radio projects. Nonexpendable trust funds are generated through a voluntary employee beneficiary association program, and private purpose trust funds are derived from private grants and funds.



EXPENDITURES

The following charts explain how the HB 2 authority is funded and spent.



The chart on the left shows the funding was spent in FY 2016. This chart matches the FY 2016 agency funding found in the 2019 Budget Analysis. Most proprietary funds are not appropriated and do not appear in this chart. However, lottery proprietary funds, because any unspent balance reverts to the general fund, are appropriated in HB 2. The chart on the right explains how the HB2 and pay plan authority is spent. Of the total authority 65% provides for personal services supporting 144.06 FTE and 34% is spent on operating costs. This chart matches the FY 2016 actual spending found in the agency comparison of FY 2016 actual expenditures to FY 2017 base budget in the 2019 Budget Analysis.

HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

- Risk management practices to reduce exposure to insurance claims against the state
- Tort defense practices and policies for insurance claims against the state of Montana
- The state group health insurance usage and costs
- Effectiveness of information technology management, development, and usage
- Changes to financial institution and banking regulation laws, changing workload
- Changes to state employee human resource laws impacting workload
- Changes to state procurement laws impacting workload

MAJOR COST DRIVERS

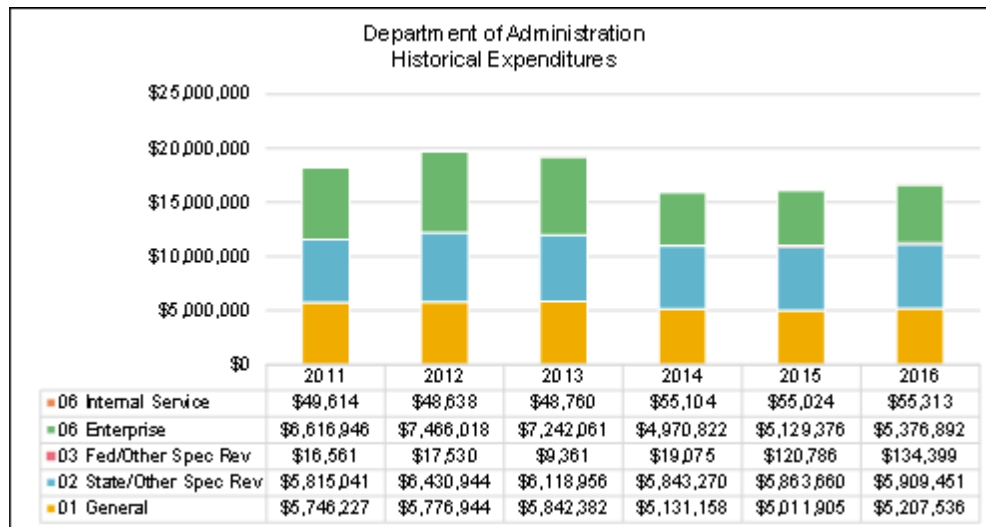
Activity for this agency varies depending upon:

- Level of services and complexity of computer systems required by state agencies
- Number of employees within state government
- Changes to the accounting requirements issued by the Governmental Accounting Standards Board
- Size and complexity of the state's finances
- Number and associated level of damage for state buildings, vehicles, and airplanes
- Size of damage awards for legal settlements in which the state is found responsible
- Activity level of the Montana State Lottery
- Size and number of medical and dental claims for employees that are self-insured through the State Employee Group Health Plan
- Number of charter banks within Montana and level and complexity of concerns discovered through bank examinations
- Number of state buildings, level of maintenance, construction, and repair required on the various properties

Division	Element	FY2016
State Financial Services Division	Total number of payments generated by states' computerized accounting system	2,512,748
	% of payments made using electronic means	70%
	Total audit and financial reviews analyzed	273
	# of contracts awarded	253
	Total dollar amount awarded by contracts	\$232.5 million
	Total contribution to general fund from Pro/Fuel Cards	\$1.3 million
Architecture and Engineering (A&E)	Number of active projects	179
	Total capital projects budget	\$417,628,032
General Services	Number of active building leases	382 leases
	Number of buildings managed by GSD	41 buildings and 6 garages
State Information and Technology Services	Number of SummitNet video sites across the state	245
	Total % of SMDS capacity filled	Helena Max Cabinets: 170 Space Used: 62.9% Miles City Max Cabinets: 95 Space Used: 46.3%
	Data Protection Services	1,247,191,855 unauthorized attempts per month
Banking and Financial Institutions	Number of financial and lending entities supervised	4,077
	Total assets of state chartered banks and state credit unions	\$31.2 billion
Montana State Lottery	Lottery transfers to the general fund	FY15: \$11.7 million FY16 (unaudited): \$12.9 million
State Human Resources	Number of paychecks processed	362,073
	Average number of state employees	13,902
	Number of participants in training	1,869 (does not include contract classes, which has increased over the past years)
Health Care and Benefits (HCBF)	Number of employees, retirees, and their dependents covered by the State Employee Group Health Plan	30,370
	Number of workers' compensation claims filed during the year	702
Risk Management and Tort Defense	Total insured values of state/university buildings and contents	\$5.1 billion

FUNDING/EXPENDITURE HISTORY, AUTHORITY USED TO ESTABLISH THE BUDGET BASE

The following table shows historical changes in the agency's base budget authority.



State special revenue spending fluctuates mainly due to 9-1-1 wireless provider fund balance distributions to wireless providers as required by statute. The major reasons for expenditure growth between 2011 and 2012 are:

- Enhanced supervision of residential mortgage services to protect Montanans from mortgage fraud. In addition, there was a significant increase in the dollar amount of banking and credit union assets supervised in the State due to growth in the agricultural, energy and commercial real estate sectors. This resulted in more complex examinations.
- Montana State Lottery – expenditure growth is due to growth in sales revenue. Since 2011, the Montana Lottery has increased revenue by \$8,765,559 and increased the transfer to the state general fund by \$2,946,489. This is a 19.99% growth in revenue between 2009 and 2012. Retailer commissions, prize expenses and vendor fees are all in direct relation to this increase in revenue.

Between FY 2013 and FY 2014 the legislature provided a statutory appropriation for lottery vendor fees. This reduced proprietary funding in HB 2 by \$2.98 million annually. As shown above between FY 2014 and FY 2016 expenditures have been almost flat. The increase in general fund in FY 2016 is mainly due to additional funding for personal services transferred from the Governor's Office.

MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

It should be noted that legislative changes listed below do not include the long-range planning bills which are generally approved by the legislature each session and contains both approved building projects and information system projects.

Computer Systems

The 2009 Legislature, in the long-range planning section of HB 645, provided \$4.5 million in general fund for two information technology projects: 1) \$3.5 million for enterprise system center equipment; and 2) \$1.0 million for interoperability Montana. (HB 645 implemented the federal American Reinvestment and Recovery Act)

Banking and Financial Regulation

The 2011 Legislature required the licensure and regulation of residential mortgage loan servicers. (HB 90)

The 2009 Legislature revised mortgage lending laws by expanding the mortgage broker and loan originator act to include mortgage lenders. (SB 351)

The 2007 Legislature (regular session) created a structure for licensing, supervising, and regulating of business and industry development corporations and assigned the regulatory oversight to the department. (SB 321)

Pension funds

The 2013 Legislature increased employer and employee contribution rates for certain public employee retirements plans and provided for additional transfers from the general fund to improve the solvency of the trusts. (HB 377 and HB 454)

The 2007 Legislature (regular session) increased the employer contribution rates for certain public employee retirement plans. (HB 131)

Buildings maintenance and grounds

The 2009 Legislature provides guidance on the selection of a location for establishment of a veteran's home in southwestern Montana. (HB 213)

The 2005 Legislature transferred responsibility for capitol complex grounds maintenance from the Department of Fish, Wildlife, and Parks to the Department of Administration. In addition to transferring the responsibility for the function, the bill transferred associated assets and staff. (HB 109)

Purchasing

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

Emergency telephone services (911)

The 2009 Legislature reduced and redirects the portion of 9-1-1 fees collected by the state and used to fund costs to administer the fees for basic, enhanced, and wireless enhanced 9-1-1 services. (HB 82)

The 2007 Legislature (regular session) increased the 9-1-1 fee from \$0.50 per subscriber to \$1.00 per subscriber for use to establish the enhanced 9-1-1 emergency capacity for wireless telephone services. (HB 27)

State Employee Group Health

The 2011 Legislature raised the age from 25 to 26 that dependents may remain covered under their parents state employee group health insurance. The change was made to comply with the federal Patient Protection and Affordable Care Act of 2010. (HB 53)

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

Emergency telephone services (911)

The 2009 Legislature reduced and redirects the portion of 9-1-1 fees collected by the state and used to fund costs to administer the fees for basic, enhanced, and wireless enhanced 9-1-1 services. (HB 82)

The 2007 Legislature (regular session) increased the 9-1-1 fee from \$0.50 per subscriber to \$1.00 per subscriber for use to establish the enhanced 9-1-1 emergency capacity for wireless telephone services. (HB 27)

For more information, please visit the agency website, here: <https://doa.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	24,251,891	24,080,898	(170,993)	(0.71)%
Operating Expenses	18,652,455	13,362,708	(5,289,747)	(28.36)%
Equipment & Intangible Assets	169,875	39,000	(130,875)	(77.04)%
Local Assistance	60,120	60,120	0	0.00 %
Transfers	17,173	0	(17,173)	(100.00)%
Debt Service	179,954	179,954	0	0.00 %
Total Expenditures	\$43,331,468	\$37,722,680	(\$5,608,788)	(12.94)%
General Fund	15,326,024	11,692,329	(3,633,695)	(23.71)%
State/Other Special Rev. Funds	14,020,295	13,329,909	(690,386)	(4.92)%
Federal Spec. Rev. Funds	1,654,259	1,569,787	(84,472)	(5.11)%
Proprietary Funds	12,330,890	11,130,655	(1,200,235)	(9.73)%
Total Funds	\$43,331,468	\$37,722,680	(\$5,608,788)	(12.94)%
Total Ongoing	\$38,378,198	\$37,722,680	(\$655,518)	(1.71)%
Total OTO	\$4,953,270	\$0	(\$4,953,270)	(100.00)%

Mission Statement

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

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/6101-00agency-profile.pdf

Agency Highlights

Department of Administration Major Budget Highlights
• About 3.7% of the agency's budget is appropriated in HB 2 • The executive proposes decreases of 1.7% for ongoing HB 2 spending for DOA • The executive proposes increased insurance premiums ranging from 10% to 35% for automobiles, general liability, and property • Fixed costs to state agencies for information technology services are proposed to increase \$9.1 million in the 2019 biennium
Legislative Action Issues
• Fixed cost rates for Warrant Writer, and SITSD charges could be reduced offsetting general fund • Operating costs for the Montana State Lottery could be reduced, increasing general fund transfers

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	144.06	144.06	144.06	140.75	140.75
Personal Services	10,744,006	11,974,868	12,277,023	12,021,239	12,059,659
Operating Expenses	7,843,616	10,418,285	8,234,170	7,363,756	5,998,952
Equipment & Intangible Assets	148,891	150,375	19,500	19,500	19,500
Local Assistance	36,079	30,060	30,060	30,060	30,060
Transfers	7,429	17,173	0	0	0
Debt Service	55,423	89,977	89,977	89,977	89,977
Total Expenditures	\$18,835,444	\$22,680,738	\$20,650,730	\$19,524,532	\$18,198,148
General Fund	6,834,980	7,685,762	7,640,262	5,871,926	5,820,403
State/Other Special Rev. Funds	5,909,455	6,979,288	7,041,007	6,658,026	6,671,883
Federal Spec. Rev. Funds	134,402	1,555,248	99,011	1,370,776	199,011
Proprietary Funds	5,956,607	6,460,440	5,870,450	5,623,804	5,506,851
Total Funds	\$18,835,444	\$22,680,738	\$20,650,730	\$19,524,532	\$18,198,148
Total Ongoing	\$16,683,615	\$19,904,440	\$18,473,758	\$19,524,532	\$18,198,148
Total OTO	\$2,151,829	\$2,776,298	\$2,176,972	\$0	\$0

Agency Discussion*FY 2016 Actual Expenditures*

As reflected in the Agency Profile, in FY 2016 the Department of Administration expended \$497.1 million for budgeted appropriations, of which \$18.8 million or 3.8% was as appropriated in HB2. The figure below shows the total expenditures from all funding sources, including statutory appropriations and non-budgeted proprietary funds expended in FY 2016.

Figure 1

Department of Administration Overall Expenditures and Funding		
Budget Item	FY 2016	% of Total
Expenditures		
Personal Services	\$41,267,962	8.3%
Operating Expenses	123,993,338	24.9%
Equipment & Intangible Assets	3,347,952	0.7%
Local Assistance	69,911,896	14.1%
Grants	11,638,216	2.3%
Benefits & Claims	186,403,417	37.5%
Transfers-Out	44,509,021	9.0%
Debt Service	<u>15,988,538</u>	<u>3.2%</u>
Total Expenditures	<u>\$497,060,341</u>	<u>100.0%</u>
Funding		
General Fund	97,255,423	19.6%
State Special Revenue	26,706,440	5.4%
Federal Special Revenue	16,252,233	3.3%
Debt Service	15,284,391	3.1%
Capital Projects	4,676,678	0.9%
Proprietary Fund		
Internal Service	276,889,413	55.7%
Enterprise	55,921,142	11.3%
Private Funds	1,231,076	0.2%
Trust Funds	2,843,544	0.6%
Total Funding	<u>\$497,060,341</u>	<u>100.0%</u>

As shown almost 25% of the expenditures in FY 2016 were for operating expenses supported by the following appropriations:

- HB 2 – 6.3%
- Statutory – 35.6%
- Non-budgeted proprietary – 55.7%

DOA provides for a number of centralized functions for state agencies, which are funded through internal service rates, as well as functions that are funded through enterprise revenues such as the lottery. Operating expenses for these types of services include:

- Insurance and bond payments made by the state's self-insurance fund
- Legal costs for defending tort claims
- IT consulting services associated with maintaining the state's computer systems
- Data circuits and other communication costs for states' telephone and computer networks
- Payments to lottery vendors, commissions to lottery retailers, and lottery prize awards

Local assistance includes payments to counties for statutorily appropriated funds, including:

- Local government employee pensions
- School district employee pensions
- Supplemental contributions to teachers' retirement
- Mineral impact fees distributed to counties from which the mineral was produced

- Taylor Grazing Act funds whereby 50% of the receipts from federal grazing permits and leases on section 15 public lands are returned to the state. By statute these funds are then apportioned to the counties where the leases are located
- Forest reserve funds also distributed to counties where federal forest lands are located

Benefits and claims payments include:

- Payments of \$ 172.8 million from the state's group benefit plan for employees for medical, dental, and other costs associated with the plan
- Insurance payments of \$3.4 million made by the Risk Management and Tort Defense Division

The majority of the transfers out are supported by general fund and include:

- \$30.3 million to the public employee retirement system
- \$12.1 million for debt services

HB 2 Comparison of FY 2016 Expenditures to FY 2016 Budget

As reflected in the Agency Actuals and Budget Comparison table, personal services expenditures in FY 2016 were \$1.2 million or 10.3% less than appropriated. The primary reason for this is positions that were unfilled during all or a portion of FY 2016. Overall the agency HB 2 positions were filled 90.0% of the time. Further discussion of position utilization can be found in the program narratives.

Operating expenses were 24.7% or \$2.6 million less than appropriated in FY 2016. The majority of the differences were in two programs:

- State Information Technology Division spent \$1.5 million less than projected in the FY 2016 budget due to slower implementation of the FirstNet grant
- Montana State Lottery spent \$0.5 million less than anticipated as costs projected for new tickets of \$0.3 million did not occur and the conversion to the new gaming system was less than estimated by \$0.1 million

HB 2 Comparison of FY 2016 Budget to FY 2017 Budget

Personal services increase between FY 2016 and FY 2017 budgeted appropriations due to:

- A \$.50 an hour pay adjustment effective in January of each fiscal year
- Increased state share contribution effective in January of each fiscal year
- Increased employer contributions to employee retirement between FY 2016 and FY 2017

Operating expenses were less in the FY 2017 budget than in the FY 2016 mainly because the FirstNet grant in the State Information Technology Division was budgeted as a biennial appropriation with \$1.5 million in FY 2016 and \$0.1 million in FY 2017.

Executive Request

The 2019 biennium budget request as proposed is below the 2019 biennium budget by \$5.6 million mainly due to the one-time-only funding not being requested including:

- \$3.2 million in general fund to support the maintenance of the common areas of the capitol complex
- \$1.2 million in proprietary funds for the Montana State Lottery to convert to a new gaming system and purchase new tickets
- \$0.3 million for additional operating expenses in the State Human Resources Division

In addition, the executive proposes base funding reductions of \$0.8 million for the 2019 biennium.

Agency Wide Decision Packages

Allocate Department Indirect/Administrative Costs

The Department of Administration (DOA) has a present law request in all programs within the agency. DOA's Director's Office uses a proprietary rate to allocate the costs of the Offices of Legal Services, Finance and Budget, and Human Resources. Additionally, the Director's Office provides IT management and project management services. The following figure shows the agency-wide impact of the present law proposal.

Figure 2

Department of Administration Allocate Department Indirect/Administration Costs								
Division	FY 2018				FY 2019			
	General Fund	State Special	Fed	Proprietary	General Fund	State Special	Fed	Proprietary
Director's Office	\$1,073	\$0	\$0	(\$16,474)	\$1,073	\$0	\$0	(\$16,474)
State Financial Services	16,817	1,879	0	9,425	16,817	1,879	0	9,425
Architecture & Engineering	0	885	0	0	0	885	0	0
General Services Division	0	0	0	(54,326)	0	0	0	(54,326)
State Information Technology	(1,611)	(2,102)	0	105,659	(1,611)	(2,102)	0	105,659
Banking and Financial Inst	0	(5,410)	0	0	0	(5,410)	0	0
Montana State Lottery	0	0	0	12,565	0	0	0	12,565
Health Care & Benefits	0	0	0	73,511	0	0	0	73,511
State Human Resources	4,391	0	0	(90,933)	4,391	0	0	(90,933)
Risk Mngmnt & Tort Defense	0	0	0	8,219	0	0	0	8,219
Montana Tax Appeal Board	(860)	0	0	0	(860)	0	0	0
Total	\$19,810	(\$4,748)	\$0	\$47,646	\$19,810	(\$4,748)	\$0	\$47,646

As shown above, the proposal provides for \$48,000 in increased costs in the Director's Office through increased proprietary rates. The proposal shifts the funding for the increase by reducing state special revenues and increasing general fund and proprietary funding.

Base Funding Reductions

The executive proposal for agency base reductions, DP 555, lowers spending for certain programs in DOA. The following figure shows the agency-wide impact of the new proposal.

Figure 3

Department of Administration Base Funding Reduction								
Division	FY 2018				FY 2019			
	General Fund	State Special	Fed Proprietary		General Fund	State Special	Fed Proprietary	
Director's Office	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
State Financial Services	(117,876)	0	0	0	(117,876)	0	0	0
Architecture & Engineering	0	0	0	0	0	0	0	0
General Services Division	0	0	0	0	0	0	0	0
State Information Technology	0	0	0	0	0	0	0	0
Banking and Financial Inst	0	(174,691)	0	0	0	(174,820)	0	0
Montana State Lottery	0	0	0	0	0	0	0	0
Health Care & Benefits	0	0	0	0	0	0	0	0
State Human Resources	(69,291)	0	0	0	(69,291)	0	0	0
Risk Mngmnt & Tort Defense	0	0	0	0	0	0	0	0
Montana Tax Appeal Board	(31,329)	0	0	0	(31,329)	0	0	0
Total	(\$218,496)	(\$174,691)	\$0	\$0	(\$218,496)	(\$174,820)	\$0	\$0

**LFD
ISSUE**Montana State Lottery Net Revenues Impact General Fund and STEM Scholarships

Statute requires that up to \$12.4 million in annual net revenues from the Montana State Lottery (lottery) be deposited into the general fund. Any funds generated above the \$12.4 million are deposited into the STEM scholarship account in the Montana University System. Estimates for net lottery revenues, as adopted by the Revenue and Transportation Interim Committee on November 17, 2016, were \$11.728 million in FY 2018 and \$12.188 million in FY 2019.

Expenditures reductions of 5% are not required for proprietary funds, even those that deposit net proceeds into the general fund. A 5% base reduction for the lottery would be \$320,255 annually. Any reduction would need to be carefully considered. For example, reductions in advertising expenses, a major driver of lottery operating expenses, may result in fewer lottery tickets purchased, lowering net revenues rather than increasing them.

Legislative Option

The legislature may wish to request a 5% reduction plan from the Montana State Lottery, including the impacts of the reductions on net lottery revenues.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix.

For this agency the general fund impact of the 5% plan is \$257,974 and the state special revenue impact is \$196,290 annually. The agency proposes FTE reductions and lower operating expenses. The executive proposes reducing the base budget, DP 555, this is 86.6% of the 5% amount included in the 5% reduction plan. Additional details of reductions are shown in the program-level discussion.

Legislative Audit Findings

**LFD
COMMENT**

The Legislative Audit Division conducted a performance audit of the State Real Property Management in August 2015. The audit found:

1. DNRC does not maintain an accurate inventory of state-owned non-trust land as required by law. Non-trust landholdings of the state likely are valued in the millions of dollars.
2. State agencies lack a centralized real estate transaction process, which results in agencies buying and selling state-owned property inconsistently. Centralizing a real estate transaction function could likely require additional resources appropriated by the legislature, depending on availability of funding in existing programs.

The Legislative Auditor recommends the Department of Natural Resources and Conservation:

1. Comply with statute and prioritize the completion and accuracy of its inventory of non-trust state real property;
2. Develop consistent language and identifiers for the inventory for use across state government; and
3. Develop a process for working with other state agencies to ensure that the inventory is updated regularly and in a timely manner to reflect all future non-trust real property transactions.

Additional information on the audit can be found at: <http://leg.mt.gov/content/Publications/Audit/Report/14P-07.pdf>

The Legislative Audit Division conducted a information technology audit of Montana Lottery Security in December 2015. The audit found:

1. Improving the ability of Lottery to detect and deter discounting and other problematic gaming activities by sales agents could help prevent fraudulent schemes and improve the overall integrity of Lottery games, increasing sales and revenues.

The Legislative Auditor recommends the Montana Lottery:

1. Develop a lottery sales agent store owner/key person list from the information provided to the Lottery during the retail store license application process;
2. Gather and analyze data on lottery sales agent winners by comparing winners lists against a lottery sales agent owner/key person list; and
3. Based on the analysis, document any identified anomalies and related actions taken.

Additional information on the audit can be found at: <http://leg.mt.gov/content/Publications/Audit/Summary/15DP-02-summary.pdf>

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 4

FY 2017 Appropriation Transactions - Department of Administration						
	Leg Approp	Allocations	Program Transfers	Other	2017 Base	% Change from Legislative Approp + % Change from Approp Allocations
01 Director's Office						
Personal Services	\$394,690	\$46,572			\$441,262	11.8%
Operating Expenses	79,371				79,371	0.0%
Local Assistance	14,296				14,296	0.0%
Program Total	488,357	46,572			534,929	9.5%
03 State Financial Services						
Personal Services	1,289,109	108,390	867,495		2,264,994	75.7%
Operating Expenses	356,039		192,866		548,905	54.2%
Program Total	1,645,148	108,390	1,060,361		2,813,899	71.0%
04 Architecture & Engineering						
Personal Services	1,452,819	83,994			1,536,813	5.8%
Operating Expenses	604,341				604,341	0.0%
Program Total	2,057,160	83,994			2,141,154	4.1%
06 General Services Division						
Personal Services	818,844	97,651	(867,495)		49,000	-94.0%
Operating Expenses	224,866		(192,866)	(27,000)	5,000	-97.8%
Program Total	1,043,710	97,651	(1,060,361)	(27,000)	54,000	-94.8%
07 Information Technology Services Division						
Personal Services	497,556	20,254			517,810	4.1%
Operating Expenses	286,020				286,020	0.0%
Program Total	783,576	20,254			803,830	2.6%
14 Banking And Financial Institutions Division						
Personal Services	3,341,454	123,561			3,465,015	3.7%
Operating Expenses	927,737				927,737	0.0%
Program Total	4,269,191	123,561			4,392,752	2.9%
15 Montana State Lottery						
Personal Services	2,164,610	105,600			2,270,210	4.9%
Operating Expenses	3,081,390				3,081,390	0.0%
Equipment	19,500				19,500	0.0%
Debt Service	89,977				89,977	0.0%
Program Total	5,355,477	105,600			5,461,077	2.0%
23 State Human Resources Division						
Personal Services	1,160,810	52,580			1,213,390	4.5%
Operating Expenses	395,125				395,125	0.0%
Program Total	1,555,935	52,580			1,608,515	3.4%
37 Montana Tax Appeal Board						
Personal Services	485,915	32,614			518,529	6.7%
Operating Expenses	129,309				129,309	0.0%
Local Assistance	15,764				15,764	0.0%

Program Total	630,988	32,614		663,602	5.2%	0.0%
Grand Total	\$17,829,542	\$671,216	\$0(\$27,000)	\$18,473,758	3.6%	-0.1%
Leg Approp = Legislative Appropriation						
Allocations = Allocations include Contingency Base & Pay Plan						
OP = Operating Plan Changes						

Significant budget changes adopted by the executive include:

- Allocations of pay plan authority provided by the legislature of \$490,984, personal services contingency base of \$165,232, and contingency base of \$15,000
- A reorganization of the State Procurement Bureau, transferring the function from General Services Division to the State Financial Services Division as reflected under program transfers
- Transferring \$27,000 from the General Services Division to the Long-range Building Program for continuing work on the original Governor's mansion

Funding

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

Total Department of Administration Funding by Source of Authority 2019 Biennium Budget Request - Department of Administration						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	11,692,329	0	0	186,031,749	197,724,078	19.30 %
State Special Total	13,329,909	0	0	41,841,520	55,171,429	5.39 %
Federal Special Total	1,569,787	0	0	36,284,000	37,853,787	3.69 %
Proprietary Total	11,130,655	0	647,631,669	75,000,000	733,762,324	71.62 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$37,722,680	\$0	\$647,631,669	\$339,157,269	\$1,024,511,618	
Percent - Total All Sources	3.68 %	0.00 %	63.21 %	33.10 %		

Budget Summary by Category

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

Budget Summary by Category								
-----General Fund-----					-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	5,817,290	5,817,290	11,634,580	99.51 %	18,473,758	18,473,758	36,947,516	97.95 %
SWPL Adjustments	278,810	234,011	512,821	4.39 %	165,748	17,862	183,610	0.49 %
PL Adjustments	68,841	61,365	130,206	1.11 %	1,348,423	169,182	1,517,605	4.02 %
New Proposals	(293,015)	(292,263)	(585,278)	(5.01)%	(463,397)	(462,654)	(926,051)	(2.45)%
Total Budget	\$5,871,926	\$5,820,403	\$11,692,329		\$19,524,532	\$18,198,148	\$37,722,680	

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	871,812	891,490	19,678	2.26 %
Operating Expenses	312,375	210,143	(102,232)	(32.73)%
Local Assistance	28,592	28,592	0	0.00 %
Total Expenditures	\$1,212,779	\$1,130,225	(\$82,554)	(6.81)%
General Fund	1,187,789	1,104,811	(82,978)	(6.99)%
Federal Spec. Rev. Funds	24,990	25,414	424	1.70 %
Total Funds	\$1,212,779	\$1,130,225	(\$82,554)	(6.81)%
Total Ongoing	\$1,137,779	\$1,130,225	(\$7,554)	(0.66)%
Total OTO	\$75,000	\$0	(\$75,000)	(100.00)%

Program Description

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

The Director's Office has 4.50 FTE funded through HB 2 and 27.00 FTE funded by the revenues generated from the internal fees charged to the Department of Administration's divisions and its attached-to agencies. These FTE provide services in the areas of legal, human resources, financial management, labor relations, project management and communications, continuity of government, emergency management, and homeland security.

- The Office of Legal Services advises the divisions on legal matters.
- The staff of the Office of Human Resources partner with DOA leadership and employees to enhance agency performance through strategic human resource programs and administrative processes
- The Office of Finance and Budget prepares and presents the biennial budget, processes budget change documents, monitors approved budgets for compliance with state law and legislative intent, and provides accounting assistance.
- Labor Relations provides labor relations services for managers and human resource officers and is the Governor's designated representative in collective bargaining
- The Office of Program and Information Management provides communication and project management services.

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

Program Highlights

Director's Office Major Budget Highlights
- Overall, the Director's Office proposed budget is \$82,554 or 6.8% below the level provided in the 2017 biennium - Director's Office funding includes \$234.0 million in statutory appropriations over the biennium
Major LFD Issues
- Positions included in the management services budget proposal do not appear to be required by the program - Rates for the human resource function do not reflect the rate allocation method to the divisions

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	4.50	4.50	4.50	4.50	4.50
Personal Services	426,454	430,550	441,262	445,052	446,438
Operating Expenses	101,701	233,004	79,371	138,525	71,618
Local Assistance	12,283	14,296	14,296	14,296	14,296
Total Expenditures	\$540,438	\$677,850	\$534,929	\$597,873	\$532,352
General Fund	528,155	665,567	522,222	585,166	519,645
Federal Spec. Rev. Funds	12,283	12,283	12,707	12,707	12,707
Total Funds	\$540,438	\$677,850	\$534,929	\$597,873	\$532,352
Total Ongoing	\$540,438	\$602,850	\$534,929	\$597,873	\$532,352
Total OTO	\$0	\$75,000	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Actual FY 2016 expenditures for operating expenses are 56.3% below the FY 2016 appropriation, the majority of which is a restricted, biennial, one-time-only appropriation for \$75,000 in general fund, budgeted in the first year of the biennium, to implement a Labor-Management Training Institute. As of December 2016, the Director's Office has yet to expend this appropriation.

LFD COMMENT

As the appropriation is biennial, DOA may still expend the entire appropriation in FY 2017. The legislature may wish to discuss with the Director's Office its plan for the Labor-Management Training Institute. A determination of the need for this funding would allow the legislature to establish whether the funding is still required or could be designated for other purposes.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Personal services increase between the budgets of the two years due to increases provided by the 2015 Legislature for the pay plan and changes to both the state share contribution to group benefits and increased costs for retirement benefits. Operating costs are budgeted at a lower amount in the second year of the biennium mainly due to recording the biennial appropriation for the Labor-Management Training Institute in the FY 2016.

Executive Request

The 2019 biennium budget is 6.8% lower than the 2017 biennium budget as the executive did not propose one-time-only funding for the Labor-Management Training Institute in HB 2.

**LFD
COMMENT**

As noted, as of December 2016 the Director's Office has yet to expend any of the funding provided for the Labor-Management Training Institute. The executive does, however, again propose \$75,000 for the Labor-Management Training Institute in HB 13, the state employee pay plan bill.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 5

Department Of Administration: 01 Director'S Office Personal Services Present Law Calculations			
PS Base: \$441,262			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$3,790	\$5,176
Legislative	Statutory Personal Service Change	(1,199)	277
	Difference	4,989	4,899
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(9,228)	(9,257)
	Broadband Pay Adjustments	65,691	65,691
	Benefits and Taxes on Pay Adjustment	11,658	11,658
	Other	(63,132)	(63,192)
	Total	\$4,989	\$4,899

The executive is requesting \$4,989 in FY 2018 and \$4,899 in FY 2019 more than anticipated by the LFD based upon pay plan and statutory personal services adjustments. According to the DOA staff, the Office of Labor Relations has had a 200% turnover in the last two years, in part due to increased salaries for labor relations specialists and lawyers. DOA provided strategic pay adjustments for these positions but still had 2.00 FTE vacant at the time the budget was developed. Because vacant positions were funded at 83% of the market rate for the position, the request for personal services was reduced as shown in other in Figure 5.

Additional Program Budget Components

It should be noted that HB 2 provides less than 0.5% of the total program budget. The executive proposes \$241.3 million in total appropriations for the Director's Office in the 2019 biennium. The proposed funding includes \$179.7 million in statutory appropriations from the general fund including:

- Debt service for bond issues
- Local government and school district public employee retirement contributions
- Teachers' retirement contributions
- Public employee retirement contributions generated from coal severance taxes and interest on the coal tax trust that is deposited into the general fund

The following figure shows the FY 2016 actuals, FY 2017 appropriation, and the 2019 biennium budget for statutory appropriations as proposed by the executive.

Figure 6

Department of Administration Director's Office Statutory Appropriations				
	FY 2016	FY 2017	FY 2018	FY 2019
General Fund Transfers				
Debt Service	\$12,167,718	\$12,786,390	\$12,459,283	\$9,370,366
Local Government PERD Contribution	452,034	459,647	548,300	574,401
School District PERD Contribution	553,323	801,215	579,737	605,284
TRS GABA	865,444	928,000	936,064	973,506
TRS Supplemental Contribution	43,037,162	47,547,094	44,508,994	45,289,353
Public Employees Retirement Trust	<u>30,311,820</u>	<u>31,936,000</u>	<u>31,936,000</u>	<u>31,936,000</u>
Total General Fund Transfers	87,387,501	94,458,346	90,968,378	88,748,910
State Special Revenues				
Mineral Impact Fees	<u>8,894,445</u>	<u>8,186,000</u>	<u>8,186,000</u>	<u>8,186,000</u>
Total State Special Revenues	8,894,445	8,186,000	8,186,000	8,186,000
Federal Revenues				
Taylor Grazing Fees	133,102	125,000	125,000	125,000
Forest Reserved Shared	<u>15,938,821</u>	<u>18,017,000</u>	<u>18,017,000</u>	<u>18,017,000</u>
Total Federal Revenues	16,071,923	18,142,000	18,142,000	18,142,000
Total Statutory Appropriations	\$112,353,869	\$120,786,346	\$117,296,378	\$115,076,910

As reflected in the figure above, the executive projects a reduction in general fund transfer amounts in the 2019 biennium, mainly due to declining costs for debt service associated with Long-Range Building Program general obligation bonds issued in 2003 and 2007.

**LFD
COMMENT**

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

Funding

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

Department of Administration, 01-Director's Office Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,104,811	0	0	181,356,447	182,461,258	75.60 %
02858 Mineral Impact	0	0	0	16,372,000	16,372,000	100.00 %
State Special Total	\$0	\$0	\$0	\$16,372,000	\$16,372,000	6.78 %
03095 Taylor Grazing Act Dist.	0	0	0	250,000	250,000	0.69 %
03369 Flood Control Payments	25,414	0	0	0	25,414	0.07 %
03425 Forest Reserve Shared Revenue	0	0	0	36,034,000	36,034,000	99.24 %
Federal Special Total	\$25,414	\$0	\$0	\$36,284,000	\$36,309,414	15.05 %
06534 Management Services	0	0	4,718,275	0	4,718,275	76.17 %
06535 Continuity Emergency Mgmt	0	0	1,476,486	0	1,476,486	23.83 %
Proprietary Total	\$0	\$0	\$6,194,761	\$0	\$6,194,761	2.57 %
Total All Funds	\$1,130,225	\$0	\$6,194,761	\$234,012,447	\$241,337,433	

The majority of the office functions are supported by proprietary funds. These funds are considered and approved as rates charges to other divisions in the agency and are discussed in the "Proprietary Rates" section of the narrative.

Within HB 2, general fund provided funding for:

- Board of County Printing
- Burial Preservation Board
- General management and legal support for statewide functions

Federal revenues provide for administrative functions that support the allocation of federal flood control payments.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	522,222	522,222	1,044,444	94.54 %	534,929	534,929	1,069,858	94.66 %
SWPL Adjustments	61,871	(3,650)	58,221	5.27 %	61,871	(3,650)	58,221	5.15 %
PL Adjustments	1,073	1,073	2,146	0.19 %	1,073	1,073	2,146	0.19 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$585,166	\$519,645	\$1,104,811		\$597,873	\$532,352	\$1,130,225	

The increase in general fund for SWPLA is due to the inclusion of the biennial restricted appropriation for audit costs in the first year of the biennium. The appropriation can be used in any amount in either year of the biennium based on the

schedule for legislative audits.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----					-----Fiscal 2019-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 1 - Personal Services	0.00	3,790	0	0	3,790	0.00	5,176	0	0	5,176
DP 2 - Fixed Costs	0.00	58,081	0	0	58,081	0.00	(8,826)	0	0	(8,826)
DP 3 - Inflation Deflation	0.00	0	0	0	0	0.00	0	0	0	0
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	1,073	0	0	1,073	0.00	1,073	0	0	1,073
Grand Total All Present Law Adjustments	0.00	\$62,944	\$0	\$0	\$62,944	0.00	(\$2,577)	\$0	\$0	(\$2,577)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

Other Issues -

Proprietary Rates

The Director's Office provides management services to other divisions within the agency as well as services for state agencies related to labor relations and continuity of government in the event of a major disruption.

The Continuity and Emergency Management Program prepares to manage and coordinate state government in the event of a major catastrophic disruption. This program proposes a separate proprietary rate for approval by the legislature.

Director's Office (Management Services) 06534*Program Description*

The Director's Office management services includes:

- Office of Human Resources – processes payroll, assists with recruitment, selection, and orientation of new employees, classifies positions and develops policies for the department
- Office of Legal Services – advises on legal matters
- Office of Finance and Budget- prepares and presents the biennial budget, processes budget change documents, monitors budgets for compliance with state law and legislative intent, and provides accounting assistance

The following figure shows the costs associated with each of the various offices for the 2017 and 2019 biennia as recorded in the budgeting system.

Figure 7

Department of Administration Director's Office Proprietary Program Costs				
	Actuals FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Revenues	\$2,105,496	\$2,065,944	\$2,115,267	\$2,115,267
Expenditures				
Director's Office				
FTE	5.00	5.00	5.00	5.00
Personal Services	532,043	520,013	478,163	479,661
Operating Expenses	107,915	92,515	92,604	92,866
Transfers	<u>1,564</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	641,522	612,528	570,767	572,527
Office of Finance & Budget				
FTE	12.18	12.18	12.18	12.18
Personal Services	712,102	1,025,869	898,498	901,140
Operating Expenses	<u>107,009</u>	<u>112,675</u>	<u>112,403</u>	<u>110,959</u>
Total Expenditures	819,111	1,138,544	1,010,901	1,012,099
Office of Legal Services				
FTE	1.83	1.83	1.83	1.83
Personal Services	59,025	69,883	241,346	243,497
Operating Expenses	<u>13,282</u>	<u>10,039</u>	<u>8,097</u>	<u>8,083</u>
Total Expenditures	72,307	79,922	249,443	251,580
Office of Human Resources				
FTE	6.00	6.00	6.00	6.00
Personal Services	415,781	467,932	478,092	479,672
Operating Expenses	<u>84,457</u>	<u>46,303</u>	<u>45,536</u>	<u>45,792</u>
Total Expenditures	500,238	514,235	523,628	525,464
Director's Office Totals				
FTE	25.01	25.01	25.01	25.01
Personal Services	1,718,951	2,083,697	2,096,099	2,103,970
Operating Expenses	312,663	261,532	258,640	257,700
Transfers	<u>1,564</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>2,033,178</u>	<u>2,345,229</u>	<u>2,354,739</u>	<u>2,361,670</u>
Net Income (Loss)	\$72,318	(\$279,285)	(\$239,472)	(\$246,403)

As reflected in the figure, expenditures are projected to exceed revenues in both years of the 2019 biennium. However, DOA has proposed rates for the Director's Office which reduce personal services costs shown in the budgeting system.

Revenue and Expenditures

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund. As can be seen, the personal services costs included by DOA in this report are

lower than those included in the budgeting system by \$229,665 in FY 2018 and \$230,523 in FY 2019, resulting in a net positive ending fund balance.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Director's Office			
	Fund 06534	Fund Name Management Services					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		1,625,016	1,624,847	2,104,767	2,065,944	2,115,255	2,115,255
Other Operating Revenue		547	749	729	-	12	12
Total Operating Revenues		1,625,563	1,625,596	2,105,496	2,065,944	2,115,267	2,115,267
Expenses:							
Personal Services		1,302,589	1,572,455	1,673,424	1,855,697	1,866,434	1,873,447
Other Operating Expenses		188,606	275,161	314,476	261,805	258,640	257,700
Total Operating Expenses		1,491,195	1,847,616	1,987,900	2,117,502	2,125,074	2,131,147
Operating Income (Loss)		134,368	(222,020)	117,596	(51,558)	(9,807)	(15,880)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		134,368	(222,020)	117,596	(51,558)	(9,807)	(15,880)
Transfers In							
Transfers In		-	353,662	6,520	-	-	-
Transfers Out		(19,522)	(288)	(1,564)	-	-	-
Change in Net Position		114,846	131,354	122,552	(51,558)	(9,807)	(15,880)
Beginning Net Position - July 1		(105,078)	9,768	141,122	263,674	212,116	202,309
Change in Net Position		114,846	131,354	122,552	(51,558)	(9,807)	(15,880)
Ending Net Position - June 30		9,768	141,122	263,674	212,116	202,309	186,429
Net Position (Fund Balance) Analysis							

Expenses

As proposed, the costs for the Director's Office increase by 0.4% and 0.6% between FY 2017 and FY 2018 and FY 2019 respectively. The increases in personal services are partially offset by reductions in operating expenses.

LFD ISSUE Positions Included in Management Services Budget Proposal Do Not Appear to Be Required for Program Operations

A comparison between the preceding table of costs included in the proposed rates and the costs of operating the programs included in the budgeting system shows the personal services costs included in the proposed rates are \$460,000 lower.

Examination of positions that were vacant at the time of the budget submissions in FY 2014 and FY 2016 shows that two and one half FTE were vacant in both submissions:

- Auditor – 1.00 FTE, \$171,417 over biennium
- Accounting Technician – 1.50 FTE, \$153,975 over the biennium

Based on the long-term vacancies and the elimination of these costs in the proposed rates, it appears that these positions are not needed for the operation of the Office of Finance and Budget. While the positions are not included in the proposed rates for the Office of Finance and Budget, they are included in the proposed budget for the program. The legislature could eliminate funding for these positions, reducing budgeted program costs.

Legislative Option

The legislature may wish to consider reducing the operational costs of the program for the 2.50 FTE that are not used by the program.

Revenues

All divisions of the agency, and some agencies and boards designated as administratively attached, use the services provided by the programs of the Director's Office. Administratively attached agencies or boards with staff to perform these functions do not use some of the services and thus are not charged a fee. The revenues for this program are allocated in three ways: 1) the human resource function allocation is based on the annual amount per FTE served; 2) the legal unit is allocated based on a time use study; and 3) the remaining portion is allocated on the proportional size of the division budget to the total of all served.

Rate(s) and Rate Explanation

The Director's Office proprietary fund requests that the legislature approve a "Total Allocation of Costs" of \$2,115,255 in FY 2018 and \$2,115,255 in FY 2019.

Figure 8

Requested Rates for Internal Service or Enterprise Funds				
Fee/Rate Information				
	Actual FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description				
Total Allocation of Costs	\$1,658,964	\$1,598,962	\$2,115,255	\$2,115,255
Portion of Unit for HR Charges Per FTE of User Programs	\$752	\$752	N/A	N/A

The rate as proposed is below the overall costs of the program by \$229,665 in FY 2018 and \$230,523 in FY 2019 due to not including personal services costs for the 2.50 vacant FTE in FY 2018 and FY 2019 and reducing personal services costs for the Deputy Director and an internal auditor position as these are supported through general fund in HB 2. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

**LFD
ISSUE**

Rate Proposed Do Not Reflect Allocation Method to Divisions

In previous biennia the legislature has approved a rate per FTE for the human resources functions of the Director's Office. In its explanation of cost allocations, division staff indicated they will allocate costs for the Office of Human Resources to the agency divisions using this methodology. The executive proposes to eliminate this rate from legislative approval and use a fixed amount for allocation instead. This change in rate methodology leaves the rate per FTE charged to the divisions up to the executive to determine.

The rates for the Office of Human Resources as proposed by the executive would be \$891 per FTE.

Legislative Option

If the legislature wishes to ensure the rate per FTE charged to DOA divisions remains at a set amount it may consider establishing a rate in HB 2.

Continuity and Emergency Management Program 06535

Program Description

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

Revenues and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Director's Office			
	Fund 06535	Fund Name Continuity Emergency Mgmt.					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		-	-	725,967	725,967	762,357	762,357
Other Operating Revenue		-	835	365	-	-	-
Total Operating Revenues		-	835	726,332	725,967	762,357	762,357
Expenses:							
Personal Services		446,626	425,051	512,427	548,998	535,747	536,640
Other Operating Expenses		153,960	119,890	151,130	190,653	203,332	202,634
Total Operating Expenses		600,586	544,941	663,557	739,651	739,079	739,274
Operating Income (Loss)		(600,586)	(544,106)	62,775	(13,684)	23,278	23,083
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(600,586)	(544,106)	62,775	(13,684)	23,278	23,083
Transfers In							
Change in Net Position		552,134 (48,452)	553,481 9,375	- 62,775	- (13,684)	- 23,278	- 23,083
Beginning Net Position - July 1		-	(48,452)	(39,077)	23,698	10,014	33,292
Change in Net Position		(48,452)	9,375	62,775	(13,684)	23,278	23,083
Ending Net Position - June 30		(48,452)	(39,077)	23,698	10,014	33,292	56,375
Net Position (Fund Balance) Analysis							

Expenses

As shown, expenses for the program are proposed to remain almost unchanged.

Revenues

The executive proposes that SITD pay \$551,316 and GSD pay \$211,041 annually in the 2019 biennium for this function.

Rate(s) and Rate Explanation

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

Figure 9

Requested Rates for Internal Service or Enterprise Funds				
Fee/Rate Information				
	Actual FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description				
Total Allocation of Costs	\$725,967	\$725,967	\$762,357	\$762,357

As proposed the rates increase 5.0% in the 2019 biennium when compared to the FY 2017 rate charged to state agencies. The executive proposes that SITD pay \$551,316 and GSD pay \$211,041 annually in the 2019 biennium for this function. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	4,459,661	4,581,566	121,905	2.73 %
Operating Expenses	1,097,442	1,109,993	12,551	1.14 %
Total Expenditures	\$5,557,103	\$5,691,559	\$134,456	2.42 %
General Fund	5,092,557	5,177,265	84,708	1.66 %
State/Other Special Rev. Funds	350,989	400,694	49,705	14.16 %
Federal Spec. Rev. Funds	2,854	2,854	0	0.00 %
Proprietary Funds	110,703	110,746	43	0.04 %
Total Funds	\$5,557,103	\$5,691,559	\$134,456	2.42 %
Total Ongoing	\$5,557,103	\$5,691,559	\$134,456	2.42 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The State Financial Services Division performs many centralized functions and administers state and federal programs to state agencies, local government entities, and Montana citizens and businesses. The division consists of four bureaus and the State Social Security Administrator.

The division strategies and solutions team provides resources at a division level and focuses on operational business strategies and technology solutions to support division-wide initiatives.

The State Accounting Bureau (SAB) prepares and publishes the state's annual comprehensive financial report and maintains a statewide accounting structure with related policies and procedures to allow all branches of government to meet their individual reporting needs. The division also include the Treasury Unit and the Warrant Writer Unit. The bureau also serves as the process owner of the Statewide Accounting Budgeting & Human Resources System (SABHRS) financial modules and assists state agencies in operating the state's accounting system.

The Financial Services Technology Bureau (FSTB) provides system analysis, support, configuration, development, and maintenance of the state's enterprise accounting and budgeting systems. The bureau also manages system architecture and provides database administration for the SABHRS application. In addition, FSTB supports the Montana Acquisition and Contracting System (eMACS).

The State Procurement Bureau (SPB) provides professional procurement services to all state agencies for the acquisition of supplies and services. State Procurement advocates for compliance with all state statutes and procurement requirements; establishes term contracts for commonly used goods and services, manages the state's fuel and procurement card programs, and offers procurement training to state agencies. In addition, it promotes compliance with the Montana Procurement Act and is the business process owner of the eMACS.

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

The State Social Security Administrator is responsible for administering Section 218 of the Social Security Act, providing education and outreach, and insuring proper application of Social Security coverage to all state and local government employees.

Program Highlights

State Financial Services Division Major Budget Highlights	
- The majority of the funding in this division is from non-budgeted proprietary funds that are approved as rates in HB 2 - General fund support in HB 2 appropriations changes due to: - Elimination of the Social Security Administrator position and operating expenses associated with the functions of the administrator - Increases for personal services included within the statewide present law adjustments	
Major LFD Issues	
Proprietary rates for Warrant Writer Unit could be mitigated for the 2019 biennium using available fund balance generating up to \$110,000 in savings to the general fund	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	29.42	29.42	29.42	28.92	28.92
Personal Services	2,093,069	2,194,667	2,264,994	2,286,745	2,294,821
Operating Expenses	420,272	548,537	548,905	554,328	555,665
Total Expenditures	\$2,513,341	\$2,743,204	\$2,813,899	\$2,841,073	\$2,850,486
General Fund	2,309,626	2,512,528	2,580,029	2,583,968	2,593,297
State/Other Special Rev. Funds	147,509	173,919	177,070	200,305	200,389
Federal Spec. Rev. Funds	892	1,427	1,427	1,427	1,427
Proprietary Funds	55,314	55,330	55,373	55,373	55,373
Total Funds	\$2,513,341	\$2,743,204	\$2,813,899	\$2,841,073	\$2,850,486
Total Ongoing	\$2,513,341	\$2,743,204	\$2,813,899	\$2,841,073	\$2,850,486
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Expenditures for personal services were 4.6% or \$101,600 lower than budgeted in FY 2016. Operating expenses were 23.4% lower than budgeted due to an eMacs software payments that was not requested by the vendor until FY 2017. In addition, the Accounting and Warrant Writer Bureaus and the Fueling/Procard Program realized some operational efficiencies that reduced costs.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Appropriations for personal services increase between FY 2016 and FY 2017 due to the inclusion of increases for the pay plan provided by the 2015 Legislature.

Executive Request

The executive proposes a 2.4% increase in total funding when compared to the 2017 biennium. Increases include:

- Personal services increases included in the statewide present law adjustments
- Administrative costs for the Director's Office

These are partially offset by a proposed reduction to the base budget.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 10

Department Of Administration: 03 State Financial Services Division				
Personal Services Present Law Calculations				
PS Base:	\$2,264,994		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services		\$77,540	\$85,502
Legislative	Statutory Personal Service Change		<u>33,836</u>	<u>42,151</u>
	Difference		43,704	43,351
Management Choices Explaining the Difference				
	Additional 2% Vacancy Savings		(48,795)	(48,961)
	Broadband Pay Adjustments		47,982	47,982
	Benefits and Taxes on Pay Adjustment		10,730	10,730
	Other		33,787	33,600
	Total		\$43,704	\$43,351

Personal services were \$2.3 million or 80.5% of total base appropriations. The executive proposes an increase of \$43,704 in FY 2018 and \$43,351 in FY 2019 above the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. Turnover in SFSD for experienced accounting staff continues to be a challenge. More than 50% of the staff have turned over in the last 2 years. Salaries for new hires were increased in this area to address recruitment and retention.

Funding

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

Department of Administration, 03-State Financial Services Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	5,177,265	0	0	4,675,302	9,852,567	44.21 %
02211 Procurement Special Revenue	400,694	0	0	0	400,694	100.00 %
State Special Total	\$400,694	\$0	\$0	\$0	\$400,694	1.80 %
03320 CMIA Funds	2,854	0	0	0	2,854	100.00 %
Federal Special Total	\$2,854	\$0	\$0	\$0	\$2,854	0.01 %
06042 Local Govt Svcs AuditRportng	0	0	1,163,088	0	1,163,088	9.67 %
06511 SABHRS	0	0	9,337,784	0	9,337,784	77.62 %
06527 Investment Division	110,746	0	0	0	110,746	0.92 %
06564 Warrant Writing	0	0	1,419,050	0	1,419,050	11.80 %
Proprietary Total	\$110,746	\$0	\$11,919,922	\$0	\$12,030,668	53.98 %
Total All Funds	\$5,691,559	\$0	\$11,919,922	\$4,675,302	\$22,286,783	

HB 2

HB 2 appropriations support about 25.5% of the costs of the State Financial Services Division.

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

State special revenues from procurement rebates fund a portion of the procurement functions that provide for the fueling and procurement card operations. The Central Stores Program is funded through a 2% fee assessed businesses participating in the eMarket Center.

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

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

Proprietary Funding

Over 53.5% of the SFSD functions are supported with non-budgeted proprietary funds. These funds are considered and approved as rates charged to other divisions in the agency and other state agencies. The rates are discussed in the "Proprietary Rates" section of the narrative.

Statutory Appropriations

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

**LFD
COMMENT**

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	2,580,029	2,580,029	5,160,058	99.67 %	2,813,899	2,813,899	5,627,798	98.88 %
SWPL Adjustments	64,056	73,199	137,255	2.65 %	85,412	94,639	180,051	3.16 %
PL Adjustments	16,817	16,817	33,634	0.65 %	18,696	18,696	37,392	0.66 %
New Proposals	(76,934)	(76,748)	(153,682)	(2.97)%	(76,934)	(76,748)	(153,682)	(2.70)%
Total Budget	\$2,583,968	\$2,593,297	\$5,177,265		\$2,841,073	\$2,850,486	\$5,691,559	

As reflected in the preceding figure, the SWPLA adjustments drive the increases to the base budgets for FY 2018 and FY 2019. New proposals to reduce the base budget include:

- Eliminating the Social Security Administrator. The proposal would have the duties and responsibilities of the administrator assumed by other staff of the Local Government Services Bureau (LGSB)
- Reducing operating expenses in the Local Government Services Bureau. In FY 2016 the LGSB had \$83,000 in authority that was not required for operations

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	58,349	19,191	0	77,540	0.00	66,170	19,332	0	85,502
DP 2 - Fixed Costs	0.00	5,680	2,165	0	7,845	0.00	6,878	2,108	0	8,986
DP 3 - Inflation Deflation	0.00	27	0	0	27	0.00	151	0	0	151
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	16,817	1,879	0	18,696	0.00	16,817	1,879	0	18,696
Grand Total All Present Law Adjustments	0.00	\$80,873	\$23,235	\$0	\$104,108	0.00	\$90,016	\$23,319	\$0	\$113,335

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 301 - Transfer Position Between Divisions										
0.50	40,942	0	0	40,942		0.50	41,128	0	0	41,128
DP 555 - Appropriation Rebase										
(1.00)	(117,876)	0	0	(117,876)		(1.00)	(117,876)	0	0	(117,876)
Total	(0.50)	(\$76,934)	\$0	\$0	(\$76,934)	(0.50)	(\$76,748)	\$0	\$0	(\$76,748)

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

DP 301 - Transfer Position Between Divisions -

The executive proposes to transfer .50 FTE from the General Services Division to the State Financial Services Division. The cost in the State Financial Services Division is \$40,942 in FY 2018 and \$41,128 in FY 2019. This is offset by a reduction in the General Services Division of \$45,944 in FY 2018 and \$46,129 in FY 2019.

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Other Issues -

Proprietary Rates

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

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

These programs are described separately with a discussion of program expenses, revenues, and rates being requested to finance each program.

SABHRS Financial and Budget Bureau - 06511

Program Description

The SABHRS Financial and Budget Bureau (SFBB) is responsible for the operational support, hosting, and maintenance of the state's financial and budget development information systems. SFBB is also responsible for providing hosting services, system architecture, and maintenance of the SABHRS Human Resource Information System.

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds						
Agency # 61010	Agency Name: Department of Administration			Program Name: State Financial Services Division		
	Fund 06511	Fund Name SABHRS				
	Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:						
Fee and Charges						
Fee Revenue A	3,821,496	3,592,404	4,008,249	3,818,905	4,008,249	3,818,905
Other Operating Revenue	-	-	191,310	193,000	193,000	193,000
Total Operating Revenues	3,821,496	3,592,404	4,199,559	4,011,905	4,201,249	4,011,905
Expenses:						
Personal Services	1,523,404	1,758,797	1,545,937	2,071,799	1,971,182	1,977,690
Other Operating Expenses	1,829,209	1,786,599	2,339,377	1,854,707	2,782,886	2,606,026
Total Operating Expenses	3,352,613	3,545,396	3,885,314	3,926,506	4,754,068	4,583,716
Operating Income (Loss)	468,883	47,008	314,245	85,399	(552,819)	(571,811)
Nonoperating Revenues:						
Other Revenue A	252	20	208	-	-	-
Nonoperating Expenses:						
Total Nonoperating Revenues (Expenses)	252	20	208	-	-	-
Income (Loss) Before Contributions and Transfers	469,135	47,028	314,453	85,399	(552,819)	(571,811)
Capital Contributions	-	-	331,030	-	-	-
Transfers In	-	75,035	82,725	-	-	-
Change in Net Position	469,135	122,063	728,208	85,399	(552,819)	(571,811)
Beginning Net Position - July 1	1,507,867	1,977,002	2,099,065	2,827,273	2,912,672	2,359,853
Change in Net Position	469,135	122,063	728,208	85,399	(552,819)	(571,811)
Ending Net Position - June 30	1,977,002	2,099,065	2,827,273	2,912,672	2,359,853	1,788,042
Net Position (Fund Balance) Analysis						

Expenses

As shown in the preceding figure, the costs of personal services for SFBB are less in the 2019 biennium when compared to the FY 2017 appropriation. This is mainly attributable to application of a 4% vacancy savings rate included by the executive. Operating expenses increases include:

- Oracle licensing fees - \$300,000 each year of the biennium
- Updates and maintenance costs for SABHRS, eMacs, and the Internet Budgeting and Reporting System (IBARS)- \$500,000 in FY 2018 and \$700,000 in FY 2019

These increases are partially offset by reductions for fixed costs \$455,100 in FY 2018 and \$532,000 in FY 2019 due to lower SITSD costs.

Revenues

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

- Costs to operate the program as shown in the following figure
- Maintaining a reasonable working capital balance of 60 working days

These components factor the maximum allocation of costs in a rate that is approved by the legislature. Unrestricted fund balance in the account at fiscal year-end of FY 2016 was \$2.8 million. SFSD proposes to reduce the fund balance through rate reductions.

Rate and Rate Explanation

For the 2019 biennium the following rates are proposed by the executive. The rates are charged in the base year and those paid by state agencies in FY 2016 are shown for comparison purposes.

Figure 11

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
SABHRS Services:	\$4,281,676	\$4,092,380	\$4,008,249	\$3,818,905

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

Warrant Writer Program - 06564*Program Description*

The Warrant Writer Unit (WWU) provides the check writing and direct deposits services for most state agencies, including the university system. The WWU processes agency approved payments and tracks the payment status on SABHRS. Warrant printing is provided to the WWU by Print and Mail Services within the General Services Division. The WWU generates, tracks, and reconciles each payment. The services include direct deposit, warrant consolidation, cancellations, certifications, and research, emergency and duplicate warrants, stopping of payments, vendor file maintenance, and federal 1099-MISC processing.

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Financial Services Division			
	Fund 06564	Fund Name Warrant Writing					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		645,007	600,533	787,945	769,711	750,705	743,380
Total Operating Revenues		645,007	600,533	787,945	769,711	750,705	743,380
Expenses:							
Personal Services		194,314	209,111	203,963	227,955	224,101	224,249
Other Operating Expenses		445,155	437,113	424,028	489,276	485,786	484,914
Total Operating Expenses		639,469	646,224	627,991	717,231	709,887	709,163
Operating Income (Loss)		5,538	(45,691)	159,954	52,480	40,818	34,217
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		5,538	(45,691)	159,954	52,480	40,818	34,217
Transfers In		-	14,655	-	-	-	-
Change in Net Position		5,538	(31,036)	159,954	52,480	40,818	34,217
Beginning Net Position - July 1		66,601	72,139	41,103	201,057	253,537	294,355
Change in Net Position		5,538	(31,036)	159,954	52,480	40,818	34,217
Ending Net Position - June 30		72,139	41,103	201,057	253,537	294,355	328,572
Net Position (Fund Balance) Analysis							

Expenses

As shown, costs for the WWU decrease when compared to FY 2017 but still generate program income. Personal services decreases are due to the assessment of 4% vacancy savings while reductions in operating expenses are related to reductions in costs for services provided by SITD.

Revenues

Revenues are derived from monthly billing based on the number of actual warrants issued. Budget authority to pay the costs is a fixed cost item in state agency budgets. The statewide fixed cost for warrant writer services for state agencies proposed by the executive decline by 2.5% in FY 2018 and 3.4% in FY 2019 when compared to amounts included in the 2017 budget. The costs to state agencies are calculated based on proposed changes to the various rates charged for check writing and direct deposit services.

**LFD
ISSUE**Rates Could Be Further Mitigated Using Available Fund Balance

Warrant writer fixed costs charged to state agencies could be lowered by \$125,000 each year of the biennium. This reduction would leave an estimated fund balance of \$138,654 which is slightly above 60 days of working capital that would be available for timing differences between services provided and revenue received from billing. As shown in the figure on the preceding page, the legislature could lower the rate by \$0.1 million each year, allow the Warrant Writer Unit to utilize available fund balance, and provide cost reductions to state agencies.

The funding percentages proposed for fixed cost adjustments including warrant writer in HB 2 is:

	FY 2018	FY 2019
• General fund	46.7%	50.5%
• State special revenue	31.9%	27.9%
• Federal special revenue	21.5%	23.7%
• Proprietary	(0.1%)	(2.1%)

Allowing the agency to utilize fund balance rather than charge state agencies could generate up to \$121,500 in general fund savings over the biennium.

Legislative Option

The legislature may lower the warrant writer rate to state agencies by \$125,000 each year, thus allowing Warrant Writer Unit to use fund balance to offset fixed costs to state agencies that are charged for this service.

Rate and Rate Explanation

For the 2019 biennium the following rates are proposed by the executive. The rates charged in previous biennia are shown for comparison purposes.

Figure 12

Fee Description:	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Mailer	0.92500	0.92500	0.92500	0.92500
Non-Mailer	0.40000	0.40000	0.40000	0.40000
Emergency	15.00000	15.00000	15.00000	15.00000
Duplicates	10.00000	10.00000	10.00000	10.00000
Externals				
Externals - Payroll	0.16861	0.16368	0.16368	0.16368
Externals - Universities	0.13500	0.13500	0.13500	0.13500
Direct Deposit				
Direct Deposit - Mailer	1.10000	1.10000	1.10000	1.10000
Direct Deposit - No Advice	0.15000	0.15000	0.15000	0.15000
Printed				
Unemployment Insurance				
Mailer - Print Only	0.13280	0.13141	0.13141	0.13141
Direct Deposit - No Advice	0.03910	0.03308	0.03308	0.03308
Printed				

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

Local Government Audit and Reporting Program - 06042

Program Description

The Local Government Audit and Reporting Program (LGARP) is responsible for administering the provisions of the Montana Single Audit Act, which specifies the audit requirements for about 900 Montana local government entities. The work of the LGARP is mandated in statute. LGARP reviews financial reports and enters selected data into a statewide database and notifies state agencies of audit findings related to financial assistance program that they administer. LGARP also maintains a roster of independent auditors authorized to conduct local government audits, provides technical accounting assistance to local governments and other staff within the bureau.

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Financial Services Division			
	Fund	Fund Name					
	06042	Local Govt Svcs AuditRportng					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		6,970	4,300	7,300	-	-	-
Fee Revenue B		356,081	370,240	629,857	425,000	500,000	500,000
Revenue A		40,996	90,252	23,011	35,000	75,000	75,000
Revenue B		1	-	242	-	-	-
Total Operating Revenues		404,048	464,792	660,410	460,000	575,000	575,000
Expenses:							
Personal Services		333,656	360,077	406,664	466,880	483,048	484,632
Other Operating Expenses		89,208	188,606	195,155	91,497	98,239	97,169
Total Operating Expenses		422,864	548,683	601,819	558,377	581,287	581,801
Operating Income (Loss)		(18,816)	(83,891)	58,591	(98,377)	(6,287)	(6,801)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(18,816)	(83,891)	58,591	(98,377)	(6,287)	(6,801)
Change in Net Position		(18,816)	(83,891)	58,591	(98,377)	(6,287)	(6,801)
Beginning Net Position - July 1		355,339	336,523	252,632	309,039	210,662	204,375
Prior Period Adjustments		-	-	(2,184)	-	-	-
Change in Net Position		(18,816)	(83,891)	58,591	(98,377)	(6,287)	(6,801)
Ending Net Position - June 30		336,523	252,632	309,039	210,662	204,375	197,574
Net Position (Fund Balance) Analysis							

Expenses

As shown in the preceding figure, the majority of the costs for this program are personal services. Increases between FY 2017 and FY 2018 and FY 2019 are related to annualization of the pay plan costs and broadband pay increases partially offset by vacancy savings. Operating expenses increase slightly as a result of statewide present law adjustments for fixed costs.

Revenues

Local Government Audit and Reporting Program is funded with enterprise funds, as it serves entities outside of state government. As an enterprise fund the legislature neither appropriates funding nor approves the proprietary rates charged by the program.

Fees include a:

- Report filing fee based on costs incurred by the LGARP for administering the program. All local government entities that are required to submit audits must pay the fee
- Roster fee collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana, currently \$100
- Late penalty incurred when a local government entity fails to file a report as required, currently 10% per month
- Fine for failure to file audits or reports as required, currently \$50 per publication

Rate and Rate Explanation

Funding for the program is enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for this proprietary funded program. The fees shown below are adopted in the Administrative Rules or are required in statute.

Figure 13

Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Major Fee:				
Local Government Report Filing Fee				
Annual revenues equal to or greater than \$500,000 but less than \$1,000,000	\$550	\$550	\$550	\$550
Annual revenues equal to or greater than \$1,000,000 but less than \$1,500,000	\$800	\$800	\$800	\$800
Annual revenues equal to or greater than \$1,500,00 but less than \$2,500,000	\$950	\$950	\$950	\$950
Annual revenues equal to or greater than \$2,500,00 but less than \$5,000,000	\$1,300	\$1,300	\$1,300	\$1,300
Annual revenues equal to or greater than \$5,000,00 but less than \$10,000,000	\$1,700	\$1,700	\$1,700	\$1,700
Annual revenues equal to or greater than \$10,000,00 but less than \$50,000,000	\$2,500	\$2,500	\$2,500	\$2,500
Annual revenues are equal or greanter than \$50,000,000	\$3,000	\$3,000	\$3,000	\$3,000
Minor Fee:				
Auditor Roster Fee	\$100	\$100	\$100	\$100

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	3,041,722	3,158,320	116,598	3.83 %
Operating Expenses	1,202,230	1,002,564	(199,666)	(16.61)%
Equipment & Intangible Assets	5,875	0	(5,875)	(100.00)%
Total Expenditures	\$4,249,827	\$4,160,884	(\$88,943)	(2.09)%
State/Other Special Rev. Funds	4,249,827	4,160,884	(88,943)	(2.09)%
Total Funds	\$4,249,827	\$4,160,884	(\$88,943)	(2.09)%
Total Ongoing	\$4,249,827	\$4,160,884	(\$88,943)	(2.09)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Architecture and Engineering Division manages remodeling and construction of state buildings. Its functions include planning new projects and renovations; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The division also formulates a long-range building plan for legislative consideration each session. This division operates under the authority found in Titles 17 and 18, MCA, as well as other state mandates.

Program Highlights

Architecture & Engineering Program Major Budget Highlights	
- Executive proposes reductions of 2.1% when compared to the 2017 biennium budget - Increases to personal services are offset by reductions for IT costs included in statewide present law adjustments	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	16.50	16.50	16.50	16.50	16.50
Personal Services	1,438,195	1,504,909	1,536,813	1,574,954	1,583,366
Operating Expenses	536,062	597,889	604,341	501,743	500,821
Equipment & Intangible Assets	5,875	5,875	0	0	0
Total Expenditures	\$1,980,132	\$2,108,673	\$2,141,154	\$2,076,697	\$2,084,187
State/Other Special Rev. Funds	1,980,132	2,108,673	2,141,154	2,076,697	2,084,187
Total Funds	\$1,980,132	\$2,108,673	\$2,141,154	\$2,076,697	\$2,084,187
Total Ongoing	\$1,980,132	\$2,108,673	\$2,141,154	\$2,076,697	\$2,084,187
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Personal services for A&E were 4.4% below FY 2016 budgeted appropriations. Review of the utilization of positions examining the number of hours worked compared to the number of hours budgeted shows that for FY 2016 the positions in A&E were filled 92% of the year. The savings from not having the positions filled all year partially offset the costs of market and strategic broadband pay increases provided during the year.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Personal services for FY 2017 appropriations are budgeted at a higher amount due to the impacts of the pay plan approved by the 2015 Legislature.

Executive Request

The proposed 2019 biennial budget declines by 2.1% when compared to the 2017 budget due to reductions for SITSD costs included in the statewide present law adjustments (SWPLA).

LFD COMMENT

The Office of Budget and Program Planning (OBPP) reviewed this change after the submission of the Governor's proposed budget on November 15. OBPP indicated it would be changing its SWPLA for two of its programs based on the results of this review. The SWPLA for A&E will be increased by \$102,596 in FY 2018 and \$102,595 in FY 2019. Using this adjustment, the budget for A&E would increase by 2.7% when compared to the 2017 biennium. Increases for personal services drive this increase and are discussed further in the following narrative.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 14

Department Of Administration: 04 Architecture & Engineering Division Personal Services Present Law Calculations			
PS Base:	\$1,536,813		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$38,141	\$46,553
Legislative	Statutory Personal Service Change	<u>22,439</u>	<u>31,380</u>
	Difference	15,702	15,173
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(32,809)	(32,983)
	Broadband Pay Adjustments	32,376	32,376
	Benefits and Taxes on Pay Adjustment	7,902	7,902
	Other	8,233	7,878
	Total	\$15,702	\$15,173

Personal services were \$1.5 million or 71.4% of total base appropriations. The executive proposes an increase of \$15,702 in FY 2018 and \$15,173 in FY 2019 above the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. According to DOA, market salary data for construction management positions have increased by 7.0% since the last market survey. Strategic pay adjustments were made to retain staff.

Funding

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

Department of Administration, 04-Architecture & Engineering Pgm Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02030 Arch & Engin Construction	4,160,884	0	0	0	4,160,884	100.00 %
State Special Total	\$4,160,884	\$0	\$0	\$0	\$4,160,884	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$4,160,884	\$0	\$0	\$0	\$4,160,884	

The Architecture and Engineering Division is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses in support of the state Long-Range Building Program.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	2,141,154	2,141,154	4,282,308	102.92 %	
SWPL Adjustments	0	0	0	0.00 %	(65,342)	(57,852)	(123,194)	(2.96)%	
PL Adjustments	0	0	0	0.00 %	885	885	1,770	0.04 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$2,076,697	\$2,084,187	\$4,160,884		

Present law adjustments proposed by the executive for personal services and operating expenses are the only changes to the budget for A&E.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	38,141	0	38,141	0.00	0	46,553	0	46,553
DP 2 - Fixed Costs	0.00	0	(104,414)	0	(104,414)	0.00	0	(106,003)	0	(106,003)
DP 3 - Inflation Deflation	0.00	0	931	0	931	0.00	0	1,598	0	1,598
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	885	0	885	0.00	0	885	0	885
Grand Total All Present Law Adjustments	0.00	\$0	(\$64,457)	\$0	(\$64,457)	0.00	\$0	(\$56,967)	\$0	(\$56,967)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	96,000	0	(96,000)	(100.00)%
Operating Expenses	3,269,623	0	(3,269,623)	(100.00)%
Total Expenditures	\$3,365,623	\$0	(\$3,365,623)	(100.00)%
General Fund	3,365,623	0	(3,365,623)	(100.00)%
Total Funds	\$3,365,623	\$0	(\$3,365,623)	(100.00)%
Total Ongoing	\$106,000	\$0	(\$106,000)	(100.00)%
Total OTO	\$3,259,623	\$0	(\$3,259,623)	(100.00)%

Program Description

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

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

Program Highlights

General Services Division Major Budget Highlights
• As proposed, the entire General Services Division budget would be funded through proprietary rates • The executive proposes to: ◦ Eliminate one-time-only general fund for rent of the common areas within the Capitol Complex ◦ Transfer 0.50 FTE from the General Services Division to the State Financial Services Division
Major LFD Issues
• Costs included in state agency fixed cost rates do not correspond to costs in the budgeting system

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	0.50	0.50	0.50	0.00	0.00
Personal Services	42,898	47,000	49,000	0	0
Operating Expenses	1,632,439	1,632,438	1,637,185	0	0
Total Expenditures	\$1,675,337	\$1,679,438	\$1,686,185	\$0	\$0
General Fund	1,675,337	1,679,438	1,686,185	0	0
Total Funds	\$1,675,337	\$1,679,438	\$1,686,185	\$0	\$0
Total Ongoing	\$47,899	\$52,000	\$54,000	\$0	\$0
Total OTO	\$1,627,438	\$1,627,438	\$1,632,185	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Actual expenditures for personal services were slightly below budgeted funding due to vacancies during the year. Operating expenses appropriated in HB 2 provide rent for the common areas within the buildings in the Capitol Complex. Since the 2009 biennium the Facilities Management Bureau has charged the common areas of three state buildings rent and maintenance fees. The common areas include:

- Office space for the Senate and House of Representatives in the Capitol Building
- Hallways and bathrooms in the Capitol Building
- Governor's Mansion
- Public display areas in the Montana Historical Society
- Office space in the Montana Historical Society

The funding is restricted to transfers to the capitol complex major maintenance account for use in capital projects approved through a long-range building program bill. As of the end of October 2016 the fund balance available in the account for capital projects was \$1.7 million. An additional \$1.2 million in general fund in FY 2017 has yet to be transferred into the account.

LFD COMMENT

Division staff indicated that the planned projects for the general fund transfers in the 2017 biennium included:

- Infrastructure repairs to the capitol complex - \$2.0 million
- Elevator modifications in the capitol complex - \$0.7 million
- Flooring replacement in the capitol complex - \$0.5 million
- Fire protection measures in the capitol complex - \$0.3 million
- Remodel 1100 North Last Chance - \$0.5 million

FY 2016 Appropriation Compared to FY 2017 Appropriation

Budgeted appropriations for FY 2017 are slightly higher due to increases in personal services related to the pay plan approved by the 2015 Legislature.

Executive Proposal

The executive proposes to eliminate all HB 2 appropriations for the General Services Division in the 2019 biennium including:

- Transferring 0.50 FTE and \$46,000 in general fund each year to the State Financial Services Division
- Eliminating general fund support for the common areas of the Capitol Complex

LFD COMMENT

The 2007 Legislature approved a policy change that established rental rates for the non-common areas of state-owned buildings that do not subsidize common areas. The practice prior to this resulted in all rent payers subsidizing the operations and maintenance of common spaces. The separation of common and non-common areas in the rates insured that rental rates charged to the federal government for federal grant programs did not include a portion of the costs of maintaining common areas that did not specifically benefit the federal program. The legislature continued this practice of funding the common areas with a separate general fund appropriation through the 2017 biennium budget.

The executive proposes to eliminate funding for the common areas provided through general fund in the 2019 biennium budget and replace it with capital land grant income appropriated in HB 5. The square footage of the common areas is eliminated in the rate calculation of office and non-office space.

Program Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 16

Department Of Administration: 06 General Services Division Personal Services Present Law Calculations			
PS Base: \$49,000		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$8,056)	(\$7,871)
Legislative	Statutory Personal Service Change	<u>742</u>	<u>950</u>
	Difference	(8,798)	(8,821)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(853)	(857)
	Broadband Pay Adjustments	50,319	50,319
	Benefits and Taxes on Pay Adjustment	5,326	5,326
	Other	(63,590)	(63,610)
	Total	(\$8,798)	(\$8,821)

Personal services were \$49,000 or 2.9% of total base appropriations. The executive proposes a reduction of (\$8,798) in FY 2018 and (\$8,821) in FY 2019 below the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. The executive transferred the Procurement Bureau from the General Services Division to the State Financial Services Division during the 2017 biennium to streamline the procurement functions as part of a reorganization. The executive proposes to transfer the remaining 0.50 FTE from GSD to SFSD eliminating the position in this division.

Funding

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

Department of Administration, 06-General Services Division Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	0	0	0	0	0	0.00 %	
02518 Capitol Security Contract	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06066 Surplus Property	0	0	1,294,778	0	1,294,778	2.87 %	
06528 Rent And Maintenance	0	0	22,348,560	0	22,348,560	49.46 %	
06530 Print & Mail Services	0	0	21,541,870	0	21,541,870	47.67 %	
Proprietary Total	\$0	\$0	\$45,185,208	\$0	\$45,185,208	100.00 %	
Total All Funds	\$0	\$0	\$45,185,208	\$0	\$45,185,208		

HB 2 Funding

The executive proposes to eliminate general fund support for the common areas appropriated within HB 2. In addition the remaining FTE for the program are transferred to the SFSD.

Proprietary Funds

The majority of GSD is supported through proprietary funds. These funds are considered and approved as rates charged to other division and are discussed in the "Proprietary Rates" section of the narrative

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	54,000	54,000	108,000	0.00 %	54,000	54,000	108,000	0.00 %
SWPL Adjustments	(8,056)	(7,871)	(15,927)	0.00 %	(8,056)	(7,871)	(15,927)	0.00 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(45,944)	(46,129)	(92,073)	0.00 %	(45,944)	(46,129)	(92,073)	0.00 %
Total Budget	\$0	\$0	\$0		\$0	\$0	\$0	

Transferring 0.50 FTE to SFSD and eliminating rent for the common areas eliminates HB 2 appropriations in this division.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
Fiscal 2018						Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(8,056)	0	0	(8,056)	0.00	(7,871)	0	0	(7,871)
DP 2 - Fixed Costs	0.00	0	0	0	0	0.00	0	0	0	0
DP 3 - Inflation Deflation	0.00	0	0	0	0	0.00	0	0	0	0
DP 601 - Increase in Facilities Operating Costs	0.00	0	0	0	0	0.00	0	0	0	0
DP 602 - Increase in Utilities	0.00	0	0	0	0	0.00	0	0	0	0
DP 603 - Increase in City Assessments	0.00	0	0	0	0	0.00	0	0	0	0
Grand Total All Present Law Adjustments	0.00	(\$8,056)	\$0	\$0	(\$8,056)	0.00	(\$7,871)	\$0	\$0	(\$7,871)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 601 - Increase in Facilities Operating Costs -

This change package adjusts for increases in contracted services and maintenance and repair expenses.

DP 602 - Increase in Utilities -

This change package adjusts for increases in utilities for FY 2018 and FY 2019.

DP 603 - Increase in City Assessments -

This request allows the General Services Division to adequately cover the cost of continued increases in city assessments over the biennium.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301 - Transfer Position Between Divisions	(0.50)	(45,944)	0	0	(45,944)	(0.50)	(46,129)	0	0	(46,129)
Total	(0.50)	(\$45,944)	\$0	\$0	(\$45,944)	(0.50)	(\$46,129)	\$0	\$0	(\$46,129)

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

DP 301 - Transfer Position Between Divisions -

This request transfers .50 FTE from the General Services Division to the State Financial Services Division. The reduction in personal services and operating expenditures is offset by the increase in State Financial Services Division.

Other Issues -

Proprietary Rates

The General Services Division provides the following functions supported by proprietary rates charge to state agencies:

- Facilities management (Rent and grounds maintenance)
- Print services
- Mail services
- Surplus property and recycling

Facilities Management Bureau - 06528

Program Description

Rent and maintenance are managed by the Facilities Management Bureau (FMB), which is the custodian of all state property and grounds in the state capitol area. The state capitol area is the geographic area within a 10-mile radius of the State Capitol. Services include providing facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area; and providing statewide leasing assistance to agencies to negotiate colocation of agencies when procuring leased space for field offices. The FMB also manages the office waste paper products recycling program in the Helena area. The program serves all agencies and units within state government.

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: General Services Division			
	Fund 06528	Fund Name Rent And Maintenance					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		8,471,120	8,845,951	10,622,832	11,152,939	11,560,508	11,752,821
Fee Revenue B		459,758	484,474	565,354	-	-	-
Other Operating Revenue		6,633	26,944	8,885	1,500	789	789
Total Operating Revenues		8,937,511	9,357,369	11,197,071	11,154,439	11,561,297	11,753,610
Expenses:							
Personal Services		1,830,052	2,056,636	2,024,843	2,105,024	2,383,823	2,388,115
Other Operating Expenses		7,046,658	7,352,604	7,790,783	7,785,331	8,368,192	8,621,231
Total Operating Expenses		8,876,710	9,409,240	9,815,626	9,890,355	10,752,015	11,009,346
Operating Income (Loss)		60,801	(51,871)	1,381,445	1,264,084	809,282	744,264
Nonoperating Revenues:							
Other Revenue A		7,799	-	-	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		7,799	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		68,600	(51,871)	1,381,445	1,264,084	809,282	744,264
Transfers Out		(328,068)	(445,441)	(363,696)	(314,641)	(314,641)	(272,559)
Change in Net Position		(259,468)	(497,312)	1,017,749	949,443	494,641	471,705
Beginning Net Position - July 1		45,707	(213,761)	277,576	1,295,325	2,244,768	2,739,409
Prior Period Adjustments		-	988,649	-	-	-	-
Change in Net Position		(259,468)	(497,312)	1,017,749	949,443	494,641	471,705
Ending Net Position - June 30		(213,761)	277,576	1,295,325	2,244,768	2,739,409	3,211,114
Net Position (Fund Balance) Analysis							

Expenses

The executive proposes increased expenditures for the facilities and management bureau of \$0.9 million in FY 2018 and \$1.1 million in FY 2019. Increases for contracted services drive the changes. The following figure shows the increased costs as proposed by the executive as reflected in the budgeting system.

Figure 17

Department of Administration General Services Division Facilities Management Bureau		
Proposed Increases in 2019 Biennium per IBARS	FY 2018	FY 2019
Personal Services		
SWPLA - Including 4% vacancy savings	<u>\$278,799</u>	<u>\$283,090</u>
Total Personal Services	278,799	283,090
Operating Expenses		
SWPLA - Fixed Costs	17,929	15,863
SWPLA - Inflation/Deflation	(80,707)	(46,184)
Allocate Indirect/Admin Costs	2,935	2,935
Contracted Services	484,500	630,000
Utilities	5,000	20,000
Increase SCEMO fees	10,074	10,074
CMMS Work Order System Upgrade	100,000	100,000
Taxes and assessment increases	<u>48,000</u>	<u>66,000</u>
Total Operating Expenses	587,731	798,688
Total Proposed Increases	\$866,530	\$1,081,778

**LFD
ISSUE****Costs Included in Estimates for State Agency Fixed Cost Rate Do Not Correspond To Costs in Budgeting System**

The adjustments included in the budgeting system do not correspond to the numbers used by FMB to calculate the fixed costs charged to state agencies. The following figure shows the differences between what was included in the budgeting system (IBARS) and what was included in the fixed costs rates charged agencies.

Figure 18

Department of Administration General Services Division Facilities Management Bureau Differences Between IBARS and Estimated Rates for Rent and Maintenance						
	IBARS		State Agency Rate		% Difference from IBARS	
	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019
Personal Services	\$2,383,823	\$2,388,115	\$2,559,705	\$2,567,189	-7.4%	-7.5%
Operating Expenses	8,226,798	8,479,837	8,373,427	8,600,339	-1.8%	-1.4%
Equipment & Intangible Assets	141,394	141,394	120,000	120,000	15.1%	15.1%
Transfers	160,000	160,000	160,000	160,000	0.0%	0.0%
Other Costs	0	0	139,875	139,875	100.0%	100.0%
Debt Service	154,641	112,559	154,641	112,559	0.0%	0.0%
Total Expenditures	\$11,066,656	\$11,281,905	\$11,507,648	\$11,699,962	-4.0%	-3.7%

As reflected, overall personal service costs included in the estimates for state agency rates are 7.4% higher in FY 2018 and 7.5% in FY 2019 while operating expenses were higher by 1.8% and 1.4% respectively in FY 2018 and FY 2019 than those included in IBARS. In addition, the state agency rates include costs of \$84,010 each year for the Recycling Program which has its own separate proprietary rate and related fund.

Legislative Option

The legislature may wish to consider adopting the rental rate that is based on the numbers included in IBARS rather than those that were used to calculate the state agency rate for rent included in statewide present law adjustments. It may also wish to eliminate the Recycling Program operating expenses from the rate calculation charged to state agencies.

Revenues

All agencies occupying office space in a state owned building on the capitol complex pay rent to the program. Separate rental rates are established for office space and grounds and for storage space. In addition to rent payments, agencies pay a percentage of the costs of non-routine maintenance projects. These fees are charged at a different rates depending on whether the bureau or contracted employees are used to complete the project.

Rate and Rate Explanation

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

Figure 19

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description:				
Office Rent (per sq. ft.)	\$9.780	\$9.802	\$10.351	\$10.543
Warehouse Rent (per sq. ft.)	\$4.625	\$4.637	\$7.406	\$7.535
Grounds Maintenance (per sq. ft.)	\$0.615	\$0.615	Included in Rent	
Project Mgmt. (In-house)	15%	15%	15%	15%
Project Mgmt. (Contracted)	Actual Cost	Actual Cost	Actual Cost	Actual Cost

As reflected in the proposed rates, the executive proposes to combine the grounds maintenance fee with the rent fee. The higher warehouse rent reflects a change in methodology that incorporates a percentage of salaries and operating expenses based on the total square footage and includes grounds maintenance. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Print and Mail Services Bureau - 06530***Program Description***

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

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: General Services Division			
	Fund 06530	Fund Name Print & Mail Services					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		10,674,144	9,880,910	10,079,975	11,036,815	10,786,000	10,786,000
Other Operating Revenue		25	18	204	-	-	-
Total Operating Revenues		10,674,169	9,880,928	10,080,179	11,036,815	10,786,000	10,786,000
Expenses:							
Personal Services		1,540,498	1,434,100	1,661,651	1,496,515	1,845,391	1,849,568
Other Operating Expenses		9,132,154	8,341,534	8,750,937	9,504,019	8,928,137	8,918,774
Total Operating Expenses		10,672,652	9,775,634	10,412,588	11,000,534	10,773,528	10,768,342
Operating Income (Loss)		1,517	105,294	(332,409)	36,281	12,472	17,658
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		1,517	105,294	(332,409)	36,281	12,472	17,658
Transfers Out							
		-	(174,891)	-	-	-	-
Change in Net Position		1,517	(69,597)	(332,409)	36,281	12,472	17,658
Beginning Net Position - July 1		2,281,424	2,362,348	2,292,751	1,960,342	1,996,623	2,009,095
Prior Period Adjustments		79,407	-	-	-	-	-
Change in Net Position		1,517	(69,597)	(332,409)	36,281	12,472	17,658
Ending Net Position - June 30		2,362,348	2,292,751	1,960,342	1,996,623	2,009,095	2,026,753
Net Position (Fund Balance) Analysis							

Expenses

Personal services costs in FY 2016 were \$260,679 above budgeted amounts or 18.6% higher than forecasted while operating expenses were \$820,331 or 8.6% lower than estimated. Personal services in FY 2018 are proposed at 9.9% above FY 2016 actuals while operating expenses are proposed with an estimated increase of 2.0% when compared to FY 2016 actuals.

Revenues

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

Rates and Rate Explanations

For the 2019 biennium the following rates are proposed by the executive. The rates charges in the previous biennia are shown for comparison purposes.

Figure 20

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description:				
Internal Printing				
Impression Cost	N/A	N/A	Cost + 25%	Cost + 25%
Large Format Color	N/A	N/A	Cost + 25%	Cost + 25%
Ink	N/A	N/A	Cost + 25%	Cost + 25%
Bindery Work	N/A	N/A	Cost + 25%	Cost + 25%
Variable Data Printing	N/A	N/A	Cost + 25%	Cost + 25%
Pick and Pack Fulfillment	N/A	N/A	\$1.00	\$1.00
Overtime	N/A	N/A	\$30.00	\$30.00
Desktop	N/A	N/A	\$75.00	\$75.00
Scan	N/A	N/A	\$9.52	\$9.52
IT Programming	N/A	N/A	\$95.00	\$95.00
File Transfer	N/A	N/A	25	25
Mainframe Printing	N/A	N/A	0.071	0.071
Warrant Printing	N/A	N/A	0.25	0.25
CD/DVD Duplicating	N/A	N/A	Cost + 25%	Cost + 25%
Pre-Press Work	N/A	N/A	Cost + 25%	Cost + 25%
Fee Group				
External Printing				
Percent of Invoice Mark-Up	7.30%	7.30%	8.80%	8.80%
Fee Group				
Managed Printing				
Percent of Invoice Mark-Up	15.9%	15.9%	15.9%	15.9%
Fee Group				
Mail Preparation				
Tabbing	\$0.021	\$0.021	\$0.023	\$0.023
Labeling	\$0.021	\$0.021	\$0.023	\$0.023
Ink Jet	\$0.034	\$0.034	\$0.036	\$0.036
Inserting	\$0.030	\$0.030	\$0.045	\$0.045
Waymark	\$0.069	\$0.069	\$0.069	\$0.069
Permit mailings	\$0.069	\$0.069	\$0.069	\$0.069
Fee Group				
Mail Operations				
Service Type (each)				
Machinable	\$0.043	\$0.043	\$0.043	\$0.043
Non-Machinable	\$0.100	\$0.100	\$0.110	\$0.110
Seal Only	\$0.020	\$0.020	\$0.020	\$0.020
Post cards	\$0.060	\$0.060	\$0.070	\$0.070
Certified Mail	\$0.614	\$0.614	\$0.620	\$0.620
Registered Mail	\$0.614	\$0.614	\$0.614	\$0.614
Internatl Mail	\$0.500	\$0.500	\$0.510	\$0.510

Flats	\$0.140	\$0.140	\$0.150	\$0.150
Priority	\$0.614	\$0.614	\$0.614	\$0.614
Express Mail	\$0.614	\$0.614	\$0.614	\$0.614
USPS Parcels	\$0.500	\$0.500	\$0.510	\$0.510
Insured mail	\$0.614	\$0.614	\$0.614	\$0.614
Media Mail	\$0.307	\$0.307	\$0.320	\$0.320
Standard Mail	\$0.200	\$0.200	\$0.200	\$0.200
Postage Due	\$0.061	\$0.061	\$0.061	\$0.061
Fee Due	\$0.061	\$0.061	\$0.061	\$0.061
Tapes	\$0.245	\$0.245	\$0.245	\$0.245
Express Services	\$0.500	\$0.500	\$0.500	\$0.500
Mail tracking	\$0.250	\$0.250	\$0.250	\$0.250
Cass letters/postcards	\$0.043	\$0.043	\$0.047	\$0.047
Cass flats	\$0.100	\$0.100	\$0.100	\$0.100
Flat sorter	\$0.250	\$0.250	\$0.250	\$0.250
Fee Group				
Inter-agency Mail				
Dollars-yearly	\$355,570	\$355,570	\$360,175	\$360,175
Fee Group				
Postal Contract (Capitol)				
Dollars-yearly	\$38,976	\$38,976	\$38,976	\$38,976

The requested rates for internal printing have been redone to reflect current business processes. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Surplus Property - 06066

Program Description

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

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

The program has authority for 6.00 FTE.

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: General Services Division			
	Fund	Fund Name					
	06066	Surplus Property					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		346,842	656,685	439,331	400,000	425,000	425,000
Fee Revenue B		11,663	24,426	20,785	-	-	-
Other Operating Revenue		-	11,627	18,078	18,000	18,000	18,000
Revenue A		7,030	-	-	-	-	-
Total Operating Revenues		365,535	692,738	478,194	418,000	443,000	443,000
Expenses:							
Personal Services		240,684	363,410	403,036	405,534	374,639	376,543
Other Operating Expenses		756,616	927,137	730,512	860,673	872,069	871,527
Total Operating Expenses		997,300	1,290,547	1,133,548	1,266,207	1,246,708	1,248,070
Operating Income (Loss)		(631,765)	(597,809)	(655,354)	(848,207)	(803,708)	(805,070)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(631,765)	(597,809)	(655,354)	(848,207)	(803,708)	(805,070)
Capital Contributions		607,182	685,120	857,552	600,000	600,000	600,000
Transfers In		-	-	67,500	67,500	67,500	67,500
Change in Net Position		(24,583)	87,311	269,698	(180,707)	(136,208)	(137,570)
Beginning Net Position - July 1		503,369	477,031	564,342	834,040	653,333	517,125
Prior Period Adjustments		(1,755)	-	-	-	-	-
Change in Net Position		(24,583)	87,311	269,698	(180,707)	(136,208)	(137,570)
Ending Net Position - June 30		477,031	564,342	834,040	653,333	517,125	379,555
Net Position (Fund Balance) Analysis							

Rate and Rate Explanation

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

Figure 21

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description				
The State Surplus handling fees are: If property is sold for less than \$500, the program retains the proceeds. The program retains \$500 plus 5% of the sales amount and unusual expenses for property sold for more than \$500. The Federal Surplus Property Program fees are an allocation of freight expenses and 14% of acquisition costs. This is included in the Federal Plan of Operation, which has been approved by the Federal General Services Administration.				

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	1,021,715	1,218,497	196,782	19.26 %
Operating Expenses	2,013,178	1,758,918	(254,260)	(12.63)%
Transfers	17,173	0	(17,173)	(100.00)%
Total Expenditures	\$3,052,066	\$2,977,415	(\$74,651)	(2.45)%
General Fund	770,705	878,871	108,166	14.03 %
State/Other Special Rev. Funds	654,946	557,025	(97,921)	(14.95)%
Federal Spec. Rev. Funds	1,626,415	1,541,519	(84,896)	(5.22)%
Total Funds	\$3,052,066	\$2,977,415	(\$74,651)	(2.45)%
Total Ongoing	\$3,052,066	\$2,977,415	(\$74,651)	(2.45)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

Program Highlights

State Information Technology Division Major Budget Highlights
• Majority of the funding in the program is proprietary funds • The executive proposes to increase state agency costs for information technology services by \$9.1 million over the 2019 biennium
Major LFD Issues
• Legislature could reduce fixed costs by eliminating funding for FTE vacant due to reorganization from state agency rates • Requirement to obtain services from SITSD may increase costs to state agencies of some IT services

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	6.09	6.09	6.09	5.58	5.58
Personal Services	346,923	503,905	517,810	608,264	610,233
Operating Expenses	255,008	1,727,158	286,020	1,465,542	293,376
Transfers	7,429	17,173	0	0	0
Total Expenditures	\$609,360	\$2,248,236	\$803,830	\$2,073,806	\$903,609
General Fund	309,461	381,783	388,922	438,879	439,992
State/Other Special Rev. Funds	178,672	324,915	330,031	278,285	278,740
Federal Spec. Rev. Funds	121,227	1,541,538	84,877	1,356,642	184,877
Total Funds	\$609,360	\$2,248,236	\$803,830	\$2,073,806	\$903,609
Total Ongoing	\$609,360	\$2,248,236	\$803,830	\$2,073,806	\$903,609
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

As shown in the preceding table, FY 2016 expenditures were \$1.6 million lower than the FY 2016 appropriations. Personal services were below projections due to vacancies within the Public Safety Office, with one position for a computer supervisor vacant the entire year and the remaining positions vacant 84.6% of the year. Budgeted operating expenses included \$1,528,112 for implementation of the FirstNet federal grant. The grant supports the planning process for a specific frequency for emergency responders. The federal First Responder Network Authority issued a request for proposal in January 2016 with proposals due the end of April 2016. The selection process has been extended past the November 2016 target date delaying expenditures on the project at the state level.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Differences between the FY 2016 appropriation and the FY 2017 appropriation include:

- Increases in personal services for the second year of the pay plan approved by the 2015 Legislature
- Lower operating expenses as the biennial appropriation for the FirstNet grant included \$1.5 million in FY 2016 and \$0.1 million in FY 2017

Executive Request

The executive proposes a 2019 biennium budget that is 2.5% lower than the 2017 biennium budget. Decreases in operating expenses for changes included in present law adjustments, mainly for reduction in SITD costs, and a proposal to reduce the base budget and eliminate funding for a portion of an FTE.

Program Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 22

Department Of Administration: 07 Information Tech Serv Division Personal Services Present Law Calculations			
PS Base:	\$517,810		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$59,971	\$61,189
Legislative	Statutory Personal Service Change	<u>15,178</u>	<u>16,495</u>
	Difference	44,793	44,694
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(12,036)	(12,061)
	Broadband Pay Adjustments	174,837	174,837
	Benefits and Taxes on Pay Adjustment	39,312	39,312
	Other	(157,321)	(157,394)
	Total	\$44,793	\$44,694

Personal services were \$0.5 million or 64.4% of total base appropriations. The executive proposes an increase of \$44,793 in FY 2018 and \$44,694 in FY 2019 above the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. The increase in personal services included in the statewide present law adjustment is a combination of a proposed 4% vacancy savings, the impact of retirements and turnover among IT staff with new staff paid at lower base salaries and longevity levels, and broadband pay adjustments to address recruitment and retention issues.

Funding

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

Department of Administration, 07-State Information Technology Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	878,871	0	0	0	878,871	0.72 %
02105 Basic 9-1-1 Emrgncy Phone Prog	1,714	0	0	2,572,348	2,574,062	10.89 %
02397 Enhanced 9-1-1 Emerg Tel Pgm	0	0	0	6,380,000	6,380,000	27.00 %
02594 Statewide 911 Services Admin	555,311	0	0	0	555,311	2.35 %
02993 911 Wireless	0	0	0	6,380,000	6,380,000	27.00 %
02994 911 Wireless Providers	0	0	0	7,737,172	7,737,172	32.75 %
State Special Total	\$557,025	\$0	\$0	\$23,069,520	\$23,626,545	19.39 %
03485 FirstNet Planning Grant	1,541,519	0	0	0	1,541,519	100.00 %
03166 DES 2015 Homeland Sec Grant	0	0	0	0	0	0.00 %
Federal Special Total	\$1,541,519	\$0	\$0	\$0	\$1,541,519	1.26 %
06522 ISD Proprietary	0	0	95,810,273	0	95,810,273	100.00 %
Proprietary Total	\$0	\$0	\$95,810,273	\$0	\$95,810,273	78.62 %
Total All Funds	\$2,977,415	\$0	\$95,810,273	\$23,069,520	\$121,857,208	

HB 2

General fund provides funding for the administration of the Public Safety Bureau. State special revenues provide support for the administrative costs related to 911 services. Fees are imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services.

Proprietary Funding

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

Statutory Appropriations

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

LFD COMMENT

Statute requires that fees be imposed for 911 services including:

- \$0.25 a month per access line on each service subscriber for basic 911 services
- \$0.25 a month per access line on each service subscriber for enhanced 911 services
- \$0.50 a month per access line or subscriber in the state for wireless enhanced 911 services

Fees from the accounts are required to be paid to telephone service providers or cities and counties for basic or enhanced 911 services. However, the use of enhanced 911 funding is limited and may only be used to pay for installing enhanced 911 features or for operating and improving an emergency telephone system using 911 service once a plan for converting to enhanced 911 services is approved.

The enhanced 911 service account has been accumulating fund balance as a result of this limitation. The following figure shows the revenues, expenditures, and fund balance from FY 2014 through projections for FY 2019.

Figure 23

Department of Administration State Information Technology Services Division Enhanced 911 Services Account						
Budget Item	Actual FY 2014	Actual FY 2015	Actual FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Beginning Fund Balance	\$11,190,550	\$10,827,744	\$11,460,201	\$12,264,454	\$1,854,968	\$1,226,382
Revenues	3,249,075	3,217,170	3,240,243	3,459,100	3,240,000	3,240,000
Expenditures						
Grants	2,468,947	1,432,403	1,343,415	2,776,011	2,776,011	2,776,011
Transfers Out	<u>1,142,934</u>	<u>1,102,309</u>	<u>1,092,575</u>	<u>11,092,575</u>	<u>1,092,575</u>	<u>1,092,575</u>
Total Expenditures	3,611,881	2,534,712	2,435,990	13,868,586	3,868,586	3,868,586
Adjustment	0	(50,001)	0	0	0	0
Ending Fund Balance	\$10,827,744	\$11,460,201	\$12,264,454	\$1,854,968	\$1,226,382	\$597,796

As reflected in Figure 24, the executive proposes to transfer \$10.0 million out of the account and transfer the funding to the general fund. This proposal requires legislation and is included in HB 10. While requests for funding from the fund have been lower than revenues, enhanced service requests could still be presented in the next biennium. Another consideration would be if fees should be lowered to reduce the fund balance.

Program Budget Summary by Category

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

Budget Summary by Category								
-----General Fund-----					-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	388,922	388,922	777,844	88.50 %	803,830	803,830	1,607,660	54.00 %
SWPL Adjustments	121,085	121,447	242,532	27.60 %	71,441	72,258	143,699	4.83 %
PL Adjustments	(1,611)	(1,611)	(3,222)	(0.37)%	1,268,052	96,287	1,364,339	45.82 %
New Proposals	(69,517)	(68,766)	(138,283)	(15.73)%	(69,517)	(68,766)	(138,283)	(4.64)%
Total Budget	\$438,879	\$439,992	\$878,871		\$2,073,806	\$903,609	\$2,977,415	

As reflected in the preceding table, restoration of one-time-only funding for the FirstNet grant drives the change in the budget. Increases in general fund for personal service changes are offset by proposed reductions for 0.51 FTE supported by general fund.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments									
-----Fiscal 2018-----					-----Fiscal 2019-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services									
0.00	114,568	(54,597)	0	59,971	0.00	115,243	(54,054)	0	61,189
DP 2 - Fixed Costs									
0.00	6,420	4,953	0	11,373	0.00	6,063	4,865	0	10,928
DP 3 - Inflation Deflation									
0.00	97	0	0	97	0.00	141	0	0	141
DP 4 - Allocate Department Indirect/Administrative Costs									
0.00	(1,611)	(2,102)	0	(3,713)	0.00	(1,611)	(2,102)	0	(3,713)
DP 706 - FirstNet Grant (Biennial)									
0.00	0	0	1,271,765	1,271,765	0.00	0	0	100,000	100,000
Grand Total All Present Law Adjustments									
0.00	\$119,474	(\$51,746)	\$1,271,765	\$1,339,493	0.00	\$119,836	(\$51,291)	\$100,000	\$168,545

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

DP 706 - FirstNet Grant (Biennial) -

The budget includes \$1,271,765 in FY 2018 and \$100,000 in FY 2019 to support the FirstNet grant program. This grant supports the planning process for a specific frequency for emergency first responders. The intent is that the state's FirstNet planning efforts include substantive participation from private telecommunication network providers, both wireline and wireless, and that the plan seeks to maximize the use of existing private telecommunication infrastructure.

New Proposals -

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

New Proposals	Fiscal 2018					Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	0	0	0	0	0.00	0	0	0	0
DP 705 - Reduce Public Safety Position Funding	(0.51)	(69,517)	0	0	(69,517)	(0.51)	(68,766)	0	0	(68,766)
Total	(0.51)	(\$69,517)	\$0	\$0	(\$69,517)	(0.51)	(\$68,766)	\$0	\$0	(\$68,766)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

DP 705 - Reduce Public Safety Position Funding -

The budget includes a reduction of .51 FTE in FY 2018 and FY 2019 to adjust for a position that is split between general fund and state special revenue funding.

Other Issues -

Proprietary Rates

State Information Technology Services Division (SITSD) - 06522*Program Description*

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

- Information systems security: ensure continuity of enterprise operations and security of data through risk assessment and mitigation, planning and monitoring, detailed recovery planning, incident response, and periodic testing
- Coordination of security policies and procedures
- Network technology services: manage the statewide network (SummitNet), provide prioritize voice, video, data and wireless services, develop and implement solutions to address network growth and expansion, and support customers' needs regarding increased bandwidth and connectivity
- Enterprise technology services: develop and manage hardware and software services across the enterprise in a cost-effective manner
- Enterprise support services: manage service desk to assist customers regarding hardware and software applications, manage desktop lifecycle for customers
- Montana data centers: manage data centers in Helena and Miles City and reliably, efficiently, and securely provide file storage
- Application technology services: support the state's mt.gov websites and assist customers to design and deploy customized applications and online services, including eGovernment applications
- Strategic planning services: ensure IT operations are conducted through planning and periodic performance reports, and provide oversight of agency IT procurement and plans
- Business and financial services: manage budget development, billing, and acquisition and procurement services for IT customers, implement strategies to meet customer needs, and deliver and maintain services
- State IT project management services: provide expertise, assistance, tools, methodologies, and training to customers to ensure IT projects are conducted in an organized, deliberative, and cost-effective manner

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds						
Agency # 61010	Agency Name: Department of Administration			Program Name: State Information Technology Division		
	Fund 06522	Fund Name ISD Proprietary				
	Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:						
Fee and Charges						
Fee Revenue A	38,332,137	39,341,127	45,123,524	44,124,729	47,135,765	47,043,766
Other Operating Revenue	51,905	105,048	(24,729)	650	650	650
Total Operating Revenues	38,384,042	39,446,175	45,098,795	44,125,379	47,136,415	47,044,416
Expenses:						
Personal Services	14,658,251	16,150,764	15,913,716	16,283,561	16,956,842	16,999,979
Other Operating Expenses	25,706,816	24,701,951	29,384,714	23,614,659	30,370,506	30,230,226
Total Operating Expenses	40,365,067	40,852,715	45,298,430	39,898,220	47,327,348	47,230,205
Operating Income (Loss)	(1,981,025)	(1,406,540)	(199,635)	4,227,159	(190,933)	(185,789)
Nonoperating Revenues:						
Other Revenue A	-	482	625	-	-	-
Nonoperating Expenses:						
Total Nonoperating Revenues (Expenses)	-	482	625	-	-	-
Income (Loss) Before Contributions and Transfers	(1,981,025)	(1,406,058)	(199,010)	4,227,159	(190,933)	(185,789)
Capital Contributions						
Transfers In	33,132	-	-	-	-	-
Transfers Out	19,522	-	-	-	-	-
Change in Net Position	(467,866)	-	(58,849)	(626,360)	(626,360)	(626,360)
Beginning Net Position - July 1	4,720,621	2,324,384	896,748	577,267	4,178,066	3,360,773
Prior Period Adjustments	-	(21,578)	(61,622)	-	-	-
Change in Net Position	(2,396,237)	(1,406,058)	(257,859)	3,600,799	(817,293)	(812,149)
Ending Net Position - June 30	2,324,384	896,748	577,267	4,178,066	3,360,773	2,548,624
Net Position (Fund Balance) Analysis						

Expenses

SITSD is proposes large increases in operating expenses when compared to the 2017 base including:

- \$3.1 million in FY 2018 and \$2.7 million in FY 2019 for Oracle licensing agreements. For more information on the changes can be found at http://leg.mt.gov/content/Publications/fiscal/interim/2016financemty_mar/oracle-memo-march-2016.pdf
- \$0.5 million each year of the biennium for Microsoft, ESTI, and policy tech increases
- \$3.45 million in FY 2018 and \$3.75 million in FY 2019 for increased SITSD utilization
- \$0.2 million in FY 2018 and \$0.1 million in FY 2019 for fixed cost changes mainly related to rent increases
- \$0.1 million each year of the biennium for increases to proprietary rates for the Director's Office

Personal services costs are proposed to increase by \$673,281 in FY 2018 and \$716,418 in FY 2019 after a 4% vacancy savings reduction. In FY 2016 the positions within SITSD were filled 89.7% during the year. In FY 2016 SITSD reorganized and reduced 9.0 FTE from its organizational structure by consolidating bureaus. The 9.00 FTE were also eliminated from

rate charges to state agencies in the 2017 biennium. However, SITSD did not eliminate the FTE from the budgeting system. SITSD included 19.41 FTE that were vacant in the proposed budget for the 2019 biennium including the FTE that were eliminated from the 2017 biennium rates. The following figure shows the salary and benefits associated with the vacant FTE.

Figure 24

Department of Administration State Information Technology Services Division Vacant Positions Included in Budget					
Position	FTE	FY 2018		FY 2019	
		Salary	Benefits	Salary	Benefits
Computer Information Systems Manager	6.41	\$676,773	\$157,335	\$676,773	\$157,985
Computer System Administrative Specialist	1.00	56,701	19,220	56,701	19,275
Management Analyst	1.00	53,477	18,818	53,477	18,869
Computer Support Specialist	2.00	83,699	35,255	83,699	35,335
Telecommunications Specialist	1.00	68,453	21,548	68,453	21,614
Program Manager	1.00	76,523	21,695	76,523	21,768
Computer System Administrative Specialist	1.00	70,117	20,895	70,117	20,962
Operations Manager	1.00	90,771	23,473	90,771	23,560
Financial Operations Supervisor/Manager	1.00	76,128	21,645	76,128	21,718
Database Analyst	1.00	58,386	19,430	58,386	19,487
Computer Information Systems Manager	1.00	85,509	22,816	85,509	22,898
Computer Supervisor	1.00	60,133	19,649	60,133	19,706
Network Systems Analyst	1.00	71,906	22,022	71,906	22,092
Total	19.41	\$1,528,575	\$423,802	\$1,528,575	\$425,269

The vacant positions represent 10.6% of the total FTE included in the proposed budget. Of those shown above, 8.00 FTE were vacant all year due to the reorganization. The costs of the 8.00 FTE that were vacant in FY 2016 are shown below:

- 5.00 FTE for computer information systems manager positions - \$654,697
- 1.00 FTE for program manager - \$100,938
- 1.00 FTE for operations manager - \$95,827
- 1.00 FTE for computer supervisor - \$105,382

LFD ISSUE

Legislature Could Reduce Fixed Costs By Eliminating Funding For FTE Vacant Due to Reorganization

The reinstatement of 8.0 FTE that were vacant due to the reorganization is part of the reason for the increase of \$0.7 million in personal services each year of the 2019 biennium. As discussed, to partially offset the higher costs the proposed budget includes a 4% vacancy savings reduction in personal services spending of \$0.7 million each year of the biennium.

Excluding the 8.00 FTE from the calculation, SITSD had 6.2% of its positions unfilled during FY 2016. The high number of vacancies created a great deal of flexibility for the agency in relation to personal services. The agency utilized \$211,705 of savings resulting from the vacant positions to provide broadband pay adjustments for strategic, market, situational pay, reclassifications, and training assignment progression.

Fixed costs to state agencies are proposed to increase by 18.6% when compared to FY 2017 base budget. The funding percentages proposed for fixed cost adjustments including SITSD charges in HB 2 is:

	FY 2018	FY 2019
• General fund	46.7%	50.5%
• State special revenue	31.9%	27.9%
• Federal special revenue	21.5%	23.7%

- Proprietary (0.1%) (2.1%)

Funding associated with these positions is \$947,000 in FY 2018 and \$947,500 in FY 2019. Elimination of funding for the vacant FTE from the fixed cost rates will save up to \$921,000 in general fund over the biennium.

Legislative Option

If the legislature wishes to reduce SITSD rates for fixed costs in the 2019 biennium it can reduce funding for personal services supporting the 8.00 FTE that were vacant all of FY 2016 as a result of the reorganization.

Revenues

Funding for SITSD services is mainly derived from charges to state agencies through the fixed cost process for services. Budget authority to pay the SITSD allocation is a fixed cost item in each agency's budget. The statewide fixed cost included in the executive budget is \$7.4 million higher in FY 2018 and \$7.3 million higher in FY 2019 when compared to FY 2017 appropriations reflected in the 2019 Biennium Report on Internal Service and Enterprise Funds. Projected increases are due to:

- Projected need for SITSD services by state agencies
- Rate increase due to increased cost of services

SITSD uses a methodology to identify and allocate the full costs of each service it offers to the user of that service. This is known as the full-cost transparency model (FTM). FTM has been in place since the 2011 biennium. Changes to state agency SITSD costs in the 2019 biennium are shown in the following table.

Figure 25

Department of Administration State Information Technology Services Division State Agency Fixed Costs					
Agency	Budgeted FY 2017	Change FY 2018	Requested FY 2018	Change FY 2019	Requested FY 2019
Legislative Branch	\$603,716	(\$104,998)	\$498,718	\$106,270	\$709,986
Montana Consumer Counsel	12,537	4,420	16,957	4,420	16,957
Judicial Branch	2,414,377	98,871	2,513,248	103,630	2,518,006
Governor's Office	171,899	40,021	211,919	40,021	211,919
Secretary of State's Office	375,236	(86,739)	288,496	(86,739)	288,496
Commissioner of Political Practice	62,066	36,856	98,923	36,856	98,923
State Auditor's Office	188,685	36,611	225,296	36,611	225,296
Office of Public Instruction	440,812	109,275	550,087	109,275	550,087
Department. of Justice	5,066,994	(932,492)	4,134,502	(932,492)	4,134,502
Board of Crime Control	79,309	17,218	96,527	18,785	98,094
Public Service Commission	83,429	448,076	531,505	1,676	85,105
Board of Public Education	9,332	(287)	9,045	(287)	9,045
Commissioner of Higher Education	48,381	16,916	65,297	16,916	65,297
University Systems	640,875	187,162	828,037	187,162	828,037
School for the Deaf & Blind	53,948	(11,175)	42,773	(11,175)	42,773
Montana Arts Council	23,030	10,980	34,011	7,789	30,820
Montana State Library	340,716	(7,774)	332,942	(7,774)	332,942
Montana Historical Society	190,353	27,831	218,184	27,831	218,184
Department of Fish, Wildlife & Parks	1,353,509	112,861	1,466,370	112,861	1,466,370
Department of Environmental Quality	1,123,897	77,659	1,201,556	77,659	1,201,556
Department of Transportation	4,361,849	970,429	5,332,278	950,905	5,312,754
Department of Livestock	168,717	(3,984)	164,733	(3,984)	164,733
Dept. of Natural Resources & Conservation	1,931,078	(258,921)	1,672,157	(242,764)	1,688,313
Department of Revenue	2,196,588	144,690	2,341,277	144,690	2,341,277
Department of Administration	2,120,991	445,421	2,566,412	443,249	2,564,240
Office of Public Defender	591,017	148,903	739,920	151,331	742,348
Montana State Fund	487,633	167,126	654,759	167,126	654,759
MPERA	338,596	(17,141)	321,455	(17,141)	321,455
Teachers Retirement System	70,369	40,918	111,287	40,918	111,287
PSCB/911 (ITSD)	223,977	(102,596)	121,381	(102,595)	121,382
Department of Agriculture	366,196	(67,968)	298,228	(66,731)	299,464
Department of Corrections	2,092,686	630,347	2,723,032	606,499	2,699,185
Department of Commerce	594,585	(46,266)	548,319	(46,266)	548,319
Department of Labor and Industry	3,471,733	(124,046)	3,347,687	(124,046)	3,347,687
Department of Military Affairs	91,035	(2,881)	88,154	(2,881)	88,154
Dept. of Public Health & Human Services	10,096,182	2,654,810	12,750,992	2,654,810	12,750,992
Total	\$42,486,330	\$4,660,135	\$47,146,465	\$4,402,416	\$46,888,746

It should be noted that the FY 2017 budgeted column shown in Figure 25 are revised estimates of agency expenditures of SITSD services based on FY 2016 actual expenditures and thus do not compare to the base number presented in the 2019 Biennium Report on Internal Service and Enterprise Funds.

**LFD
ISSUE**
Requirement to Obtain Services From SITSD May Increase Costs to State Agencies of Some IT Services

Statute requires the Department of Administration to:

- Review and approve state agency specifications and procurement methods for acquisition of information technology (IT) resources
- Review the use of information technology resources of all state agencies
- Operate and maintain a central computer center for the use of the state government
- Contract with qualified private organizations, foundations, or individuals if in the best interests of the state to carry out the duties and powers of DOA regarding IT

One method used to achieve efficiency and cost savings in IT services was to consolidate and standardize IT services within the Montana data center. Executive order 09-2016, issued in May 2016, required Executive Branch agencies to:

- Migrate their information technology assets to the enterprise structure
- Utilize enterprise systems, including but not limited to enterprise content management, directory services, email, telecommunications, and state data centers

The order restricted purchases of servers, storage, and cloud services to SITSD and provided that SITSD was in charge of the deployment of these assets.

Both storage and cloud services are also provided by private organizations. Under the published SITSD rates for the 2019 biennium the following are proposed:

- \$.07 per gigabyte for archive storage per month
- \$1.82 per month for email
- \$0.44 per ECM disk storage
- \$2,150.88 per VSP instance per month for virtual server platform base

Review of published rates of private information technology services organizations shows the following:

- \$.004 per gigabyte for cloud storage from Amazon Glacier
- \$0.00 per month under the contract that SITSD currently has with Microsoft for email
- \$.0995 per gigabyte for ECM disk storage from Amazon storage
- \$13.00 per month for virtual servers platform base with Azure

The legislature may wish to discuss the benefits and challenges of contracting with private organizations to provide IT services at a lower cost. One benefit of having a private organization provide storage would be the transfer of risk related to data breaches. Rather than the state of Montana being responsible if a data breach occurs, the risk and the related costs are transferred to the private organization.

Legislative Option

The legislature may wish to identify IT services that can be contracted with a private organization for reduced IT costs for state agencies.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	6,844,210	6,332,319	(511,891)	(7.48)%
Operating Expenses	1,920,323	1,878,987	(41,336)	(2.15)%
Total Expenditures	\$8,764,533	\$8,211,306	(\$553,227)	(6.31)%
State/Other Special Rev. Funds	8,764,533	8,211,306	(553,227)	(6.31)%
Total Funds	\$8,764,533	\$8,211,306	(\$553,227)	(6.31)%
Total Ongoing	\$8,764,533	\$8,211,306	(\$553,227)	(6.31)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Banking and Financial Institutions Division (BFID) licenses, supervises, regulates, and examines financial institutions doing business in Montana. Those institutions include 50 banks and trust companies, with 356 branch banks, nine credit unions, 99 consumer finance companies, 152 sales finance companies, and eight escrow companies. The division also licenses and examines 3,403 residential mortgage loan service providers. All program functions are statutorily mandated in Title 32, Chapters 1-11, and Title 31, Chapter 1, Parts 7 & 8, MCA.

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

Program Highlights

Banking and Financial Institutions Division Major Budget Highlights	
- Executive proposes decreasing the 2019 biennium budget compared to the 2017 biennium budget - Reductions include: - Elimination of 1.80 FTE including a bank examiner and an attorney - Lower costs for IT projects - Lower salaries and longevity costs associated with turnover	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	35.80	35.80	35.80	34.00	34.00
Personal Services	2,672,013	3,379,195	3,465,015	3,161,501	3,170,818
Operating Expenses	931,129	992,586	927,737	941,238	937,749
Total Expenditures	\$3,603,142	\$4,371,781	\$4,392,752	\$4,102,739	\$4,108,567
State/Other Special Rev. Funds	3,603,142	4,371,781	4,392,752	4,102,739	4,108,567
Total Funds	\$3,603,142	\$4,371,781	\$4,392,752	\$4,102,739	\$4,108,567
Total Ongoing	\$3,603,142	\$4,371,781	\$4,392,752	\$4,102,739	\$4,108,567
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Expenditures for personal services are \$0.7 million less than anticipated in FY 2016 appropriations. BFID had 19.5% of its positions vacant at least 50% of the year with one, a financial examiner vacant all year. Overall BFID positions were vacant 25.5% of FY 2016 driving the lower expenditures. 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.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The FY 2017 appropriation for personal services is higher than the FY 2017 appropriation due to impacts of the pay plan enacted by the 2015 Legislature.

Executive Request

The executive proposes a biennial budget for BFID that is 6.3% lower than the 2017 biennium budget. Changes in personal services and a proposed reduction of \$175,000 each year of the biennium make up the changes. The executive proposes to eliminate 1.80 FTE for a bank examiner position and a lawyer as part of its plan to reduce base expenditures by 5%. Concerns with accreditation and an inability to examine all state chartered banks and financial institutions are included as potential consequences of the reduction.

LFD COMMENT

Statute exempts state special revenue accounts that do not transfer their investment earnings or fund balances to the general fund from the requirement to submit a plan to reduce the proposed base budget by 5%. Under present law the financial institutions account does not meet the requirements to be considered for the 5% plan reductions. However, the executive is proposing legislation that would allow funds within the account to be transferred into the general fund.

The following figure shows the revenues, expenditures, and ending fund balance for the account over the last two biennia as well as the proposed transfer. In addition, projected revenues and proposed expenditures for the 2019 biennium are included.

Figure 26

Department of Administration
Banking and Financial Institutions Division
Financial Institutions State Special Revenue Account

Budget Item	Actuals FY 2014	Actuals FY 2015	Actuals FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Beginning Fund Balance	2,114,347	2,493,601	2,530,620	2,111,954	(87,798)	(347,537)
Revenues	3,973,843	4,021,612	3,179,895	2,793,000	3,843,000	3,745,000
Expenditures						
Personal Services	2,732,925	2,893,345	2,668,356	3,465,015	3,161,501	3,170,818
Operating Expenses	861,664	962,937	930,205	927,737	941,238	937,749
Transfer Out* (General Fund)	<u>0</u>	<u>0</u>	<u>0</u>	<u>600,000</u>	<u>0</u>	<u>0</u>
Total Expenditures	3,594,589	3,856,282	3,598,561	4,992,752	4,102,739	4,108,567
Adjustment	0	(128,311)	0	0	0	0
Ending Fund Balance	<u>\$2,493,601</u>	<u>\$2,530,620</u>	<u>\$2,111,954</u>	<u>(\$87,798)</u>	<u>(\$347,537)</u>	<u>(\$711,104)</u>

* Proposed by executive in LC 907

The FY 2017 budget for personal services is above the actual spending reflected in the preceding figure. If BFID used personal services at FY 2015 levels, the higher number between FY 2014, FY 2015 and FY 2016, in FY 2017 it would have a fund balance of (\$139,434) at the end of the 2019 biennium.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 27

Department Of Administration: 14 Banking And Financial Division Personal Services Present Law Calculations			
PS Base: \$3,465,015			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$128,823)	(\$119,377)
Legislative	Statutory Personal Service Change	<u>20,224</u>	<u>30,078</u>
	Difference	(149,047)	(149,455)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(69,490)	(69,687)
	Broadband Pay Adjustments	98,925	98,925
	Benefits and Taxes on Pay Adjustment	19,722	19,722
	Other	(198,204)	(198,414)
Total		(\$149,047)	(\$149,455)

Personal services were \$3.5 million or 78.8% of total base appropriations. The executive proposes a reduction of (\$149,047) in FY 2018 and (\$149,455) in FY 2019 below the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. The reduction in personal services included in the statewide present law adjustment is a combination of a proposed 4% vacancy savings and the impact of retirements and turnover among bank examiners with new staff paid at lower base salaries and longevity levels.

Funding

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

Department of Administration, 14-Banking and Financial Institutions Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02077 Financial Institutions Div	8,211,306	0	0	0	8,211,306	100.00 %
State Special Total	\$8,211,306	\$0	\$0	\$0	\$8,211,306	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$8,211,306	\$0	\$0	\$0	\$8,211,306	

The BFID is funded solely by state special revenues generated from assessments, application fees, and examination fees paid by the regulated financial institutions.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	4,392,752	4,392,752	8,785,504	106.99 %	
SWPL Adjustments	0	0	0	0.00 %	(114,221)	(108,384)	(222,605)	(2.71)%	
PL Adjustments	0	0	0	0.00 %	(5,410)	(5,410)	(10,820)	(0.13)%	
New Proposals	0	0	0	0.00 %	(170,382)	(170,391)	(340,773)	(4.15)%	
Total Budget	\$0	\$0	\$0		\$4,102,739	\$4,108,567	\$8,211,306		

As reflected in the preceding table, reductions from the 2017 base budget are include:

- Statewide present law adjustments for vacancy savings reductions in personal services
- Lower SITSD costs
- Elimination of 1.80 FTE included as a new proposal

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	(128,823)	0	(128,823)	0.00	0	(119,377)	0	(119,377)
DP 2 - Fixed Costs	0.00	0	12,156	0	12,156	0.00	0	7,495	0	7,495
DP 3 - Inflation Deflation	0.00	0	2,446	0	2,446	0.00	0	3,498	0	3,498
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	(5,410)	0	(5,410)	0.00	0	(5,410)	0	(5,410)
Grand Total All Present Law Adjustments	0.00	\$0	(\$119,631)	\$0	(\$119,631)	0.00	\$0	(\$113,794)	\$0	(\$113,794)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes decreases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	(1.80)	0	(174,691)	0	(174,691)	(1.80)	0	(174,820)	0	(174,820)
DP 1401 - Lease Vehicle	0.00	0	4,309	0	4,309	0.00	0	4,429	0	4,429
Total	(1.80)	\$0	(\$170,382)	\$0	(\$170,382)	(1.80)	\$0	(\$170,391)	\$0	(\$170,391)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

DP 1401 - Lease Vehicle -

The executive proposes additional funding for a new leased vehicle, which is to be used by the employee that will fill the IT Bank Examiner Position. This person will be traveling from Missoula to financial institutions across Montana.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	4,468,687	4,484,454	15,767	0.35 %
Operating Expenses	7,407,546	6,316,501	(1,091,045)	(14.73)%
Equipment & Intangible Assets	164,000	39,000	(125,000)	(76.22)%
Debt Service	179,954	179,954	0	0.00 %
Total Expenditures	\$12,220,187	\$11,019,909	(\$1,200,278)	(9.82)%
Proprietary Funds	12,220,187	11,019,909	(1,200,278)	(9.82)%
Total Funds	\$12,220,187	\$11,019,909	(\$1,200,278)	(9.82)%
Total Ongoing	\$10,981,066	\$11,019,909	\$38,843	0.35 %
Total OTO	\$1,239,121	\$0	(\$1,239,121)	(100.00)%

Program Description

The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. The general purpose is to allow lottery games in which players purchase from the state, through the administration of the lottery, a chance to win a prize. A five-member Lottery Commission, appointed by the Governor, sets policy and oversees program activities and procedures. Lottery's operations are accounted for in an enterprise fund. Lottery is required to transfer its net revenue of up to \$12.363 million to the general fund on a quarterly basis. Net revenues above \$12.363 million are transferred to the Montana University System for scholarships. The Montana State Lottery is attached to the Department of Administration for administrative purposes only.

Program Highlights

Montana State Lottery Major Budget Highlights
- Executive proposes budget decreases of 9.8% when compared to the 2017 biennium budget as the executive is not proposing one-time-only funding in the 2019 biennium - Ongoing funding is proposed to increase 0.4% when compared to 2017 biennium budget
Major LFD Issues
- General fund transfers can be increased by eliminating debt service appropriation that is not required - Base reductions of 5% are not required for the lottery even though general fund transfers could be increased

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	31.50	31.50	31.50	31.50	31.50
Personal Services	2,221,430	2,198,477	2,270,210	2,238,897	2,245,557
Operating Expenses	3,481,424	3,972,156	3,435,390	3,220,057	3,096,444
Equipment & Intangible Assets	143,016	144,500	19,500	19,500	19,500
Debt Service	55,423	89,977	89,977	89,977	89,977
Total Expenditures	\$5,901,293	\$6,405,110	\$5,815,077	\$5,568,431	\$5,451,478
Proprietary Funds	5,901,293	6,405,110	5,815,077	5,568,431	5,451,478
Total Funds	\$5,901,293	\$6,405,110	\$5,815,077	\$5,568,431	\$5,451,478
Total Ongoing	\$5,376,902	\$5,519,989	\$5,461,077	\$5,568,431	\$5,451,478
Total OTO	\$524,391	\$885,121	\$354,000	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Operating expenses were below levels forecasted in the budget as the lottery did not expend any of the \$349,000 restricted, one-time-only appropriation provided for new tickets and did not expend another \$80,000 in restricted, one-time only appropriations provided for conversion to a new lottery gaming system. In addition expenditures for debt service were \$30,000 less than anticipated in FY 2016 appropriations.

LFD COMMENT

State agencies are required to make expenditures in substantial compliance with the budget approved by the legislature. In order to be in substantial compliance an agency must:

- Conform to the conditions contained in HB 2
- Follow legislative intent established in the LFD Fiscal Report
- Report any significant changes from legislative intent to the Legislative Finance Committee

Significant changes are defined as operating budget changes that exceed \$1.0 million or 25% of a budget category or are greater than \$75,000. The Montana State Lottery expended \$23,000 more than appropriated for personal services in FY 2016, which would be considered to be in substantial compliance with the approved budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Funding for the lottery conversion to a new gaming system and Coronis terminals of \$536,000 was provided in FY 2016. This is the majority of the difference between fiscal years in the 2017 biennium.

Executive Request

Unlike most proprietary funds the lottery is budgeted in HB 2. This is because once the direct and administrative costs of the lottery are paid a portion of the remaining funds are transferred to the general fund. The lottery deposited \$12.363 million in net revenues to the general fund in FY 2016. The 2015 Legislature enacted HB 617 that requires any net revenue above the FY 2015 transfer amount to the general fund must be transferred to the STEM scholarship account. The following figure shows actual and proposed revenues, expenditures and transfers from FY 2014 through FY 2019.

Figure 28

Department of Administration Montana State Lottery Statement of Revenues, Expenditures, and Changes in Fund Balance (Cash Basis) FY 2014 and FY 2019						
	Actual FY 2014	Actual FY 2015	Actual FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Beginning Fund Balance**	\$1,530,700	\$1,330,878	\$264,368	\$42,188	\$518,020	\$1,333,966
Revenue	53,128,562	52,345,543	59,738,039	55,777,000	57,333,000	58,871,000
Expenditures						
Personal Services	1,988,364	2,151,265	2,236,349	2,270,210	2,238,897	2,245,577
Operating Expenses	39,239,927	38,888,283	44,781,111	41,372,481	42,440,680	43,496,522
Equipment	14,333	0	96,780	19,500	19,500	19,500
Capital Outlay	(14,333)	0	0	0	0	0
Debt Service	<u>9,510</u>	<u>5,360</u>	<u>1,297</u>	<u>89,977</u>	<u>89,977</u>	<u>89,977</u>
Total Expenditures*	41,237,801	41,044,908	47,115,537	43,752,168	44,789,054	45,851,576
Adjustments	0	0	0	0	0	0
Net Before Transfers	13,421,461	12,631,513	12,886,870	12,067,020	13,061,966	14,353,390
Transfers to General Fund	12,090,583	12,367,145	11,963,000	11,549,000	11,728,000	12,188,000
Transfers to STEM Scholarships	0	0	881,682	0	0	0
Ending Fund Balance	\$1,330,878	\$264,368	\$42,188	\$518,020	\$1,333,966	\$2,165,390
* Net of OBEP and Net Pension Liability						
** Adjusted for previous OBEP liability and pension liability						
*** HJR 2 estimates for general fund transfers and STEM scholarships						

The expenditure amounts shown above are a combination of statutory appropriations for lottery prizes, commissions paid to lottery ticket or chance sales agencies, vendor fees, and HB 2 appropriations for administrative costs associated with the program. The statutory appropriations are directly related to either the:

- Sale of lottery tickets and the related private retailers commissions and vendor fees
- Payment of prizes

As such the legislature cannot impact changes to these game costs, as they are driven by the purchase of lottery tickets. In contrast, the legislature can affect the HB 2 appropriation amounts, which directly impact the level of lottery profits transferred to the general fund and STEM scholarship account. The HB 2 administrative costs are shown in the program actuals and budget comparison table and are also included as part of the costs shown in the preceding figure.

The executive proposes to reduce personal services for the Montana State Lottery below the FY 2017 base budget through the implementation of a 4% vacancy savings reduction. Operating expenses increases are proposed for inclusion of legislative audit costs and additional costs for the Director's Office services.

**LFD
ISSUE**

General Fund Transfers Can Be Increased By Eliminating Debt Service Appropriation That Is Not Required

As reflected in Figure 28, the funding of \$89,977 for debt service transfers is requested in each year of the 2019 biennium. According to the lottery, debt service was for a capital lease with a vendor for self-activated lottery machines. The lease ended March 2016. The lottery will not have debt service payments in FY 2017, FY 2018, or FY 2019.

Eliminating appropriations for debt service payments in the 2019 biennium would increase the amount of funding available for transfer to the general fund by about \$180,000.

Legislative Option

Eliminate funding for debt service payments that are not required in the 2019 biennium, increasing the funding available for transfer to the general fund by \$180,000.

Reducing other appropriations within the lottery could also result in additional general fund transfers of net lottery revenues.

LFD ISSUE

Base Reductions Not Required for Lottery

As noted in the Agency Summary, expenditures reductions of 5% are not required for proprietary funds, even those that deposit net proceeds into the general fund. A 5% base reduction for the lottery would be \$320,255 annually.

Any reduction would need to be carefully considered. For example, reductions in advertising expenses, a major driver of lottery operating expenses, may result in fewer lottery tickets purchased, lowering net revenues rather than increasing them.

Legislative Option

The legislature may wish to request a 5% reduction plan from the Montana State Lottery including the impacts of the reductions on net lottery revenues.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 29

Department Of Administration: 15 Montana State Lottery Personal Services Present Law Calculations			
PS Base:	\$2,270,210		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$31,313)	(\$24,653)
Legislative	Statutory Personal Service Change	<u>25,098</u>	<u>32,028</u>
	Difference	(56,411)	(56,681)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(46,615)	(46,753)
	Broadband Pay Adjustments	1,780	1,780
	Benefits and Taxes on Pay Adjustment	365	365
	Other	(11,941)	(12,073)
	Total	(\$56,411)	(\$56,681)

Personal services were \$2.3 million or 39.0% of total base appropriations. The executive proposes a reduction of (\$56,411) in FY 2018 and (\$56,681) in FY 2019 below the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. Retirements of experienced staff occurred in the 2017 biennium. Newly hired staff are paid a lower base salary and have lower, if any, longevity.

Funding

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

Department of Administration, 15-Montana State Lottery Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02029 BOHR Operation Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06001 State Lottery Fund	11,019,909	0	0	75,000,000	86,019,909	100.00 %
Proprietary Total	\$11,019,909	\$0	\$0	\$75,000,000	\$86,019,909	100.00 %
Total All Funds	\$11,019,909	\$0	\$0	\$75,000,000	\$86,019,909	

HB 2

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery up to \$12.363 million are transferred annually to the general fund. Net revenues above \$12.363 million are transferred to the STEM Scholarship Program.

Statutory Appropriations

In the 2019 biennium about 87.3% of the total proposed costs for the lottery are statutorily appropriated for lottery prizes and commissions and vendor fees paid to lottery ticket or chance sales agents. The level of costs for commissions and vendor fees fluctuates in direct correlation to the ticket sales.

**LFD
ISSUE**
Executive Proposal for Statutory Appropriations Does Not Increase With Projected Increased Ticket Sales

HJR 2 estimates for revenues generated from lottery ticket sales are \$57.3 million in FY 2018 and \$58.9 million in FY 2019. The operating expenses for statutory appropriations associated with the lottery remain at \$37.5 million each year of the biennium. In FY 2016 ticket sales generated \$59.778 million in revenues with \$41.038 million or 68.6% paid to lottery ticket or chance sales agents. Using the FY 2016 percentage to determine the operating expenses for the statutory appropriation results in estimated operating expenses of \$39.3 million in FY 2018 and \$40.4 million in FY 2019.

Legislative Option

If the legislature wishes to ensure that the overall division budget accurately reflects costs associated with the lottery it may require the estimated operating expenses for the 2019 biennium are budgeted as a percentage of the legislative estimates for lottery ticket sales.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	5,461,077	5,461,077	10,922,154	99.11 %
SWPL Adjustments	0	0	0	0.00 %	94,789	(22,164)	72,625	0.66 %
PL Adjustments	0	0	0	0.00 %	12,565	12,565	25,130	0.23 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$5,568,431	\$5,451,478	\$11,019,909	

Reductions included in statewide present law adjustments offset the increases proposed by the executive.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	(31,313)	0.00	0	0	0	(24,653)
DP 2 - Fixed Costs	0.00	0	0	0	134,363	0.00	0	0	0	8,486
DP 3 - Inflation Deflation	0.00	0	0	0	(8,261)	0.00	0	0	0	(5,997)
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	0	0	12,565	0.00	0	0	0	12,565
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$107,354	0.00	\$0	\$0	\$0	(\$9,599)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	5,361,033	3,570,367	(1,790,666)	(33.40)%
Operating Expenses	30,614,406	31,482,193	867,787	2.83 %
Equipment & Intangible Assets	417,600	0	(417,600)	(100.00)%
Benefits & Claims	420,441,959	410,613,338	(9,828,621)	(2.34)%
Total Expenditures	\$456,834,998	\$445,665,898	(\$11,169,100)	(2.44)%
Proprietary Funds	456,834,998	445,665,898	(11,169,100)	(2.44)%
Total Funds	\$456,834,998	\$445,665,898	(\$11,169,100)	(2.44)%
Total Ongoing	\$456,834,998	\$445,665,898	(\$11,169,100)	(2.44)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

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

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

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

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

Program Highlights

**Health Care and Benefits Division
Major Budget Highlights**

- The Health Care and Benefits Division is entirely with proprietary funds
- The executive proposes a 2.4% reduction for the 2019 budget due to lower costs for the State Employee Group Benefit Plan

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	20.88	20.88	20.88	20.88	20.88
Personal Services	1,800,078	2,486,252	2,874,781	1,782,630	1,787,737
Operating Expenses	15,775,713	15,849,971	14,764,435	15,744,441	15,737,752
Equipment & Intangible Assets	413,947	417,600	0	0	0
Benefits & Claims	180,145,271	200,240,134	220,201,825	196,056,108	214,557,230
Total Expenditures	\$198,135,009	\$218,993,957	\$237,841,041	\$213,583,179	\$232,082,719
Proprietary Funds	198,135,009	218,993,957	237,841,041	213,583,179	232,082,719
Total Funds	\$198,135,009	\$218,993,957	\$237,841,041	\$213,583,179	\$232,082,719
Total Ongoing	\$198,135,009	\$218,993,957	\$237,841,041	\$213,583,179	\$232,082,719
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

The State Employee Group Benefit Plan (SEGBP) makes up the majority of the budget for the Health Care and Benefits Division. SEGBP operates on a calendar year basis. In calendar year 2014, the financial health of SEGBP, as measured by the level of reserves, declined. This was due to a significant increase in medical claims that resulted in a decline in claims reserves of \$24.2 million. The actuary for the plan recommended a reserve level of \$78.9 million for plan year 2014. The ending reserve level for plan year 2014 was below the level recommended by the plan actuary by \$16.9 million.

In calendar year 2015 revenues exceeded expenses for the medical plans by 0.2% while expenses for dental plan claims exceeded revenues by 5.0%. These factors resulted in an end of calendar year 2015 fund balance that was below the level recommended by the plan actuary by \$17.6 million, a further decline of \$0.7 million when compared to the FY 2014 fund balance.

For the 2017 biennium, the legislature approved an increase in the state share contribution of 10% for plan year 2016 and an additional 8% in plan year 2017. Further, as a result of concerns regarding the financial condition of SEGBP, the 2015 Legislature outlined that SEGBP needed to consider cost containment measures as a condition for the expenditure of funding in SB 418. Options for cost containment measures included (but were not limited to):

1. Reviewing and consulting with appropriate experts on the following:
 1. Improving primary care case management and coordinated care to improve medical outcomes and reduce costs;
 2. Sharing data with providers to identify and reduce inappropriate use or overuse of services;
 3. Implementing pilot programs to improve health outcomes, such as programs for addressing pain management, emergency room use, and drug or alcohol addiction or abuse;
 4. Increasing the cost-efficiency of the state health clinics, including recommendations for services and controls on or review of referrals;
 5. Implementing a network-based or reference-based pricing arrangement, or both, with health care facilities, health care providers, and medical transport providers, considering a multiple of Medicare rates

to establish a contract of network providers or as a reference-based pricing model for the arrangement; and

6. Amending contracts, to the extent possible, for the state health clinics to require copayments equal to the copayments required by the state employee group benefit plans for similar services
2. Requiring a contractor or third-party administrator to provide data analytics, professional expertise, and recommendations for improvement of the state employee group benefit plans to the department, the State Employee Group Benefits Advisory Council, and the Legislative Finance Committee (LFC)

During the legislative interim SEGBP and the Montana University System group benefit plan reporting on financial health and cost containment measurements were part of the LFC interim work plan. Reports provided to the LFC can be found at http://leg.mt.gov/content/Publications/fiscal/interim/2015_financemty_Sept/self-insured-health-care.pdf

The following table shows the reported quarterly data for plan year 2016 contrasted with plan year 2015.

Figure 30

Department of Administration State Employee Group Health Plan				
	Plan Year 2015 Jan - Sept	Plan Year 2016 Jan - Sept	Difference	% Change
Revenues				
Charges for Services	\$136,408,032	\$143,846,797	\$7,438,765	5.5%
Investment Earnings	446,291	511,602	65,311	14.6%
Fines	59,953	215,537	155,584	259.5%
Grant/Transfers/ Misc	1,411,327	1,464,187	52,859	3.7%
Federal	<u>1,400,000</u>	<u>1,400,000</u>	<u>0</u>	<u>0.0%</u>
Total Revenues	139,725,603	147,438,123	7,712,520	5.5%
Expenditures				
Personal Services				
Salaries	987,997	876,703	(111,294)	-11.3%
Benefits	<u>243,088</u>	<u>289,923</u>	<u>46,835</u>	<u>19.3%</u>
Total Personal Services	1,231,086	1,166,626	(64,459)	-5.2%
Operating Expenses				
Other Services	10,136,264	10,177,262	40,998	0.4%
Supplies and Materials	33,095	43,770	10,675	32.3%
Communications	51,761	106,073	54,312	104.9%
Travel	12,987	13,387	401	3.1%
Rent	318,553	329,229	10,676	3.4%
Repair and Maintenance	22,505	2,651	(19,854)	-88.2%
Other Expenses	<u>400,711</u>	<u>1,344,692</u>	<u>943,981</u>	<u>235.6%</u>
Total Operating Expenses	10,975,876	12,017,065	1,041,189	9.5%
Benefits and Claims				
From Individuals	1,524,711	237,500	(1,287,211)	-84.4%
From State Sources	129,668,263	128,865,866	(802,397)	-0.6%
Insurance Payments	<u>(4,074,659)</u>	<u>(155,689)</u>	<u>3,918,970</u>	<u>-96.2%</u>
Total Benefits and Claims	127,118,314	128,947,677	1,829,363	1.4%
Transfers Out	0	19,516	19,516	100.0%
Incurred But Not Reported	<u>4,954,629</u>	<u>3,520,454</u>	<u>(1,434,175)</u>	<u>0.0%</u>
Total Expenditures	144,279,905	145,671,339	1,391,434	1.0%
Net Income (Loss)	(\$4,554,301)	\$1,766,784	\$6,321,085	138.8%

As reflected in the preceding table, overall the financial condition of SEGBP has improved in plan year 2016. Cost containment measures implemented in calendar year 2016 include:

- Increased premium contributions, deductibles, and copays for participants. See appendix for listings
- High dollar claim management
- Transparent pricing (also referred to as referenced based pricing)
- Increased prescription drug discounts for retail, mail order, and specialty drugs

Funding

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

Department of Administration, 21-Health Care & Benefits Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06027 Flexible Spending Funds	0	0	15,778,838	0	15,778,838	3.54 %
06532 Agency Insurance Int. Svc.	0	0	0	0	0	0.00 %
06559 Group Benefits Claims A/C	0	0	429,234,735	0	429,234,735	96.31 %
06575 Workers Comp Mgmt Program	0	0	652,325	0	652,325	0.15 %
Proprietary Total	\$0	\$0	\$445,665,898	\$0	\$445,665,898	100.00 %
Total All Funds	\$0	\$0	\$445,665,898	\$0	\$445,665,898	

The Health Care and Benefits Division is funded entirely with proprietary funds which are not appropriated in HB 2, and in the case of the state employee group benefit plan, not approved as proprietary rates. The various accounts provide for two programs and a third function within the HCBD:

- Employee Benefits Program provides oversight and administrative functions for the state employee group health plan including administration of the health, dental, vision, and life insurance. It is funded from the Group Benefits Claims A/c, an account used for the administrative costs of the program and benefit and claim costs
- Workers' Compensation Management Bureau is the central resource for state agencies in working to enhance worker safety, provide loss preventions, develop and provide return-to-work programs, and coordinate workers' compensation coverage and policy management issues. It is funded from workers' compensation management program fees which are a fixed costs allocated to each state agency
- Flexible spending funds accounts for employee deductions for flexible spending including medical and child care

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	237,841,041	237,841,041	475,682,082	106.74 %
SWPL Adjustments	0	0	0	0.00 %	(835,976)	(837,558)	(1,673,534)	(0.38)%
PL Adjustments	0	0	0	0.00 %	(23,421,886)	(4,920,764)	(28,342,650)	(6.36)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$213,583,179	\$232,082,719	\$445,665,898	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	(1,092,151)	0.00	0	0	0	(1,087,044)
DP 2 - Fixed Costs	0.00	0	0	0	257,797	0.00	0	0	0	250,949
DP 3 - Inflation Deflation	0.00	0	0	0	(1,622)	0.00	0	0	0	(1,463)
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	0	0	73,511	0.00	0	0	0	73,511
DP 619 - Flexible Spending Account Adjustments	0.00	0	0	0	(2,559,130)	0.00	0	0	0	(2,408,008)
DP 2101 - Health Plan Administration and Claims Adjustments	0.00	0	0	0	(20,936,267)	0.00	0	0	0	(2,586,267)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	(\$24,257,862)	0.00	\$0	\$0	\$0	(\$5,758,322)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

DP 619 - Flexible Spending Account Adjustments -

The budget includes a reduction of \$2,559,130 for FY 2018, and \$2,408,008 for FY 2019 to align flexible spending account distributions with projected contributions.

DP 2101 - Health Plan Administration and Claims Adjustments -

This change package includes a reduction of \$20,936,267 for FY 2018 and \$2,586,267 for FY 2019 to align the budget with the division's administration and claims expense projections.

Other Issues -

Proprietary Rates

The Health Care and Benefits Division manages two proprietary programs:

- Employee benefits, which includes the state's health and other benefit insurance plans, and contract administration of the flexible spending accounts
- Management of the state agency worker's compensation insurance

Employee Benefits Program – 06559*Program Description*

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

The Employee Benefits Program also contracts for on-site employee health centers in Helena, Billings, Miles City, Missoula, Butte, and Anaconda.

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

Revenue and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Health Care & Benefits Division			
	Fund 06559	Fund Name Group Benefits Claims A/C					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		982,704	657,401	787,340	800,000	850,000	900,000
Fee Revenue B		159,646,229	173,084,228	192,521,936	195,316,057	203,128,700	209,222,560
Other Operating Revenue		3,526,769	3,020,397	2,839,992	3,200,000	3,350,000	3,400,000
Total Operating Revenues		164,155,702	176,762,026	196,149,268	199,316,057	207,328,700	213,522,560
Expenses:							
Personal Services							
Other Operating Expenses		13,407,850	11,912,912	15,678,349	14,473,854	15,450,749	15,444,501
Expense B		171,674,176	175,029,243	172,881,921	175,760,000	188,500,000	206,850,000
Total Operating Expenses		186,430,841	188,538,746	190,136,925	192,811,271	205,441,689	223,790,299
Operating Income (Loss)		(22,275,139)	(11,776,720)	6,012,343	6,504,786	1,887,011	(10,267,739)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(22,275,139)	(11,776,720)	6,012,343	6,504,786	1,887,011	(10,267,739)
Transfers Out		-	-	(3,260)	-	-	-
Change in Net Position		(22,275,139)	(11,776,720)	6,009,083	6,504,786	1,887,011	(10,267,739)
Beginning Net Position - July 1		75,696,520	53,309,230	41,532,510	47,541,593	54,046,379	55,933,390
Prior Period Adjustments		(112,151)	-	-	-	-	-
Change in Net Position		(22,275,139)	(11,776,720)	6,009,083	6,504,786	1,887,011	(10,267,739)
Ending Net Position - June 30		53,309,230	41,532,510	47,541,593	54,046,379	55,933,390	45,665,651
Net Position (Fund Balance) Analysis							

Expenses**LFD COMMENT**

The estimated costs and revenues for SEGBP for FY 2016 and FY 2017 included in the budgeting system are higher than the amounts reflected in the preceding figure. Revenues for SEGBP were estimated at \$213.8 million in FY 2016 and \$233.9 million in FY 2017. Operating expenses were budgeted at \$209.4 million in FY 2016 and \$227.4 million in FY 2017. The figures in the preceding table reflect actual revenues and expenditures for FY 2016 and updated estimates for FY 2017. The change also reflects the effect of the cost reduction measures implemented by the Health Care Benefits Division with expenses for FY 2016 \$19.3 million below estimates and FY 2017 expenses currently projected to be \$28.1 million below previous estimates.

During the 2015 Legislative Session the personal services funding for the Employee Benefit Program was appropriated in HB 2. The Governor line item vetoed the appropriation due to changes included in SB 418 that removed the requirement that administrative costs be appropriated in HB 2. As a result of the change the administrative costs of the program continued to be funded with proprietary funds but were included as non-budgeted within the accounting system. The process to set up this change in the accounting and budgeting systems resulted in an overstatement of personal services in FY 2017 of \$989,000. The FY 2017 amount for personal services in the preceding figure should be \$1,588,432.

The executive proposes reductions of about \$98,000 in the Employee Benefits Program personal services each year of the 2019 biennium when compared to the FY 2017 amount of \$1,588,432. Vacancy savings of \$62,000, increases for annualization of the pay plan, and changes in the number of FTE make up the differences. The Employee Benefits Program transferred 2.00 FTE to the State Human Resource Division. The related personal services costs for the FTE were budgeted at \$196,000 in FY 2017.

Operating expenses increase about \$1.0 million, from \$14.5 million to \$15.5 million, in each year of the biennium when compared to FY 2017. Included in total operating expenses are the costs of the health care clinics of \$7.7 million each year. This is an increase of \$1.0 million from the costs for the health care clinics in FY 2017 and make up the majority of the increase.

Benefits and claims costs are projected to increase when compared to the 2017 biennium. Compared to FY 2017 amounts, costs are projected to increase \$12.7 million in FY 2018 and \$31.1 million in FY 2019, or an increase of 7.2% and 17.7% respectively. Primary cost drivers for both medical and dental claims and prescription drug payments are cost of service and service utilization.

Total plan costs are proposed at \$205.4 million in FY 2018 and \$223.8 million in FY 2019.

Revenues

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

Plan revenues from premium are estimated at \$207.0 million in FY 2018 and \$213.0 million in FY 2019.

Proprietary Rates

Funding for the program is internal service type proprietary funds. As such, the legislature does not approve rates or appropriate funds for this program.

Figure 31

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description:				
State Share Contribution	\$976	\$1,054	\$1,054	\$1,054
Rates are established to maintain adequate reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average month state share rate for each fiscal year. Rates for FY 2018 and FY 2019 are proposed at the FY 2017 level.				

The amounts shown as rates above are the state share contribution for each state employee each month. The state share contribution amounts are contained in statute. For the 2019 biennium the executive proposes no additional funding for the state share contribution in the pay plan. The various contribution costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claim costs for each insurance type. Any difference between the state share contribution and actual costs are made up by employee and retiree contributions and investment income. As the plan year for the state employee health insurance is a calendar year, the revenues for the plans are a combination of contributions for two plan years.

Workers' Compensation Management Program – 06575*Program Description*

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

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

Revenues and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Health Care & Benefits Division			
	Fund 06575	Fund Name Workers Comp Mgmt Program					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		296,300	297,320	355,668	351,500	343,000	345,000
Fee Revenue B		-	-	-	50	50	50
Total Operating Revenues		296,300	297,320	355,668	351,550	343,050	345,050
Expenses:							
Personal Services		280,555	276,060	278,206	297,364	291,690	291,938
Other Operating Expenses		37,653	39,836	31,272	34,474	35,942	35,501
Total Operating Expenses		318,208	315,896	309,478	331,838	327,632	327,439
Operating Income (Loss)		(21,908)	(18,576)	46,190	19,712	15,418	17,611
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(21,908)	(18,576)	46,190	19,712	15,418	17,611
Change in Net Position		(21,908)	(18,576)	46,190	19,712	15,418	17,611
Beginning Net Position - July 1		44,671	22,763	4,187	50,377	70,089	85,507
Change in Net Position		(21,908)	(18,576)	46,190	19,712	15,418	17,611
Ending Net Position - June 30		22,763	4,187	50,377	70,089	85,507	103,118
Net Position (Fund Balance) Analysis							

Expenses

Personal services decrease slightly from FY 2017 due to reductions for vacancy savings that offset any increases within the Workers' Compensation Management Program. Operating expenses increase for employee travel proposed to perform inspections and complete staff training on workplace safety.

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period. The rate proposed in HB 2 is \$0.95 for each payroll warrant in FY 2018 and FY 2019. This is a 3.1% decrease when compared to the amount charged in FY 2017.

Proprietary Rates

For the 2019 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Figure 32

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description: Workers' Compensation Management	\$0.99	\$0.98	\$0.95	\$0.95

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

Flexible Spending Account Program - 06027

Program Description

The Flexible Spending Account Program allows state employees to defer part of their gross pay into an account for reimbursement of qualified medical and childcare expenses. HCBF contracts for the administration of the Flexible Spending Account Program. State employees can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The "set aside" funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use the funds deposited in the accounts for allowable expenses.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are \$2,550 per year for medical and \$5,000 per year for dependent care. In the fall of 2013 the Internal Revenue Service announced the ability for participants to roll over up to \$500 from the medical flexible spending account in to the next benefit year. Employees forfeit any unspent funds beyond the \$500 rollover for medical and any remaining dependent care balance at the end of the year.

Revenues and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Health Care & Benefits Division			
	Fund 06027	Fund Name Flexible Spending Funds					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		-	84,371	161,182	234,870	177,614	177,614
Fee Revenue B		852	784	2,624	1,000	1,500	1,500
Fee Revenue C		7,369,328	7,608,283	7,310,673	7,600,000	7,556,108	7,707,230
Total Operating Revenues		7,370,180	7,693,438	7,474,479	7,835,870	7,735,222	7,886,344
Expenses:							
Expense B							
Expense C		161,395	181,614	178,168	257,750	257,750	257,750
		7,174,668	7,123,758	7,221,030	7,600,000	7,556,108	7,707,230
Total Operating Expenses		7,336,063	7,305,372	7,399,198	7,857,750	7,813,858	7,964,980
Operating Income (Loss)		34,117	388,066	75,281	(21,880)	(78,636)	(78,636)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		34,117	388,066	75,281	(21,880)	(78,636)	(78,636)
Transfers Out							
		(924)	-	(1,424)	-	-	-
Change in Net Position		33,193	388,066	73,857	(21,880)	(78,636)	(78,636)
Beginning Net Position - July 1		1,650,089	1,683,282	2,071,348	2,145,380	2,123,500	2,044,864
Prior Period Adjustments		-	-	175	-	-	-
Change in Net Position		33,193	388,066	73,857	(21,880)	(78,636)	(78,636)
Ending Net Position - June 30		1,683,282	2,071,348	2,145,380	2,123,500	2,044,864	1,966,228
Net Position (Fund Balance) Analysis							

Expenses**LFD
COMMENT**

The estimated costs and revenues for the Flexible Spending Account Program for FY 2016 and FY 2017 included in the budgeting system are higher than the amounts reflected in the preceding figure. Revenues were estimated at \$9.4 million in FY 2016 and \$10.4 million in FY 2017 as were operating expenses. The figures in the preceding table reflect actual revenues and expenditures for FY 2016 and updated estimates for FY 2017.

The administration contract for the program makes up the majority of the operating costs for the program which are shown in the preceding report as Expense B. Expense C reflects the benefits paid out for employees' dependent care or medical costs.

Revenues

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

Proprietary Rates

For the 2019 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. Funding for the program is enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for this proprietarily funded program. The fees shown below are charged by the third party administrator for the costs of providing the program.

Figure 33

Rates for Enterprise Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description:				
FSA Account	\$2.26	\$2.26	\$2.26	\$2.26
FSA Debit Card	\$1.00	\$1.00	\$1.00	\$1.00

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	2,398,426	2,496,023	97,597	4.07 %
Operating Expenses	1,091,666	811,679	(279,987)	(25.65)%
Total Expenditures	\$3,490,092	\$3,307,702	(\$182,390)	(5.23)%
General Fund	3,490,092	3,307,702	(182,390)	(5.23)%
Total Funds	\$3,490,092	\$3,307,702	(\$182,390)	(5.23)%
Total Ongoing	\$3,189,646	\$3,307,702	\$118,056	3.70 %
Total OTO	\$300,446	\$0	(\$300,446)	(100.00)%

Program Description

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

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

Program Highlights

State Human Resources Division Major Budget Highlights
• The majority of the funding for this program is from non-budgeted proprietary funds that are included in the proprietary rate section of HB 2 • The executive proposes an increase in ongoing funding of 3.7% when compared to ongoing funding for the 2017 biennium

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	14.25	14.25	14.25	14.25	14.25
Personal Services	1,056,471	1,185,036	1,213,390	1,244,152	1,251,871
Operating Expenses	329,353	545,294	546,372	405,329	406,350
Total Expenditures	\$1,385,824	\$1,730,330	\$1,759,762	\$1,649,481	\$1,658,221
General Fund	1,385,824	1,730,330	1,759,762	1,649,481	1,658,221
Total Funds	\$1,385,824	\$1,730,330	\$1,759,762	\$1,649,481	\$1,658,221
Total Ongoing	\$1,385,824	\$1,581,131	\$1,608,515	\$1,649,481	\$1,658,221
Total OTO	\$0	\$149,199	\$151,247	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Personal services are below budgeted amounts by \$129,000 due to positions that were not filled throughout the year. SHRD filled its HB 2 positions 92.3% of the year. Operating expenses are below those estimated as SHRD did not expend any of a restricted appropriation of \$149,199 in general fund provided for anticipated increases in operating expenses.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Appropriations for personal services increase in FY 2017 when compared to FY 2016 due to pay and health insurance contributions approved by the 2015 Legislature.

Executive Request

The SHRD budget included in HB 2 provides for the Human Resources Policy and Programs Bureau. The executive proposes a 2019 biennium budget that is 5.2% lower than total funds provided in the 2017 biennium. When only considering ongoing funds the budget proposed increases by 3.7% mainly for personal services changes included in the statewide present law adjustments.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 34

Department Of Administration: 23 State Human Resources Division Personal Services Present Law Calculations			
PS Base:	\$1,213,390		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$100,053	\$107,772
Legislative	Statutory Personal Service Change	<u>16,685</u>	<u>24,818</u>
	Difference	83,368	82,954
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(27,360)	(27,521)
	Broadband Pay Adjustments	90,837	90,837
	Benefits and Taxes on Pay Adjustment	17,165	17,165
	Other	<u>2,725</u>	<u>2,472</u>
	Total	\$83,368	\$82,954

Personal services were \$1.2 million or 68.9% of total base appropriations. The executive proposes an increase of \$83,368 in FY 2018 and \$82,954 in FY 2019 above the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. As shown in the preceding figure, broadband pay adjustments are driving the increase in personal services within this division.

Funding

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

Department of Administration, 23-State Human Resources Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	3,307,702	0	0	0	3,307,702	27.16 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06525 Intergovernmental Training	0	0	817,062	0	817,062	9.21 %
06559 Group Benefits Claims A/C	0	0	708,699	0	708,699	7.99 %
06563 HR Info Services	0	0	7,346,550	0	7,346,550	82.80 %
Proprietary Total	\$0	\$0	\$8,872,311	\$0	\$8,872,311	72.84 %
Total All Funds	\$3,307,702	\$0	\$8,872,311	\$0	\$12,180,013	

HB 2

General fund supports the Human Resources Policy and Programs Bureau.

Proprietary Funding

The majority of the division's operations are supported by proprietary funds that support two programs:

- Professional Development Center (PDC)

- Human Resource Information Services Bureau (HRIS)

The PDC is supported through fees in the form of tuition paid by state agencies that enroll employees in the various classes provided by PDC and fees for other services offered by the PDC. The HRIS Bureau is funded through a fee charged state agencies for each employee payroll processed in a pay period. Both of these funds are considered and approved as rates charged to other state agencies and are discussed in the "Proprietary Rates" section of the narrative.

Program Budget Summary by Category

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

Budget Summary by Category								
-----General Fund-----					-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,608,515	1,608,515	3,217,030	97.26 %	1,608,515	1,608,515	3,217,030	97.26 %
SWPL Adjustments	105,866	114,606	220,472	6.67 %	105,866	114,606	220,472	6.67 %
PL Adjustments	4,391	4,391	8,782	0.27 %	4,391	4,391	8,782	0.27 %
New Proposals	(69,291)	(69,291)	(138,582)	(4.19)%	(69,291)	(69,291)	(138,582)	(4.19)%
Total Budget	\$1,649,481	\$1,658,221	\$3,307,702		\$1,649,481	\$1,658,221	\$3,307,702	

Increases for personal services costs included in the SWPL Adjustments drive the increases for the 2019 biennium.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Total Funds
DP 1 - Personal Services	0.00	100,053	0	0	100,053	0.00	107,772	0	0	107,772
DP 2 - Fixed Costs	0.00	5,761	0	0	5,761	0.00	6,670	0	0	6,670
DP 3 - Inflation Deflation	0.00	52	0	0	52	0.00	164	0	0	164
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	4,391	0	0	4,391	0.00	4,391	0	0	4,391
Grand Total All Present Law Adjustments	0.00	\$110,257	\$0	\$0	\$110,257	0.00	\$118,997	\$0	\$0	\$118,997

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(69,291)	0	0	(69,291)	0.00	(69,291)	0	0	(69,291)
Total	0.00	(\$69,291)	\$0	\$0	(\$69,291)	0.00	(\$69,291)	\$0	\$0	(\$69,291)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Other Issues -

Proprietary Rates

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

- Professional Development Center (PDC), which trains state employees
- Human Resources Information Services, including payroll and benefits eligibility processing

Professional Development Center/Training Program - 06525

Program Description

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

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

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

Revenues and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Human Resources Division			
	Fund 06525	Fund Name Intergovernmental Training					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A							
		407,877	379,147	345,359	390,000	390,000	390,000
Fee Revenue B							
		244	455	675	1,000	1,000	1,000
Total Operating Revenues							
		408,121	379,602	346,034	391,000	391,000	391,000
Expenses:							
Personal Services							
		190,456	232,309	214,004	248,234	263,135	264,184
Other Operating Expenses							
		132,909	144,549	192,564	135,187	144,521	145,222
Total Operating Expenses							
		323,365	376,858	406,568	383,421	407,656	409,406
Operating Income (Loss)							
		84,756	2,744	(60,534)	7,579	(16,656)	(18,406)
Nonoperating Revenues:							
Other Revenue A							
		-	-	19,024	13,500	13,500	13,500
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)							
		-	-	19,024	13,500	13,500	13,500
Income (Loss) Before Contributions and Transfers							
		84,756	2,744	(41,510)	21,079	(3,156)	(4,906)
Change in Net Position							
		84,756	2,744	(41,510)	21,079	(3,156)	(4,906)
Beginning Net Position - July 1							
		(9,311)	75,445	78,189	36,679	57,758	54,602
Change in Net Position							
		84,756	2,744	(41,510)	21,079	(3,156)	(4,906)
Ending Net Position - June 30							
		75,445	78,189	36,679	57,758	54,602	49,696
Net Position (Fund Balance) Analysis							

Expenses

Personal services increase by about \$15,000 each year of the biennium due to increases for broadband raises that are included in the adjustments. Operating expenses increase mostly due to increases in rent.

Revenues

Funding for the PDC is generated through two rates:

- Open-enrollment fees, which are per-person tuition charged for attendance. Tuition rates are based on two factors: projected attendance and competitive pricing. Tuition rates for the 2019 biennium are based on the proportion of fixed and personal services costs to the overall anticipated program cost. The amount per person varies by length of the course and number of people attending from a single agency
- Contract fees, which are a flat fee charged for providing a service. The amount per service varies by length of the service and number of services arranged in a single contract

Proprietary Rates

For the 2019 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Figure 35

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description:				
Open Enrollment Courses				
Two-Day Course (per participant)	\$190.00	\$190.00	\$190.00	\$190.00
One-Day Course (per participant)	\$123.00	\$123.00	\$123.00	\$123.00
Half-Day Course (per participant)	\$95.00	\$95.00	\$95.00	\$95.00
Eight-Day Management Series (per participant)	\$800.00	\$800.00	\$800.00	\$800.00
Six-Day Management Series (per participant)	\$600.00	\$600.00	\$600.00	\$600.00
Four-Day Administrative Assistant Series (per participant)	\$400.00	\$400.00	\$400.00	\$400.00
Contract Courses				
Full Day Training (flat fee)	\$830.00	\$830.00	\$830.00	\$830.00
Half Day Training (flat fee)	\$570.00	\$570.00	\$570.00	\$570.00
Computer Maintenance Charge (Course Specific)	\$10.00	\$10.00	\$10.00	\$10.00

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

Human Resources Information System Bureaus (HRIS) - 06563

Program Description

The HRIS Bureau operates the SABHRS- HR payroll, benefits, and human resources system to process, distribute, report, and account for payroll, benefits, and associated withholding and deductions for over 13,500 state employees in the Executive, Legislative, and Judicial Branches. The bureau is also responsible for the administration and maintenance of the State of Montana Recruitment System (SOMRS) which is used by all state agencies in the recruitment and selection of job applicants.

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

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

Revenues and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: State Human Resources Division			
	Fund 06563	Fund Name HR Info Services					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		3,299,769	3,320,065	3,196,779	3,210,409	3,554,443	3,568,980
Total Operating Revenues		3,299,769	3,320,065	3,196,779	3,210,409	3,554,443	3,568,980
Expenses:							
Personal Services		1,805,636	1,868,740	1,806,195	1,782,989	2,097,617	2,104,046
Other Operating Expenses		1,295,782	1,575,037	1,911,840	1,557,603	1,610,795	1,534,092
Total Operating Expenses		3,101,418	3,443,777	3,718,035	3,340,592	3,708,412	3,638,138
Operating Income (Loss)		198,351	(123,712)	(521,256)	(130,183)	(153,969)	(69,158)
Nonoperating Revenues:							
Other Revenue A		861	42	104	500	500	500
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		861	42	104	500	500	500
Income (Loss) Before Contributions and Transfers		199,212	(123,670)	(521,152)	(129,683)	(153,469)	(68,658)
Transfers Out		-	(98,603)	-	-	-	-
Change in Net Position		199,212	(222,273)	(521,152)	(129,683)	(153,469)	(68,658)
Beginning Net Position - July 1		1,139,415	1,338,627	1,116,354	595,202	465,519	312,050
Change in Net Position		199,212	(222,273)	(521,152)	(129,683)	(153,469)	(68,658)
Ending Net Position - June 30		1,338,627	1,116,354	595,202	465,519	312,050	243,392
Net Position (Fund Balance) Analysis							

Expenses

Personal services increase by over \$300,000 each year of the biennium. During FY 2016 the HRIS Bureau increased FTE by 1.00. The costs included in the 2019 biennium rates for the additional FTE are \$78,500 in FY 2018 and \$78,600 in FY 2019. In addition, HRIS Bureau reclassified three positions increasing related salaries and benefits by 8.00% for each position, and provided broadband pay increases for an additional 7 positions increasing salaries and benefits for those positions between 7.2% and 11.1%.

Operating expenses are slightly lower in the 2019 biennium when compared to FY 2017 budgeted amounts due to changes included in the allocation of the Director's Office rates.

Revenues

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

Proprietary Rates

For the 2019 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Figure 36

Requested Rates for Internal Service Funds Fee/Rate Information				
	Budgeted FY 2016	Budgeted FY 2017	Requested FY 2018	Requested FY 2019
Fee Description: HRIS fees (per employee process per pay period)	\$7.82	\$7.83	\$8.55	\$8.55

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	3,183,289	3,142,173	(41,116)	(1.29)%
Operating Expenses	17,326,638	17,330,723	4,085	0.02 %
Grants	1,040,226	1,040,226	0	0.00 %
Benefits & Claims	16,470,174	12,470,174	(4,000,000)	(24.29)%
Total Expenditures	\$38,020,327	\$33,983,296	(\$4,037,031)	(10.62)%
Proprietary Funds	38,020,327	33,983,296	(4,037,031)	(10.62)%
Total Funds	\$38,020,327	\$33,983,296	(\$4,037,031)	(10.62)%

Program Description

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

The state self-insures most commercial insurance risks under \$2,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), and mobile/specialized equipment. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

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

Program Highlights

Risk Management and Tort Defense Division Major Budget Highlights	
- The division is funded solely through proprietary funds generated through state agencies and the Montana University System premium payments - The executive proposes increases for insurance premiums to state agencies including: 35.0% for automobiles 35.0% for general liability 10.0% for property	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	17.00	17.00	17.00	17.00	17.00
Personal Services	1,569,579	1,571,755	1,611,534	1,568,493	1,573,680
Operating Expenses	7,818,038	8,692,438	8,634,200	8,669,385	8,661,338
Grants	326,223	520,113	520,113	520,113	520,113
Benefits & Claims	3,406,839	8,235,087	8,235,087	6,235,087	6,235,087
Total Expenditures	\$13,120,679	\$19,019,393	\$19,000,934	\$16,993,078	\$16,990,218
Proprietary Funds	13,120,679	19,019,393	19,000,934	16,993,078	16,990,218
Total Funds	\$13,120,679	\$19,019,393	\$19,000,934	\$16,993,078	\$16,990,218

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Actual expenditures for benefits and claims for general liability claims were \$5.0 million lower than budgeted in FY 2016 as claims for property damage and general liability less than anticipated in the budget. Costs for commercial insurance premiums were also lower than projected driving actual expenditures for operating expenses below budgeted appropriations.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Increases included for the pay plan approved by the 2015 Legislature make up the majority of the differences between FY 2016 and FY 2017 appropriations.

LFD COMMENT

As discussed in Volume 1 of the LFD 2019 Biennium Budget Analysis, the state has reached a tentative \$32.0 million settlement agreement with a second group of claimants regarding asbestos in Libby. In September 2011 Judge Sherlock approved a \$43.0 million settlement with the victims in Libby who had been impacted by asbestos. The settlement included \$26.8 million paid from the State Property/Casualty Insurance Fund (fund). The effect the settlement payment of \$26.8 million for Montana asbestos victims had on the fund was that it:

- Eliminated reserves for all insurance risks for FY 2012, not only general liability but automobile, aviation, and property
- Reduced assets in the account to \$3.5 million at the end of FY 2012
- Created an unfunded liability of (\$17.1) million at FYE 2012

The next two legislatures approved general fund transfers into the account to re-establish reserves for the various insurance risks.

In the tentative second settlement, two different groups of claimants were consolidated into one case for the purposes of the settlement. Once the district court agrees to the settlement the state must pay a total of \$14.2 million within 30 days and the remaining \$10.0 million within the year. The remaining \$7.8 million would be paid if the state reaches agreement with the insurance company that indemnified a portion of the state's general liability risk. The state self-insures for general liability and currently anticipates paying this settlement from the proprietary funds generated through state agency premiums. As proposed, premiums for self-insurance increase in the 2019 biennium, in part because of the increased costs associated with general liability claims.

Executive Request

The executive proposes to increase insurance premiums to state agencies in part due to the impact of the potential settlement. The impact of the increased premiums would be to replenish reserves which will be required for the payment of the second settlement related to Libby asbestos impacts.

Funding

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

Department of Administration, 24-Risk Management and Tort Defense Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
02098 Insurance Proceeds - State Bld	0	0	0	2,400,000	2,400,000	100.00 %	
State Special Total	\$0	\$0	\$0	\$2,400,000	\$2,400,000	6.60 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06532 Agency Insurance Int. Svc.	0	0	33,983,296	0	33,983,296	100.00 %	
Proprietary Total	\$0	\$0	\$33,983,296	\$0	\$33,983,296	93.40 %	
Total All Funds	\$0	\$0	\$33,983,296	\$2,400,000	\$36,383,296		

Proprietary Funding

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

Statutory Appropriations

About 7% of the funding is derived from statutory appropriations for the receipt of insurance reimbursements on state agency buildings.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	19,000,934	19,000,934	38,001,868	111.83 %
SWPL Adjustments	0	0	0	0.00 %	(16,075)	(18,935)	(35,010)	(0.10)%
PL Adjustments	0	0	0	0.00 %	(1,991,781)	(1,991,781)	(3,983,562)	(11.72)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$16,993,078	\$16,990,218	\$33,983,296	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
	0.00	0	0	0	(43,041)	0.00	0	0	0	(37,854)
DP 2 - Fixed Costs										
	0.00	0	0	0	26,635	0.00	0	0	0	18,254
DP 3 - Inflation Deflation										
	0.00	0	0	0	331	0.00	0	0	0	665
DP 4 - Allocate Department Indirect/Administrative Costs										
	0.00	0	0	0	8,219	0.00	0	0	0	8,219
DP 2401 - Reduce Claims Budget										
	0.00	0	0	0	(2,000,000)	0.00	0	0	0	(2,000,000)
Grand Total All Present Law Adjustments										
	0.00	\$0	\$0	\$0	(\$2,007,856)	0.00	\$0	\$0	\$0	(\$2,010,716)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes increases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

DP 2401 - Reduce Claims Budget -

This change package request reduces the division's claims budget to correct a previous allocation error in the 2017 biennium.

Other Issues -

Proprietary Rates

Program Description

The Risk Management & Tort Defense Division (RMTD) administers a comprehensive plan of property/casualty insurance protection on behalf of state government. RMTD purchases commercial insurance, where cost-effective, to cover catastrophic losses above deductibles of \$2.0 million..

State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers & machinery, bonds (various), crime, cyber/information security, fine art, foreign specialties, foster care, HIPAA, medical malpractice, property, professional liability, and miscellaneous. The state self-insures most commercial insurance risks under \$2,000,000 per occurrence as well as auto, general liability, inland marine (i.e. property in-transit), and mobile/specialized equipment. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

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

Revenues and Expenses

The following 2019 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected costs and related revenues associated with the fund.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 61010	Agency Name: Department of Administration			Program Name: Risk Management and Tort Defense			
	Fund 06532	Fund Name Agency Insurance Int. Svc.					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		13,886,428	13,930,588	17,804,070	18,792,637	23,735,573	23,735,573
Other Operating Revenue		23,910	22,699	115,252	7,000	-	-
Total Operating Revenues		13,910,338	13,953,287	17,919,322	18,799,637	23,735,573	23,735,573
Expenses:							
Personal Services		1,018,728	1,224,076	1,555,116	1,611,534	1,568,493	1,573,681
Other Operating Expenses		14,593,984	15,332,315	8,340,541	17,392,307	15,424,585	15,416,538
Total Operating Expenses		15,612,712	16,556,391	9,895,657	19,003,841	16,993,078	16,990,219
Operating Income (Loss)		(1,702,374)	(2,603,104)	8,023,665	(204,204)	6,742,495	6,745,354
Nonoperating Revenues:							
Other Revenue A		61,321	277,882	159,271	200,000	200,000	200,000
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		61,321	277,882	159,271	200,000	200,000	200,000
Income (Loss) Before Contributions and Transfers		(1,641,053)	(2,325,222)	8,182,936	(4,204)	6,942,495	6,945,354
Transfers In							
Transfers Out		1,201,511	8,579,141	200,116	200,000	200,000	200,000
Change in Net Position		(1,325)	-	-	-	-	-
		(440,867)	6,253,919	8,383,052	195,796	7,142,495	7,145,354
Beginning Net Position - July 1		(2,070,512)	(2,511,379)	3,671,592	11,579,185	11,774,981	18,917,476
Prior Period Adjustments		-	(70,948)	(475,459)	-	-	-
Change in Net Position		(440,867)	6,253,919	8,383,052	195,796	7,142,495	7,145,354
Ending Net Position - June 30		(2,511,379)	3,671,592	11,579,185	11,774,981	18,917,476	26,062,830
Net Position (Fund Balance) Analysis							

Expenses

Personal services decrease when compared to FY 2017 due to implementation of a 4% vacancy savings reduction. Operating expenses are reduced for benefits and claims reductions.

Revenues

Montana self-insures for a number of insurance risks through this program including:

- Automobiles
- Aviation
- General liability
- Property

All state agencies pay insurance premiums to the Risk Management and Tort Defense Division. The following figure shows insurance premiums for state agencies in the 2017 and 2019 biennia and changes in the costs between biennia.

Figure 37

Department of Administration Risk Management and Tort Defense Division State Agency Insurance Costs 2017 and 2019 Biennia				
State Agency	2017 Biennium	2019 Biennium	Change	% Change
Legislative Branch	\$75,738	\$95,791	\$20,053	26.48%
Consumer Counsel	2,243	2,936	693	30.90%
Judicial Branch	247,714	327,928	80,214	32.38%
Governors Office	49,298	60,560	11,262	22.84%
Secretary of States Office	22,749	31,402	8,653	38.04%
Commissioner of Political Practices	2,424	3,322	898	37.05%
State Auditors Office	35,273	47,609	12,336	34.97%
Office of Public Instruction	69,359	93,038	23,679	34.14%
Crime Control Division	15,609	22,247	6,638	42.53%
Department of Justice	1,233,532	1,734,426	500,894	40.61%
Public Service Regulation	25,799	34,479	8,680	33.64%
Board of Public Education	1,749	2,088	339	19.38%
Commissioner of Higher Ed	13,689,145	16,119,921	2,430,776	17.76%
School for the Deaf and Blind	103,622	123,910	20,288	19.58%
Montana Arts Council	3,453	4,970	1,517	43.93%
Montana State Library	27,732	34,070	6,338	22.85%
Montana Historical Society	181,486	200,808	19,322	10.65%
Department of Fish Wildlife and Parks	827,433	1,069,046	241,613	29.20%
Department of Environmental Quality	491,667	691,345	199,678	40.61%
Department of Transportation	8,318,074	11,106,640	2,788,566	33.52%
Department of Livestock	153,213	185,039	31,826	20.77%
Department of Natural Resources and Conservation	743,635	935,295	191,660	25.77%
Department of Revenue	390,229	497,944	107,715	27.60%
Department of Administration	1,348,856	1,477,156	128,300	9.51%
Montana State Fund	809,763	1,078,953	269,190	33.24%
Public Employees Retirement Board	25,850	34,987	9,137	35.35%
Teachers Retirement Board	8,962	12,914	3,952	44.10%
Office of the Public Defender	129,539	182,799	53,260	41.12%
Department of Agriculture	136,400	173,476	37,076	27.18%
Department of Corrections	2,695,561	3,516,729	821,168	30.46%
Department of Commerce	331,759	411,079	79,320	23.91%
Department of Labor and Industry	469,812	625,832	156,020	33.21%
Department of Military Affairs	479,232	578,548	99,316	20.72%
Department of Public Health and Human Services	4,438,368	5,953,857	1,515,489	34.15%

Overall, revenues generated through premiums allocated to state agencies increase 26.3%. Depending on the type of insurance risk and agency's claim history, insurance premiums paid by state agencies can vary. Budget authority to pay insurance premiums is a fixed cost item in the agency's budget. The statewide fixed cost in the executive budget increases from the 2017 biennium due to increases in all but aviation risks.

As shown, the executive proposes increases in insurance costs to state agencies of \$4.9 million each year of the biennium. Premiums for the 2019 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

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

For further information on the specific risks insured by RMTD see the Appendix. All four risks insured by the state are funded through the agency internal service account.

Proprietary Rates

For the 2019 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Figure 38

Department of Administration Risk Management and Tort Defense Division Changes to Premium Costs for State Agencies					
Insurance Risk	Budgeted FY 2017	Requested FY 2018	Requested FY 2019	% Change	
Auto Comprehensive/ Collision	\$1,498,200	\$2,022,570	\$2,022,570	135.0%	
Aviation	169,961	\$169,961	\$169,961	100.0%	
General Liability	10,824,476	\$14,613,042	\$14,613,042	135.0%	
Property/Miscellaneous	6,300,000	\$6,930,000	\$6,930,000	110.0%	
Total	\$18,792,637	\$23,735,573	\$23,735,573	126.3%	

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	1,049,658	918,229	(131,429)	(12.52)%
Operating Expenses	338,072	273,923	(64,149)	(18.97)%
Local Assistance	31,528	31,528	0	0.00 %
Total Expenditures	\$1,419,258	\$1,223,680	(\$195,578)	(13.78)%
General Fund	1,419,258	1,223,680	(195,578)	(13.78)%
Total Funds	\$1,419,258	\$1,223,680	(\$195,578)	(13.78)%
Total Ongoing	\$1,340,178	\$1,223,680	(\$116,498)	(8.69)%
Total OTO	\$79,080	\$0	(\$79,080)	(100.00)%

Program Description

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

Program Highlights

Montana Tax Appeal Board Major Budget Highlights
• Executive proposes 2019 biennium budget that is 8.7% below the 2017 biennium budget • The board is entirely supported by general fund

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	5.50	5.50	5.50	5.50	5.50
Personal Services	446,553	531,129	518,529	461,674	456,555
Operating Expenses	156,228	169,223	168,849	136,994	136,929
Local Assistance	23,796	15,764	15,764	15,764	15,764
Total Expenditures	\$626,577	\$716,116	\$703,142	\$614,432	\$609,248
General Fund	626,577	716,116	703,142	614,432	609,248
Total Funds	\$626,577	\$716,116	\$703,142	\$614,432	\$609,248
Total Ongoing	\$626,577	\$676,576	\$663,602	\$614,432	\$609,248
Total OTO	\$0	\$39,540	\$39,540	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Operating expenses were lower than budgeted in FY 2016 because the MTAB did not use any of an appropriation for additional operating expenses such as supplies and materials, communications, travel, and training costs. The funding was provided on a one-time-only basis.

FY 2016 Appropriation Compared to FY 2017 Appropriation

Both personal services and operating expenses decrease slightly due to reductions estimated to occur in the second year of the statewide reappraisal cycle.

Executive Request

Operating expenses decline from FY 2017 appropriation levels due to reductions for Director's Office costs allocated to MTAB, the elimination of one-time-only funding, and the executive's proposal implement the 5% reduction plan.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 38

Department Of Administration: 37 Montana Tax Appeal Board Personal Services Present Law Calculations			
PS Base: \$518,529			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$66,561)	(\$64,204)
Legislative	Statutory Personal Service Change	<u>(10,290)</u>	<u>(7,868)</u>
	Difference	(56,271)	(56,336)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(9,405)	(9,454)
	Broadband Pay Adjustments	-	-
	Benefits and Taxes on Pay Adjustment	-	-
	Other	(46,866)	(46,882)
Total		(\$56,271)	(\$56,336)

Personal services were \$0.5 million or 73.7% of total base appropriations. The executive proposes a reduction of (\$56,271) in FY 2018 and (\$56,336) in FY 2019 below the amount anticipated by the LFD based upon pay plan and statutory personal services adjustments. Changes included in the statewide present law adjustment are the result of the retirement of senior and long-serving staff that occurred during the 2017 biennium. Newly hired staff are paid a lower base salary and longevity levels.

Funding

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

Department of Administration, 37-Montana Tax Appeal Board Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,223,680	0	0	0	1,223,680	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$1,223,680	\$0	\$0	\$0	\$1,223,680	

MTAB is fully funded with general fund. General fund provides support for travel expenses, compensation, and all other incidental expenses of county tax boards, except that counties fund office and equipment expenses of their respective county boards.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	663,602	663,602	1,327,204	108.46 %	663,602	663,602	1,327,204	108.46 %
SWPL Adjustments	(66,012)	(63,720)	(129,732)	(10.60)%	(66,012)	(63,720)	(129,732)	(10.60)%
PL Adjustments	48,171	40,695	88,866	7.26 %	48,171	40,695	88,866	7.26 %
New Proposals	(31,329)	(31,329)	(62,658)	(5.12)%	(31,329)	(31,329)	(62,658)	(5.12)%
Total Budget	\$614,432	\$609,248	\$1,223,680		\$614,432	\$609,248	\$1,223,680	

Decreases for personal services due to retirements and long-term staff leaving drive the base reductions.

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(66,561)	0	0	(66,561)	0.00	(64,204)	0	0	(64,204)
DP 2 - Fixed Costs	0.00	576	0	0	576	0.00	497	0	0	497
DP 3 - Inflation Deflation	0.00	(27)	0	0	(27)	0.00	(13)	0	0	(13)
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	(860)	0	0	(860)	0.00	(860)	0	0	(860)
DP 5 - Increase in MTAB Operating Expenditures	0.00	19,325	0	0	19,325	0.00	19,325	0	0	19,325
DP 3702 - Increase in Board per Diem	0.00	29,706	0	0	29,706	0.00	22,230	0	0	22,230
Grand Total All Present Law Adjustments	0.00	(\$17,841)	\$0	\$0	(\$17,841)	0.00	(\$23,025)	\$0	\$0	(\$23,025)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive proposes decreases each year of the biennium to provide funding for changes in the Director's Office's indirect costs. These centrally assessed costs include accounting, human resources, labor relations, and legal services.

DP 5 - Increase in MTAB Operating Expenditures -

The executive proposes increased funding to bring FY 2018 and FY 2019 budgeted expenditures to FY 2016 actuals.

DP 3702 - Increase in Board per Diem -

The executive proposes an increase of \$29,706 in FY 2018 and \$22,230 in FY 2019 to adjust for additional board per diem expenses.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(31,329)	0	0	(31,329)	0.00	(31,329)	0	0	(31,329)
Total	0.00	(\$31,329)	\$0	\$0	(\$31,329)	0.00	(\$31,329)	\$0	\$0	(\$31,329)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

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

AGENCY CODE & NAME: 61010 Administration

TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET

Minimum Requirement

General Fund		State Special Revenue Fund	
\$	257,974	\$	196,290

SERVICE(S) TO BE ELIMINATED OR REDUCED

1 Director's Office

2 SFSD

3 ITSD

4 SHRD

5 MTAB

6 Banking

7

8

TOTAL SAVINGS

DIFFERENCE

General Fund Annual Savings		State Special Revenue Annual Savings	
	24,005		
	117,876		7,366
	15,473		8,919
	69,291		
	31,329		
			180,005
\$	257,974	\$	196,290
	0		0

Form A

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 1 - Director's Office**

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

Reduce a Labor Relations Specialist position from 1.00 FTE to 0.75 FTE (or less).

#2 THE SAVINGS THAT ARE EXPECTED:

A reduction from a full-time position to a three-quarter time position would generate a \$24,400 savings in FY 2018 and a \$24,400 savings in FY 2019.

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

The Office of Labor Relations provides labor relations services on behalf of all executive branch agencies except the Montana University System and the Montana State Fund. These positions help negotiate collective bargaining agreements and represent state governments in administrative hearings and labor arbitrations.

The office is staffed by three Labor Specialists and supervised by the Department's Chief Labor Negotiator/Chief Legal Counsel.

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

Duties will be assumed by the other Specialists in the office.

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

Yes

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 3 - State Financial Services Division**

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

Eliminate the Social Security Administrator position (61107019) and reduce Local Government Services Bureau operating expenses by \$20,000.

#2 THE SAVINGS THAT ARE EXPECTED:

\$106,000 each fiscal year for the elimination of the SSA position, and \$20,000 per year savings from LGS in operating expenses. Total savings equals \$126,000 each fiscal year.

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

Duties and responsibilities of the SSA Administrator would be delegated to employees of the Local Government Services Bureau. LGS typically has unspent budget in operating that can be reverted to the general fund. Unspent operating budget for LGS in FY2016 was about \$83,000.

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

LGS staff would inevitably take on more duties and tasks that are required by statute, so mitigation of the impact is not an option.

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

Yes

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 7 - State Information Technology Services Division**

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

Reduction in personal services expenditures in SSR and reduction in operating in the general fund.

#2 THE SAVINGS THAT ARE EXPECTED:

General Fund: \$15,473 and \$8,819 SSR

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

Minimal to no consequence. The SSR fund showed a surplus in FY 2016 in personal services and the general fund showed a surplus in operating expenses.

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

PSCB reduced staff for other reasons. No impact to constituents

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

Yes

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 6101 Department of Administration
Program 23 - State Human Resources Division

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

Reduction in: a) the number of position classifications, b) policy and rule updates, c) salary market analysis, and d) service to agencies in support of appeals, grievances and disciplinary matters, and recruitment and selection processes

#2 THE SAVINGS THAT ARE EXPECTED:

1 FTE or approximately 5% of general fund budget

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

Slower response to agency requests for classifications; outdated policies or rules not in compliance with state and federal regulations; delayed agency representation during appeals; loss of qualified applicants during recruitment and selection of vacancies; duplication of services at agency level

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

Classification services could be replaced by consultants but at a higher cost; agencies may need to redesign work processes to accommodate the lack of support from DOA

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

Yes

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 37 - Montana Tax Appeal Board**

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

Reduce expenditures in three categories: 61100 salaries in the amount of \$20,000, 62200 supplies reduced by \$10,000, and 62300 communications reduced by \$4000.

#2 THE SAVINGS THAT ARE EXPECTED:

Savings would be \$34,000 per year or \$68,000 for the biennium.

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

Consequences are minimal. These are areas where the Board has underspent in the previous biennium.

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

No direct impact on customers or staff is likely to result.

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

Yes

Form B

5% Base Budget Reduction Form

**AGENCY CODE & NAME: 6101 Department of Administration
Program 14 - Division of Banking & Financial Institutions**

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

Eliminate .8 FTE Bank Examiner position and 1 FTE Lawyer position.

#2 THE SAVINGS THAT ARE EXPECTED:

For the 5% reduction, personal services is reduced by \$183,112 in FY 18 and \$180,635 in FY 19.

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

Loss of personal services funding would create an extreme hardship on the Division which is already struggling to maintain an acceptable number of trained examination staff. Failure to have enough trained and qualified examiners could result in loss of accreditation and an inability to examine all state-chartered banks and financial institutions on the statutorily required basis. Trained bank examiners are commonly lured away by higher paying federal regulatory agencies and private lending institutions. Bank examinations are critical to maintaining the safety and soundness of Montana's financial institutions. Without adequate supervision, constituents could experience increased risk at local lending institutions and changes in local bank services. The loss of this funding would also create a greater strain on remaining examination staff resulting in increased overtime and travel which would result in higher fees charged to licensees and leads to greater turnover due to burnout in experienced examiners.

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

There are no mitigation options that can compensate for the loss of a trained bank examiner. The Division is continuously working on an electronic examination format that will reduce the number of examiners that are required to be onsite during an examination.

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

Yes - 32-1-211 MCA

FY 2017 Appropriation Transactions - Department of Administration								
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	Other	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01100 General Fund	\$5,512,576	\$331,714	\$0	\$0	(\$27,000)	\$5,817,290	5.5%	-0.5%
02030 Arch & Engin Construction	2,057,160	83,994				2,141,154	4.1%	0.0%
02077 Financial Institutions Div	4,269,191	123,561				4,392,752	2.9%	0.0%
02105 Basic 9-1-1 Emrgncy Phone Prog	857					857	0.0%	0.0%
02211 Procurement Special Revenue	160,021	17,049	-			177,070	10.7%	0.0%
02594 Statewide 911 Services Admin	319,876	9,298				329,174	2.9%	0.0%
03320 CMIA Funds	1,427					1,427	0.0%	0.0%
03369 Flood Control Payments	12,707					12,707	0.0%	0.0%
03485 FirstNet Planning Grant	84,877					84,877	0.0%	0.0%
06001 State Lottery Fund	5,355,477	105,600				5,461,077	2.0%	0.0%
06527 Investment Division	55,373					55,373	0.0%	0.0%
Grand Total	\$17,829,542	\$671,216	\$0		(\$27,000)	\$18,473,758	3.6%	-0.1%

DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT AND TORT DEFENSE DIVISION



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HELENA, MONTANA 59620-0124

To: Mark Bruno, Bureau Chief, Office of Finance and Budget
From: Brett E. Dahl, Administrator, Risk Management & Tort Defense Division
Date: June 30, 2016
Subject: Property/Casualty Insurance Premiums 2019 Biennium

I have attached the Risk Management & Tort Defense Division's fixed cost schedule for the 2019 biennium.

Fixed costs should be budgeted for all state agencies and universities under account 62104. All supporting documents are adjoined.

/bd
enclosures

**DEPARTMENT OF ADMINISTRATION
Risk Management & Tort Defense Division
Property/Casualty Insurance Premiums
2019 Biennium**

SERVICE DESCRIPTION

The mission of the Risk Management & Tort Defense Division is to provide comprehensive and cost-effective risk management programs, insurance coverage, claims adjudication services, and legal defense to state agencies and universities that serve the citizens of Montana.

To accomplish this mission, the division investigates, evaluates, and resolves property/casualty claims that have merit consistent with ethical and legal obligations and the need to establish acceptable precedents.

The division also administers a comprehensive plan of property/casualty insurance protection and provides a broad array of risk management services to state agencies, universities, boards, councils, and commissions.

INTERNAL SERVICE FUND

In accordance with §17-7-501, MCA, the Risk Management & Tort Defense Division operates an internal service fund known as the state property/casualty insurance fund.

Funding for insurance is authorized in agency budgets by the Office of Budget and Program Planning and approved by the Legislature each biennium in accordance with §17-7-123, MCA. Proceeds from the property/casualty insurance fund are used to pay claims, purchase insurance, and to fund operations.

PREMIUM DEVELOPMENT

For purposes of premium development, all insurance premiums are combined into the following decision packages for HB 2; Auto, Aviation, General Liability, and Property. The development of property/casualty insurance premium for each decision package involves a five-step process:

Step 1 - Evaluate historical exposure, losses, and premiums.

Step 2 - Project unallocated expenses through FY 2019.

Step 3 - Project allocated expenses through FY 2019.

Step 4 - Determine an appropriate level of premium to achieve funding objectives.

Step 5 - Apportion premiums to state agencies and universities based upon historical loss experience and exposure.

STEP 1 – EVALUATE HISTORICAL EXPOSURE, LOSSES, AND PREMIUMS

Historical exposure, losses, and premiums are discussed separately by line of insurance below. Statistical indicators are found in Table 1, page 3.

AUTO

State agencies own or lease approximately 10,000 vehicles. Vehicles are used for diverse and high risk activities such as highway maintenance, law enforcement, construction, and off-road travel. These activities present significant liability risk for the state.

The number of claims, total incurred losses, and average cost per claim have been volatile since FY 2008. Since auto liability losses typically require 1 to 3 years to mature, it is unknown at this point how future loss development for losses that occurred after FY 2016 will adversely impact the state self-insurance fund.

AVIATION

State agencies own and operate 26 aircraft (including helicopters) that are used for various functions such as law enforcement, game management, firefighting, transportation of state employees, and aerial topography.

The state also owns and operates 15 state airports that connect Montana citizens and visitors. The number of flights into West Yellowstone, for example, totals over 3,000 per year.

Historically, the state has had very few aviation losses. The number of claims, total incurred losses, and average cost per claim have been stable since FY 2008.

GENERAL LIABILITY

State agencies operate prisons, hospitals, and institutions. In addition, state agencies are responsible for highway maintenance and design, law enforcement, wildlife resource management, supervision of foster children, and many other vital, high-risk functions.

The number and variety of potential risks have increased. Inmates incarcerated in prisons operated or supervised by the Department of Corrections and the number of offenders on probation or parole have also increased.

On July 1, 2000 the Department of Transportation assumed responsibility for an additional 7,500 miles of secondary highways formerly maintained by cities and counties. Despite an increase in risk, total incurred losses and average cost per claim (excluding the Libby Asbestos settlement) have remained constant since FY 2008.

Since general liability losses typically take 3 to 4 years to mature, it is unknown at this point how future loss development for losses that occurred after FY 2016 will impact that state self-insurance fund.

PROPERTY

State agencies and universities own or lease 4,900 properties with an estimated current replacement cost value of over \$5 billion. In addition, the state maintains and operates over 670 boilers and is responsible for fine art that has an estimated market value in excess of \$465,000,000.

The Risk Management & Tort Defense Division self-funds losses that fall below commercial catastrophic insurance deductibles of \$2,000,000 per occurrence. State agencies have experienced numerous, catastrophic losses stemming from earthquake, fire, flood, hail, boiler/machinery, and wind. State property risk is significant.

Total incurred losses have been volatile since FY 2008.

Historical Exposure, Losses & Premiums

Table 1
as of 04/30/2016

FY	# of Claims	# of Exposures	Total Incurred Losses	Estimated Claims Payable	Avg. Cost Per Claim	Earned Premium	Loss Ratio
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Auto							
2008	383	9,846	1,095,589	1,226,779	2,861	1,097,184	1.00
2009	366	9,569	1,591,502	1,104,281	4,348	1,104,048	1.44
2010	348	9,890	693,005	1,130,239	1,991	1,043,151	0.66
2011	353	9,667	1,027,940	1,024,881	2,912	1,044,540	0.98
2012	333	9,773	1,062,480	1,114,881	3,191	1,031,347	1.03
2013	332	9,995	919,987	1,390,689	2,771	1,037,665	0.89
2014	423	10,246	2,101,974	1,424,127	4,969	1,174,093	1.79
2015	352	10,552	937,025	1,520,216	2,662	1,139,499	0.82
2016	327	10,826	1,126,651	1,294,275	3,445	1,369,687	0.82
Aviation							
2008	1	41	4,750	-	4,750	167,807	0.03
2009	-	41	-	-	-	178,625	-
2010	1	41	-	-	-	212,451	-
2011	2	41	11,500	-	5,750	212,451	0.05
2012	1	41	-	-	-	212,451	-
2013	-	41	-	-	-	212,451	-
2014	-	41	-	-	-	169,961	-
2015	-	41	-	-	-	169,961	-
2016	-	41	-	-	-	169,961	-
General Liability							
2008	249	21,444	9,082,842	12,858,673	36,477	7,124,501	1.27
2009	252	21,736	5,148,367	11,252,814	20,430	7,123,899	0.72
2010	302	21,977	3,634,251	12,909,028	12,034	6,750,000	0.54
2011	175	22,467	2,486,392	14,285,871	14,208	6,750,000	0.37
2012	210	22,469	31,426,468	15,088,253	149,650	6,750,000	4.66
2013	173	22,742	5,221,446	13,832,735	30,182	6,750,000	0.77
2014	186	22,901	5,427,037	12,654,613	29,178	8,008,077	0.68
2015	195	22,901	8,404,736	13,025,479	43,101	8,088,657	1.04
2016	160	22,747	5,103,315	11,713,017	31,896	10,616,204	0.48
Property							
2008	61	4,498,955,722	1,196,606	2,412,671	19,616	3,959,239	0.30
2009	76	5,076,205,753	1,850,698	2,599,056	24,351	3,929,251	0.47
2010	70	5,161,117,966	1,784,933	2,634,710	25,499	3,747,417	0.48
2011	85	5,447,125,516	2,034,812	2,651,471	23,939	3,731,312	0.55
2012	81	5,450,744,899	2,662,843	3,093,409	32,875	3,733,020	0.71
2013	71	5,447,073,538	1,883,892	1,686,057	26,534	3,778,085	0.50
2014	97	5,796,080,242	6,519,657	3,472,174	67,213	4,525,038	1.44
2015	80	6,220,794,092	4,564,769	2,408,087	57,060	4,528,414	1.01
2016	77	5,947,091,327	4,754,166	2,436,729	61,742	5,644,735	0.84

(1) # of claims filed

(2) # of exposures

(3) Amounts paid plus reserves on open claims

(4) Actuarial estimates of claims payable on June 30th (Does not apply to aviation-due to small number of claims the state does not conduct an actuarial evaluation.)

(5) Column (3)/(1)

(6) Premium collected from state agencies

(7) Column (3)/(6)

STEP 2 – PROJECT UNALLOCATED EXPENSES

Unallocated expenses are shared or common expenses that cannot be associated with a specific claim or lawsuit and fall into three categories:

- Personal Services
- Commercial Insurance Premiums
- Other Expenses

Unallocated expenses in Table 2-1 below at 2nd level include personal services such as salaries and benefits, lines 1 and 2, as well as other expenses including supplies, equipment, and rent, lines 4 through 11. Commercial insurance premiums in Table 2-1, line 3 below, are expenses incurred in the purchase of commercial excess insurance above high deductibles.

DEPARTMENT OF ADMINISTRATION Risk Management & Tort Defense Division 2nd Level Unallocated Expenses Table 2-1											
(1) Expense Account Description	(2)	(3) FY2010	(4) FY2011	(5) FY2012	(6) FY2013	(7) FY2014	(8) FY2015	(9) FY2016	(10) FY2017	(11) FY2018	(12) FY2019
Personal Services											
(1) 61100 Salaries		765,029	844,284	709,022	770,024	811,988	956,253	1,128,889	1,251,600	1,251,600	1,251,600
(2) 61400 Employee Benefits		229,269	258,735	195,517	190,590	206,741	156,115	362,161	303,112	303,112	303,112
Commercial Insurance Premiums											
(3) 62104 Insurance & Bonds		2,768,869	2,924,087	2,848,769	3,073,679	3,326,604	3,666,718	3,859,888	3,859,888	3,859,888	3,859,888
Operating Expenses											
(4) 62100 Other Services		440,512	154,670	603,273	798,570	974,324	748,995	656,188	835,624	835,624	835,624
(5) 62200 Supplies & Materials		39,401	31,708	161,590	240,585	45,481	33,259	33,174	161,646	161,646	161,646
(6) 62300 Communications		21,667	22,740	17,600	21,986	25,485	83,562	20,055	17,845	17,845	17,845
(7) 62400 Travel		14,598	19,668	22,939	17,721	24,684	37,763	28,034	22,693	22,693	22,693
(8) 62500 Rent		61,954	55,575	58,380	67,075	69,631	77,549	77,564	58,380	58,380	58,380
(9) 62600 Utilities		6,236	6,861	5,727	6,282	7,070	5,774	5,978	5,781	5,781	5,781
(10) 62700 Repair & Maintenance		13,691	2,542	4,299	4,975	4,059	4,864	2,400	3,188	3,188	3,188
(11) 62800 Other Expenses		274,511	429,250	285,949	261,807	354,104	960,080	533,547	181,253	181,253	181,253
(12) 66000 Loss Mitigation Grants		-	-	-	-	520,112	462,852	328,675	520,113	520,113	520,113
(13) Total 2 nd Level Expenses		4,635,737	4,750,121	4,913,066	5,453,295	6,370,282	7,193,784	7,036,553	7,221,123	7,221,123	7,221,123
Assumptions: Actual FY2010 expenses (SABHRS org summary). Actual FY2011 expenses (SABHRS org summary). Actual FY2012 expenses (SABHRS org summary). Actual FY2013 expenses (SABHRS org summary). Actual FY2014 expenses (SABHRS org summary). Actual FY2015 expenses (SABHRS org summary). Actual FY2016 expenses = annualized/estimated. FY 2017 expenses = budgeted. FY 2018 expenses = FY 2017 budgeted. FY 2019 expenses = FY 2017 budgeted.											

Since unallocated expenses cannot be attributed to a specific claim or lawsuit, they are apportioned on Table 2-2, page 4, by line of insurance based upon a historical three-year average of indemnity (loss) payments.

DEPARTMENT OF ADMINISTRATION Risk Management & Tort Defense Division Unallocated Expenses Table 2-2											
(1)	(2) % Indemnity ¹	(3) FY2010	(4) FY2011	(5) FY2012	(6) FY2013	(7) FY2014	(8) FY2015	(9) FY2016	(10) FY2017	(11) FY2018	(12) FY2019
AUTO											
(1) Personal Services	0.181	179,673	199,319	163,453	173,586	184,088	201,009	269,438	280,942	280,942	280,942
(2) Commercial Insurance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(3) Other Expenses	0.181	157,676	130,651	209,572	256,418	365,915	436,344	304,596	326,445	326,445	326,445
(4) Sub-Total		337,349	329,971	373,026	430,005	550,003	637,353	574,034	607,387	607,387	607,387
AVIATION											
(5) Personal Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(6) Commercial Insurance	n/a	206,454	304,828	176,389	141,292	155,818	129,368	151,055	151,055	151,055	151,055
(7) Other Expenses	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(8) Sub-Total		206,454	304,828	176,389	141,292	155,818	129,368	151,055	151,055	151,055	151,055
GENERAL LIABILITY											
(9) Personal Services	0.626	622,329	690,377	566,149	601,246	637,620	696,229	933,245	973,091	973,091	973,091
(10) Commercial Insurance	n/a	250,033	210,647	215,438	199,843	270,551	360,128	386,689	386,689	386,689	386,689
(11) Other Expenses	0.626	546,139	452,534	725,890	888,150	1,267,411	1,511,354	1,055,023	1,130,699	1,130,699	1,130,699
(12) Sub-Total		1,418,502	1,353,558	1,507,477	1,689,239	2,175,582	2,567,710	2,374,956	2,490,478	2,490,478	2,490,478
PROPERTY											
(13) Personal Services	0.193	192,296	213,323	174,937	185,782	197,021	215,131	288,367	300,680	300,680	300,680
(14) Commercial Insurance	n/a	2,312,381	2,408,612	2,456,942	2,732,544	2,990,235	3,177,222	3,322,144	3,322,144	3,322,144	3,322,144
(15) Other Expenses	0.193	168,754	139,830	224,296	274,433	391,623	467,000	325,996	349,380	349,380	349,380
(16) Sub-Total		2,673,432	2,761,765	2,856,175	3,192,759	3,488,879	3,859,353	3,936,508	3,972,203	3,972,203	3,972,203
(17) Grand Total Personal Services		994,298	1,103,019	904,539	960,614	1,018,728	1,112,368	1,491,050	1,554,712	1,554,712	1,554,712
(18) Grand Total Commercial Insurance		2,768,869	2,924,087	2,848,769	3,073,679	3,326,604	3,666,718	3,859,888	3,859,888	3,859,888	3,859,888
(19) Grand Total Other Expenses		872,570	723,015	1,159,758	1,419,002	2,024,950	2,414,608	1,685,615	1,806,523	1,806,523	1,806,523
(20) Grand Total Operating Expenses		4,635,737	4,750,121	4,913,066	5,453,295	6,370,282	7,193,784	7,036,553	7,221,123	7,221,123	7,221,123
Assumptions: Actual FY2010 expenses (SABHRS org summary). Actual FY2011 expenses (SABHRS org summary). Actual FY2012 expenses (SABHRS org summary). Actual FY2013 expenses (SABHRS org summary). Actual FY2014 expenses (SABHRS org summary). Actual FY2015 expenses (SABHRS org summary). Actual FY2016 expenses = annualized/estimated. FY 2017 expenses = budgeted. FY 2018 expenses = FY 2017 budgeted. FY 2019 expenses = FY 2017 budgeted.											
¹ Average 3 year indemnity and LAE payments as a % of total indemnity and LAE payments (2013-2015).											

STEP 3 – PROJECT ALLOCATED EXPENSES

Allocated expenses are expenses specific to individual claims and are determined by line of insurance without being apportioned. Allocated expenses include:

- Loss Adjustment Expenses
- Indemnity Expenses

Loss adjustment expenses (LAE) are expenses associated with the investigation, evaluation, and resolution of a claim/lawsuit including adjuster fees, attorney fees, and court costs. Indemnity expenses are payments to claimants in satisfaction of settlements or court verdicts for each claim/lawsuit.

Allocated expenses are provided in Table 3, page 5. Projected indemnity expenses for FY 2017 through FY 2019 are based on estimated prospective liabilities & payouts set by the division's actuarial consultant, Willis Towers Watson.

DEPARTMENT OF ADMINISTRATION Risk Management & Tort Defense Division Allocated Expenses Table 3										
(1)	(2) FY2010	(3) FY2011	(4) FY2012	(5) FY2013	(6) FY2014	(7) FY2015	(8) FY2016	(9) FY2017	(10) FY2018	(11) FY2019
AUTO										
(1) Loss Adjustment Expenses	34,671	62,907	56,881	40,480	142,552	28,553	16,956	70,528	70,528	70,528
(2) Indemnity	732,102	995,437	1,039,689	866,656	1,914,525	895,704	1,360,885	1,437,792	1,440,635	1,530,074
(3) Sub-Total	766,773	1,058,343	1,096,570	907,136	2,057,077	924,256	1,377,841	1,508,320	1,511,163	1,600,602
AVIATION										
(4) Loss Adjustment Expenses	-	-	-	-	-	-	-	-	-	-
(5) Indemnity	12,048	190,001	2,000	-	-	-	-	-	-	-
(6) Sub-Total	12,048	190,001	2,000	-	-	-	-	-	-	-
GENERAL LIABILITY										
(7) Loss Adjustment Expenses	2,102,839	1,580,029	2,168,296	1,993,769	2,184,258	2,955,738	2,929,512	2,377,922	2,377,922	2,377,922
(8) Indemnity	1,410,041	672,159	28,876,186	1,741,200	1,082,589	2,579,119	1,398,832	27,606,989	2,864,066	2,998,230
(9) Sub-Total	3,512,881	2,252,188	31,044,482	3,734,970	3,266,847	5,534,857	4,328,344	29,984,911	5,241,988	5,376,152
PROPERTY										
(10) Loss Adjustment Expenses	26,146	61,956	26,212	19,669	39,486	43,881	39,670	34,345	34,345	34,345
(11) Indemnity	1,759,655	2,214,889	6,449,192	3,335,953	3,238,912	3,477,498	1,823,841	2,259,643	2,128,552	2,093,936
(12) Sub-Total	1,785,801	2,276,845	6,475,404	3,355,621	3,278,399	3,521,379	1,863,510	2,293,988	2,162,897	2,128,281
(13) Grand Total Loss Adjustment Expenses	2,163,656	1,704,892	2,251,389	2,053,918	2,366,296	3,028,171	2,986,138	2,482,795	2,482,795	2,482,795
(14) Grand Total Indemnity	3,913,847	4,072,486	36,367,067	5,943,809	6,236,027	6,952,321	4,583,557	31,304,424	6,433,253	6,622,239
(15) Grand Total Allocated Expenses	6,077,503	5,777,378	38,618,456	7,997,727	8,602,323	9,980,492	7,569,695	33,787,219	8,916,048	9,105,034
Assumptions: Actual FY2010 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report). Actual FY2011 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report). Actual FY2012 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report). Actual FY2013 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report). Actual FY2014 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report). Actual FY2015 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report). Annualized FY2016 expenses (Indemnity from SABHRS trial balance report & LAE from CLAIMS database loss trends report) as of 04/30/2016. FY2017 LAE = 3 yr average (13-15 Loss Trends report) & Indemnity expenses = Estimated Prospective Liabilities & Payouts (04/01/2016 actuarial report pages 9-10). FY2018 LAE = 3 yr average (13-15 Loss Trends report) & Indemnity expenses = Estimated Prospective Liabilities & Payouts (04/01/2016 actuarial report pages 9-10). FY2019 LAE = 3 yr average (13-15 Loss Trends report) & Indemnity expenses = 2018 Estimated Prospective Liabilities & Payouts (04/01/2016 actuarial report pages 9-10).										

STEP 4 - DETERMINE AN APPROPRIATE LEVEL OF PREMIUM

Now that exposure and expenses have been established, data from Table 2-2 (page 4) and Table 3 (page 5) can be brought forward into a funding model and an appropriate level of premium established as discussed through the remainder of this section.

The high-risk nature of services provided by state agencies, unpredictable litigation outcomes, catastrophic losses, and increases in the cost of commercial insurance mean the division's funding estimates are highly variable. Therefore, the Risk Management & Tort Defense Division utilizes a risk margin (i.e. reserve) to 'cushion' the property/casualty insurance fund from large and unexpected deviations in loss experience. A reserve is a fund balance that exceeds actuarial estimates of claims liabilities.

Many other public entities nationally, and in Montana (including the Montana Municipal Insurance Authority), maintain reserves and the state's consulting actuary, Willis Towers Watson, recommends that the state continue this practice.

AUTO

Recent historic auto losses and declining investment income have had an adverse effect on the division's auto insurance reserve position.

Consistent with actuarial recommendations, the division's funding objectives for the 2019 biennium are to maintain reserves sufficient to achieve target funding ratios that trend towards 1.25 (liabilities to reserves ratio) <2. In order to move towards target funding ratios, the division proposes to increase state agency and university insurance premiums 35% each year of the 2019 biennium above the FY 2016 base premium.

The funding model for auto insurance is found in Table 4-1, page 6 (below). Proposed premium levels are provided on line (1), Table 4-1, page 6 at \$2,022,570 for each year of the 2019 biennium.

Risk Management & Tort Defense Division Projected Changes in Revenue, Expenses, and Reserves For the Period Ending June 30th Table 4-1								
Auto Insurance Program								
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Gross Premiums Written	1,135,000	1,135,000	1,248,500	1,248,500	1,498,200	1,498,200	2,022,570	2,022,570
(1) Net Premiums Earned	1,031,344	1,037,672	1,174,094	1,139,502	1,369,688	1,369,688	1,894,058	1,894,058
(2) Losses Incurred	1,039,689	866,656	1,914,525	895,704	1,360,885	1,437,792	1,440,635	1,530,074
(3) Loss Expenses Incurred	56,881	40,480	142,552	28,553	16,956	70,528	70,528	70,528
Operations	373,026	430,005	550,003	637,353	574,034	607,387	607,387	607,387
Commercial Insurance Premiums	0	0	0	0	0	0	0	0
Total Losses and Expenses	1,469,596	1,337,140	2,607,080	1,561,609	1,951,875	2,115,706	2,118,549	2,207,988
(4) Net Income (Loss) Before Investments	(438,252)	(299,469)	(1,432,986)	(422,107)	(582,187)	(746,018)	(224,491)	(313,930)
(5) Net Investment Income Earned	2,716	1,248	2,047	1,941	4,309	3,189	3,409	3,409
Supplemental Appropriation	0	0	0	0	0	0	0	0
(6) Insurance Recoveries	71,083	53,550	42,892	95,278	82,305	63,906	63,906	63,906
(7) Net Income (Loss)	(364,453)	(244,671)	(1,388,047)	(324,888)	(495,573)	(678,923)	(157,176)	(246,615)
Prior Years Assets	1,768,817	1,654,364	1,659,693	1,171,646	846,758	2,851,185	2,172,262	2,015,086
Total Assets Before Transfers	1,404,364	1,409,693	271,646	846,758	351,185	2,172,262	2,015,086	1,768,470
Transfers In (Out)	250,000	250,000	900,000	0	2,500,000	0	0	0
Aggregate Write-Ins	0	0	0	0	0	0	0	0
(8) Total Assets	1,654,364	1,659,693	1,171,646	846,758	2,851,185	2,172,262	2,015,086	1,768,470
Non-Claim Liabilities	158,296	157,754	219,193	411,281	411,281	411,281	411,281	411,281
Claims Liabilities	1,114,881	1,390,689	1,424,127	1,294,275	1,309,877	1,395,305	1,467,597	1,467,597
Total Liabilities	1,273,177	1,548,443	1,643,320	1,705,556	1,721,158	1,806,586	1,878,878	1,878,878
(9) Reserves	381,187	111,250	(471,674)	(858,798)	1,130,027	365,677	136,208	(110,408)
Actuarial Target Funding Ratio: Total Liabilities to Reserves				1.25 > Target < 2				
Actual Funding Ratio Achieved				3.34	13.92	(3.48)	(1.99)	1.52
Actuarial Reserve Target				\$939,439				
Actuarial Reserve Target Overage (Shortfall)				(\$558,252)	(\$828,189)	(\$1,411,113)	(\$1,798,237)	\$190,588
							(\$573,762)	(\$803,231)
								(\$1,049,847)

AVIATION

Favorable commercial aviation insurance market conditions and a recent competitive aviation bid mean that state agency and university aviation insurance premium charges will remain constant each year of the 2019 biennium from the 2016 base premium. An actuarial study is not conducted for aviation insurance due to the small number of claims and variability in costs.

The funding model for aviation insurance is found in Table 4-2, page 7 (next page). The funding objective for aviation insurance during the 2019 biennium is to charge a level of premium sufficient to cover projected commercial insurance premiums and projected loss expenses. Proposed premiums are provided on line (1), Table 4-2, page 7 and are \$169,961 each year of the biennium.

Risk Management & Tort Defense Division Projected Changes in Revenue, Expenses, and Reserves For the Period Ending June 30th Table 4-2								
Aviation Insurance Program								
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Gross Premiums Written	212,451	212,451	169,961	169,961	169,961	169,961	169,961	169,961
(1) Net Premiums Earned	212,451	212,451	169,961	169,961	169,961	169,961	169,961	169,961
(2) Losses Incurred	2,000	0	0	0	0	0	0	0
(3) Loss Expenses Incurred	0	0	0	0	0	0	0	0
Operations	0	0	0	0	0	0	0	0
Commercial Insurance Premiums	176,389	141,292	155,818	129,368	151,055	151,055	151,055	151,055
Total Losses and Expenses	178,389	141,292	155,818	129,368	151,055	151,055	151,055	151,055
(4) Net Income (Loss) Before Investments	34,062	71,159	14,143	40,593	18,906	18,906	18,906	18,906
(5) Net Investment Income Earned	508	234	278	264	489	362	286	286
Supplemental Appropriation	0	0	0	0	0	0	0	0
(6) Insurance Recoveries	0	0	0	0	0	0	0	0
(7) Net Income (Loss)	34,570	71,393	14,420	40,857	19,395	19,268	19,192	19,192
Prior Years Assets	(130,643)	(96,073)	(24,680)	(10,259)	30,598	49,993	69,260	88,452
Total Assets Before Transfers	(96,073)	(24,680)	(10,259)	30,598	49,993	69,260	88,452	107,645
Transfers In (Out)	0	0	0	0	0	0	0	0
Aggregate Write-Ins	0	0	0	0	0	0	0	0
(8) Total Assets	(96,073)	(24,680)	(10,259)	30,598	49,993	69,260	88,452	107,645
Non-Claim Liabilities	0	0	0	0	0	0	0	0
Claims Liabilities	0	0	0	0	0	0	0	0
Total Liabilities	0	0	0	0	0	0	0	0
(9) Reserves	(96,073)	(24,680)	(10,259)	30,598	49,993	69,260	88,452	107,645
Funding Objective 2019 Biennium: Premiums Sufficient to Cover Actual Costs								

GENERAL LIABILITY

Declining investment income due to the economy and the Libby settlement of approximately \$26.8 million have had a significant impact on the state property/casualty insurance fund's asset and reserve position. The \$26.8 million Libby settlement of 2012 represents the largest loss in the history of the state property/casualty insurance fund. As a result of this settlement, reserves will decline from \$12,456,153 at the end of FY 2011 to a projected unfunded liability of \$6,610,703 at the end of FY 2016.

Consistent with actuarial recommendations, the division's funding objectives for the 2019 biennium are to maintain reserves sufficient to move towards target funding ratios of $1.25 > (\text{liabilities to reserves ratio}) < 2$. In order to progress towards target funding ratios, the division proposes to increase state agency and university general liability insurance premiums 35% each year of the 2019 biennium above the FY 2016 base premium. The funding model for general liability insurance is found in Table 4-3, page 8 (next page). Proposed premiums are provided on line (1), Table 4-3, page 8.

Risk Management & Tort Defense Division								
Projected Changes in Revenue, Expenses, and Reserves								
For the Period Ending June 30th								
Table 4-3								
General Liability Insurance Program								
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Gross Premiums Written	6,750,000	6,750,000	8,100,000	8,100,000	10,824,476	10,824,476	14,613,042	14,613,042
(1) Net Premiums Earned	6,750,000	6,750,000	8,100,000	8,100,000	10,685,160	10,685,160	14,473,726	14,473,726
(2) Losses Incurred	28,876,186	1,741,200	1,082,589	2,579,119	1,398,832	27,606,989	2,864,066	2,998,230
(3) Loss Expenses Incurred	2,168,296	1,993,769	2,184,258	2,955,738	2,929,512	2,377,922	2,377,922	2,377,922
Operations	1,292,039	1,489,396	1,905,031	2,207,583	1,988,267	2,103,789	2,103,789	2,103,789
Commercial Insurance Premiums	215,438	199,843	270,551	360,128	386,689	386,689	386,689	386,689
Total Losses and Expenses	32,551,959	5,424,209	5,442,429	8,102,567	6,703,300	32,475,389	7,732,466	7,866,630
(4) Net Income (Loss) Before Investments	(25,801,959)	1,325,791	2,657,571	(2,567)	3,981,859	(21,790,230)	6,741,260	6,607,096
(5) Net Investment Income Earned	16,151	7,424	13,280	12,593	31,130	23,040	24,626	24,626
Supplemental Appropriation	0	13,400,000	0	6,000,000	0	0	0	0
(6) Insurance Recoveries	3,095	120	0	1,246	0	455	455	455
(7) Net Income (Loss)	(25,782,713)	14,733,336	2,670,851	6,011,271	4,012,989	(21,766,735)	6,766,341	6,632,178
Prior Years Assets	27,308,097	(224,616)	12,758,720	7,679,571	13,690,842	10,203,831	(6,562,904)	203,438
Total Assets Before Transfers	1,525,384	14,508,720	15,429,571	13,690,842	17,703,831	(11,562,904)	203,438	6,835,615
Transfers In (Out)	(1,750,000)	(1,750,000)	(7,750,000)	0	(7,500,000)	5,000,000	0	0
Aggregate Write-Ins	0	0	0	0	0	0	0	0
(8) Total Assets	(224,616)	12,758,720	7,679,571	13,690,842	10,203,831	(6,562,904)	203,438	6,835,615
Non-Claim Liabilities	548,286	546,409	759,214	1,424,543	1,424,543	1,424,543	1,424,543	1,424,543
Claims Liabilities	15,088,253	13,832,735	12,654,613	11,713,017	12,002,976	12,064,828	12,021,775	12,021,775
Total Liabilities	15,636,539	14,379,144	13,413,827	13,137,560	13,427,519	13,489,371	13,446,318	13,446,318
(9) Reserves	(15,861,155)	(1,620,424)	(5,734,256)	553,282	(3,223,688)	(20,052,275)	(13,242,881)	(6,610,703)
Actuarial Target Funding Ratio: Total Liabilities to Reserve				1.25 > Target < 2				
Actual Funding Ratio Achieved:	(0.99)	(8.87)	(2.34)	23.74	(4.17)	(0.67)	(1.02)	(2.03)
Actuarial Reserve Target				\$6,723,159.17				
Actuarial Reserve Target Overage (Shortfall)	(\$22,584,314)	(\$8,343,583)	(\$12,457,415)	(\$6,169,877)	(\$9,946,847)	(\$26,775,434)	(\$19,966,040)	(\$13,333,862)

PROPERTY

The number of property losses, total cost, and average cost per claim have been very volatile since FY 2008. Catastrophic hail, wind, and flood losses in Montana and catastrophic events worldwide have had a significant effect on the availability and affordability of commercial excess property insurance.

In addition, the state's deductible for property insurance has increased from \$250,000 per occurrence in FY 2009 to \$2,000,000 per occurrence in FY 2016. The increase in the magnitude of the state's deductible now means that the state has to pay a higher share of each property loss and will require additional funding, especially for catastrophic losses. Consistent with actuarial recommendations, the division's funding objectives for the 2019 biennium are to maintain reserves sufficient to achieve target funding ratios that trend towards 10 (reserves to deductible ratio).

In order to move towards target funding ratios, the division proposes to increase state agency and university general liability insurance premiums 10% each year of the 2019 biennium above the FY 2016 base premium. The funding model for property insurance is found in Table 4-4, page 8 (below). Proposed premiums for the 2019 biennium are provided on line (1) of Table 4-4.

Risk Management & Tort Defense Division								
Projected Changes in Revenue, Expenses, and Reserves								
For the Period Ending June 30th								
Table 4-4								
Property Insurance Program								
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Gross Premiums Written	4,200,000	4,200,000	5,040,000	5,040,000	6,300,000	6,300,000	6,930,000	6,930,000
(1) Net Premiums Earned	3,733,023	3,778,089	4,525,039	4,517,068	5,657,234	5,575,783	6,205,783	6,205,783
(2) Losses Incurred	6,449,192	3,335,953	3,238,912	3,477,498	1,823,841	2,259,643	2,128,552	2,093,936
(3) Loss Expenses Incurred	26,212	19,669	39,486	43,881	39,670	34,345	34,345	34,345
Operations	399,233	460,215	588,644	682,131	614,364	650,059	650,059	650,059
Commercial Insurance Premiums	2,456,942	2,732,544	2,900,235	3,177,222	3,322,144	3,322,144	3,322,144	3,322,144
Total Losses and Expenses	9,331,579	6,548,380	6,767,278	7,380,732	5,800,018	6,266,192	6,135,100	6,100,484
(4) Net Income (Loss) Before Investments	(5,598,556)	(2,770,291)	(2,242,239)	(2,863,664)	(142,784)	(690,409)	70,683	105,299
(5) Net Investment Income Earned	10,050	4,620	8,263	7,836	18,118	13,410	11,679	11,679
Supplemental Appropriation	0	0	0	0	0	0	0	0
(6) Insurance Recoveries	3,548,289	177,079	1,224,120	2,770,488	281,778	1,390,562	1,390,562	1,390,562
(7) Net Income (Loss)	(2,040,217)	(2,588,593)	(1,009,856)	(85,340)	157,112	713,563	1,472,924	1,507,540
Prior Years Assets	3,084,953	2,175,576	1,042,440	7,160,955	5,246,822	10,403,934	6,117,497	7,590,420
Total Assets Before Transfers	1,044,736	(413,017)	32,584	7,075,615	5,403,934	11,117,497	7,590,420	9,097,960
Transfers In (Out)	1,500,000	1,500,000	6,850,000	0	5,000,000	(5,000,000)	0	0
Aggregate Write-Ins	(369,160)	(44,543)	278,371	(1,828,793)	0	0	0	0
(8) Total Assets	2,175,576	1,042,440	7,160,955	5,246,822	10,403,934	6,117,497	7,590,420	9,097,960
Non-Claim Liabilities	169,417	168,837	234,593	440,176	440,176	440,176	440,176	440,176
Claims Liabilities	3,093,409	1,686,057	3,472,174	2,436,729	2,105,636	1,963,492	1,915,556	1,915,556
Total Liabilities	3,262,826	1,854,894	3,706,767	2,876,905	2,545,812	2,403,668	2,355,732	2,355,732
(9) Reserves	(1,087,251)	(812,454)	3,454,188	2,369,917	7,858,122	3,713,829	5,234,688	6,742,228
Actuarial Target Funding Ratio: Reserves/\$1,000,000 Retention				10 > Target < 20				
Actual Funding Ratio Achieved:	-1.09	-0.81	3.45	2.37	7.86	3.71	5.23	6.74
Actuarial Reserve Target				\$10,000,000				
Actuarial Reserve Target Overage (Shortfall)	(11,087,251)	(10,812,454)	(6,545,812)	(7,630,083)	(2,141,878)	(6,286,171)	(4,765,312)	(3,257,772)

**2019 BIENNIUM
DECISION PACKAGE SUMMARY**

PROPERTY/CASUALTY INSURANCE FUND FEE/RATE INFORMATION									
				FY 2018 \$	FY 2018 \$		FY 2019 \$	FY 2019 \$	
	FY 2016	FY 2017	FY 2018	Change from	Change from	FY 2019	Change from	Change from	
				FY 2016	FY 2017		FY 2016	FY 2017	
Auto	1,498,200	1,498,200	2,022,570	524,370	524,370	2,022,570	524,370	524,370	
Aviation	169,961	169,961	169,961	0	0	169,961	0	0	
General Liability	10,824,476	10,824,476	14,613,042	3,788,566	3,788,566	14,613,042	3,788,566	3,788,566	
Property	6,300,000	6,300,000	6,930,000	630,000	630,000	6,930,000	630,000	630,000	
Total	18,792,636	18,792,636	23,735,573	4,942,936	4,942,936	23,735,573	4,942,936	4,942,936	
				FY 2018 %	FY 2018 %		FY 2019 %	FY 2019 %	
	FY 2016	FY 2017	FY 2018	Change from	Change from	FY 2019	Change from	Change from	
				FY 2016	FY 2017		FY 2016	FY 2017	
Auto	1,498,200	1,498,200	2,022,570	35%	35%	2,022,570	35%	35%	
Aviation	169,961	169,961	169,961	0%	0%	169,961	0%	0%	
General Liability	10,824,476	10,824,476	14,613,042	35%	35%	14,613,042	35%	35%	
Property	6,300,000	6,300,000	6,930,000	10%	10%	6,930,000	10%	10%	
Total	18,792,636	18,792,636	23,735,573	26%	26%	23,735,573	26%	26%	

STEP 5 - APPORTION PREMIUMS BASED UPON LOSS EXPERIENCE AND EXPOSURE

In accordance with §2-9-202, MCA, the Risk Management & Tort Defense Division is responsible for the allocation of insurance premiums to state agencies subject to appropriations by the Legislature.

The philosophy of the Risk Management & Tort Defense Division is that each state agency should bear a proportionate share of premium commensurate with state loss experience and exposure.

The division incurs significant expense in the investigation, defense, and settlement of claims and lawsuits. Agencies with higher losses will pay higher insurance premiums. No one agency is expected to bear the burden of paying for total costs of unexpected losses from its authorized budget.

The Risk Management & Tort Defense Division allocates insurance premium as provided in the 2019 Biennium Decision Package Summary as follows:

Auto

Total auto premium collections of \$2,022,570 each year of the biennium is comprised of two separate insurance coverages:

	FY 2018	FY 2019
Auto comp/collision	\$746,819	\$1,194,258
Auto liability	\$1,275,751	\$828,312

Auto comp/collision premiums for FY 2018 and FY 2019 are based upon total values of reported vehicles.

Auto liability premiums for the 2019 biennium will be based upon agency losses over the past 4 years as well as the number of vehicles reported and will vary by agency.

Aviation

Aviation premium of \$169,961 in FY 2018 and FY 2019 is allocated to those agencies that have aircraft based upon charges from commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft. Airport premium is determined by commercial insurance carriers and apportioned to those agencies that have airports based upon the number of airports.

General Liability

Total general liability premium of \$14,613,042 each year of the biennium is comprised of commercial coverage and self-insured coverage as follows:

	FY 2018	FY 2019
Commercial coverage	\$ 306,050	\$ 331,988
Self-insured coverage	\$14,306,992	\$14,281,054

Commercial coverage charges are negotiated with commercial insurance carriers.

General liability rates for each agency will increase for the 2019 biennium; however, premiums by agency may vary slightly to changes in exposure (i.e. # of FTEs).

Property

Property insurance premium of \$6,930,000 is allocated to each agency based on its percentage of reported exposures (i.e. building replacement cost values, boilers & machinery, etc.).

Attachment #1 provides a detailed breakdown of insurance premiums by agency, by line of insurance, for FY 2018. Attachment #2 provides a detailed breakdown of insurance premiums by agency, by line of insurance, for FY 2019.

FY 2018 Premium Allocation by Agency Attachment #1															
BU	Agency	Entity	Auto		Aviation		General		Property	B&M	Property		Fine Arts	Misc.	Total
			Liability	C/C	Aircraft	Airport	Liability	Misc.			Crime				
61010	Administration	Administration	8,125	3,147	-	-	177,100	-	517,341	4,313	1,677	-	-	711,703	
61050	Administration	Teachers Retirement	-	-	-	-	6,218	-	-	-	59	-	-	6,277	
61040	Administration	PERD	-	-	-	-	16,363	-	909	-	155	-	-	17,427	
61080	Administration	Public Defenders Office	1,218	4,341	-	-	78,890	-	5,142	-	747	-	-	90,338	
62010	Agriculture	Agriculture	9,461	11,715	-	-	60,577	-	5,156	125	404	-	-	87,438	
34010	Auditor's Office	Auditor's Office	-	439	-	-	22,184	-	922	-	278	-	-	23,823	
51150	Board of Education	State Library	238	348	-	-	12,757	-	3,544	-	139	-	-	17,026	
51140	Board of Education	MT Arts Council	-	-	-	-	2,326	-	140	-	25	-	-	2,491	
51010	Board of Education	Board of Education	-	-	-	-	1,134	-	33	-	12	-	-	1,179	
51130	Board of Education	School for Deaf & Blind	2,513	5,195	-	-	25,132	-	22,739	188	275	-	-	56,042	
65010	Commerce	Commerce	170	984	-	-	109,119	-	40,565	-	635	2	250	151,725	
65010	Commerce	Heritage Commission	393	767	-	-	6,389	-	42,396	-	37	2,026	-	52,008	
32020	Comm. of Political Practices	Comm. Of Political Practices	-	-	-	-	1,640	-	-	-	22	-	-	1,662	
64010	Corrections	Board of Pardons	-	-	-	-	9,972	-	111	-	31	-	-	10,114	
64010	Corrections	Corrections	6,948	9,605	-	-	462,852	-	29,818	125	1,439	-	-	510,787	
64010	Corrections	State Prison	32,911	9,781	-	-	563,215	-	119,306	5,001	1,751	-	-	731,965	
64010	Corrections	Prison Industries	26,729	1,955	-	-	81,784	-	48,575	813	254	-	-	160,110	
64010	Corrections	Women's Corr. Ctr.	832	87	-	-	69,079	-	40,641	313	215	12	-	111,179	
64010	Corrections	Treasure State CC	279	587	-	-	25,928	-	5,814	188	81	-	-	32,877	
64010	Corrections	Riverside	617	219	-	-	27,923	-	8,984	500	87	-	-	38,330	
64010	Corrections	Pine Hills	2,008	263	-	-	117,526	-	33,382	438	365	-	-	153,982	
53010	Environmental Quality	Environmental Quality	16,363	15,713	-	-	295,252	-	12,477	563	1,489	-	-	341,857	
52010	Fish, Wildlife, & Parks	Fish, Wildlife, & Parks	38,761	28,466	49,182	-	257,166	-	142,098	1,188	2,516	4,609	2,519	526,505	
11040	Elected Officials	Legislative Branch	-	-	-	-	44,574	-	2,413	-	568	-	-	47,555	
31010	Elected Officials	Governor's Office	-	1,305	15,125	-	14,313	-	-	-	182	-	-	30,925	
11120	Elected Officials	Consumer Counsel	-	-	-	-	1,348	-	103	-	17	-	-	1,468	
32010	Elected Officials	Secretary of State	-	221	-	-	14,174	-	868	-	181	19	-	15,463	
51170	Historical Society	Historical Society	-	90	-	-	22,687	-	14,722	-	216	62,152	-	99,867	
41100	Justice	Justice	79,608	227,884	8,554	-	483,754	-	54,395	688	2,622	5	-	857,510	
41070	Justice	Crime Control	-	171	-	-	10,578	-	-	-	57	-	-	10,806	
66020	Labor & Industry	Labor & Industry	22,596	30,831	-	-	230,954	-	23,912	938	2,916	-	-	312,147	
56030	Livestock	Livestock	12,684	4,302	26,255	-	50,501	-	966	-	441	-	-	95,149	
67010	Military Affairs	Military Affairs	1,284	17,868	-	-	117,512	-	132,003	1,875	742	-	1,683	272,967	
57060	Natural Resources	Swan River	-	-	-	-	5,231	-	188	-	-	-	-	5,419	
57060	Natural Resources	Natural Resources	59,572	93,734	39,309	-	180,381	-	72,511	500	1,812	-	3,135	450,954	
69010	DPHHS	State Hospital	10,354	1,968	-	-	409,914	-	71,231	500	1,472	-	563	496,002	
69010	DPHHS	CF Vet's Home	3,543	1,000	-	-	155,336	-	26,021	625	558	3	1,500	188,586	
69010	DPHHS	Mental Health Nursing Care C	3,253	2,398	-	-	155,336	-	24,012	188	558	-	656	186,401	
69010	DPHHS	Glendive Vet's Home	1,151	803	-	-	863	-	13,374	250	3	-	-	16,444	
69010	DPHHS	DPHHS	13,786	37,162	-	-	1,634,787	-	65,231	813	5,872	-	-	1,757,651	
69010	DPHHS	MT Dev. Ctr.	11,936	1,935	-	-	211,429	-	47,604	1,875	759	-	116	275,654	
69010	DPHHS	MT Chem. Dep. Ctr.	1,070	496	-	-	56,956	-	789	-	205	-	100	59,616	
35010	Office of Pubic Instr.	Office of Public Instr.	1,193	776	-	-	43,109	-	555	-	660	-	-	46,293	
42010	Public Service Comm.	Public Service Comm.	852	377	-	-	15,213	-	674	-	127	-	-	17,243	
58010	Revenue	Revenue	14,462	21,612	-	-	171,702	-	38,429	-	2,122	-	-	248,327	
21100	Supreme Court	Supreme Court	5,809	5,730	-	-	137,646	-	13,150	-	1,359	-	-	163,694	
61030	State Fund	State Fund	5,842	8,117	-	-	476,099	-	47,997	188	942	-	-	539,185	
54010	Transportation	Transportation	662	3,000	22,788	8,750	4,673,517	-	266,548	2,313	7,031	16	970	4,985,595	
54010	Transportation	Motor Pool	180,881	-	-	-	-	-	-	-	-	-	-	180,881	
54010	Transportation	Equipment	398,600	-	-	-	-	-	-	-	-	-	-	398,600	
51030	University System	UM	99,622	72,578	-	-	860,131	150,352	1,528,257	6,751	9,209	4,470	-	2,731,370	
51080	University System	Western	6,761	5,786	-	-	70,612	-	156,930	1,375	756	136	-	242,356	
51020	University System	Comm. Of Higher Ed	-	-	-	-	29,785	155,698	646	-	319	-	1,902	188,350	
51100	University System	MSU Extension Service	6,022	4,726	-	-	53,244	-	934	-	570	-	-	65,496	
51190	University System	MSU FSTS	8,740	7,006	-	-	2,614	-	365	-	28	-	-	18,753	
51090	University System	MSU AES	30,062	26,855	-	-	62,338	-	60,391	563	667	-	-	180,876	
51060	University System	MSU Billings	15,865	17,969	-	-	186,456	-	335,505	2,375	1,996	288	1,910	562,364	
35130	University System	GF College MSU	2,507	1,970	-	-	50,289	-	72,216	563	538	7	-	128,090	
35140	University System	Helena College UM	8,586	1,092	-	-	36,502	-	63,531	750	391	12	-	110,864	
51040	University System	MSU Bozeman	69,330	27,589	-	-	968,954	-	2,036,095	4,001	10,374	13,330	-	3,129,673	
51050	University System	MT Tech	21,525	20,726	-	-	168,561	-	282,290	1,125	1,805	476	-	496,508	
51070	University System	MSU Northern	30,025	5,130	-	-	74,292	-	157,342	3,376	795	163	12,500	283,623	
		FY 2018 Premium	2,022,570		169,961		14,613,042				6,930,000			23,735,573	
		FY 2016 Premium	1,498,200		169,961		10,824,476				6,300,000			18,792,637	
		% Change			0.00%		35.00%				10.00%			26.30%	

FY 2019 Premium Allocation by Agency Attachment #2															
BU	Agency	Entity	Auto		Aviation		General		Property	B&M	Property		Fine Arts	Misc.	Total
			Liability	C/C	Aircraft	Airport	Liability	Misc.			Crime				
61010	Administration	Administration	7,580	5,615	-	-	174,733	-	570,938	4,878	1,709	-	-	765,453	
61050	Administration	Teachers Retirement	-	-	-	-	6,573	-	-	-	64	-	-	6,637	
61040	Administration	PERD	-	-	-	-	16,431	-	968	-	161	-	-	17,560	
61080	Administration	Public Defenders Office	1,166	4,548	-	-	80,329	-	5,632	-	786	-	-	92,461	
62010	Agriculture	Agriculture	8,857	10,674	-	-	60,467	-	5,501	134	405	-	-	86,038	
34010	Auditor's Office	Auditor's Office	-	350	-	-	22,144	-	1,021	-	271	-	-	23,786	
51150	Board of Education	State Library	223	237	-	-	12,584	-	3,860	-	140	-	-	17,044	
51140	Board of Education	MT Arts Council	-	-	-	-	2,304	-	149	-	26	-	-	2,479	
51010	Board of Education	Board of Education	-	-	-	-	864	-	35	-	10	-	-	909	
51130	Board of Education	School for Deaf & Blind	2,352	6,150	-	-	25,522	-	33,359	200	285	-	-	67,868	
65010	Commerce	Commerce	104	1,017	-	-	108,809	-	43,401	-	647	2	210	154,190	
65010	Commerce	Heritage Commission	423	751	-	-	6,489	-	43,444	-	39	2,010	-	53,156	
32020	Comm. of Political Practices	Comm. Of Political Practices	-	-	-	-	1,637	-	-	-	23	-	-	1,660	
64010	Corrections	Board of Pardons	-	-	-	-	11,106	-	118	-	36	-	-	11,260	
64010	Corrections	Corrections	6,958	16,063	-	-	371,831	-	34,112	134	1,194	-	-	430,292	
64010	Corrections	State Prison	31,900	12,143	-	-	632,038	-	129,934	4,410	2,030	-	-	812,455	
64010	Corrections	Prison Industries	23,885	1,267	-	-	82,287	-	51,970	535	264	-	-	160,208	
64010	Corrections	Women's Corr. Ctr.	494	167	-	-	79,015	-	35,739	334	254	11	-	116,014	
64010	Corrections	Treasure State CC	250	403	-	-	25,234	-	6,220	200	81	-	-	32,388	
64010	Corrections	Riverside	551	353	-	-	28,266	-	9,610	535	91	-	-	39,406	
64010	Corrections	Pine Hills	1,794	941	-	-	126,041	-	35,713	468	405	-	-	165,362	
53010	Environmental Quality	Environmental Quality	15,318	22,383	-	-	294,717	-	15,004	601	1,465	-	-	349,488	
52010	Fish, Wildlife, & Parks	Fish, Wildlife, & Parks	36,285	31,498	43,764	-	256,700	-	163,547	1,203	2,538	4,487	2,519	542,541	
11040	Elected Officials	Legislative Branch	-	-	-	-	44,083	-	3,567	-	586	-	-	48,236	
31010	Elected Officials	Governor's Office	-	1,505	13,647	-	14,293	-	-	-	190	-	-	29,635	
11120	Elected Officials	Consumer Counsel	-	-	-	-	1,341	-	109	-	18	-	-	1,468	
32010	Elected Officials	Secretary of State	-	248	-	-	14,560	-	920	-	193	18	-	15,939	
51170	Historical Society	Historical Society	-	90	-	-	22,646	-	16,260	-	221	61,724	-	100,941	
41100	Justice	Justice	74,522	248,550	8,360	-	482,429	-	59,638	735	2,677	5	-	876,916	
41070	Justice	Crime Control	-	373	-	-	11,007	-	-	-	61	-	-	11,441	
66020	Labor & Industry	Labor & Industry	21,153	32,269	-	-	230,535	-	25,896	1,002	2,830	-	-	313,685	
56030	Livestock	Livestock	11,874	5,392	20,748	-	50,410	-	1,028	-	438	-	-	89,890	
67010	Military Affairs	Military Affairs	1,202	18,378	-	-	117,299	-	165,849	2,071	782	-	-	305,581	
57060	Natural Resources	Swan River	-	-	-	-	5,596	-	5,596	200	-	-	-	5,796	
57060	Natural Resources	Natural Resources	55,766	96,238	49,861	-	180,054	-	84,185	535	1,822	-	4,665	473,126	
69010	DPHHS	State Hospital	8,558	2,466	-	-	426,557	-	76,177	535	1,585	-	563	516,441	
69010	DPHHS	CF Vet's Home	2,929	1,114	-	-	165,258	-	27,832	601	614	3	1,500	199,851	
69010	DPHHS	Mental Health Nursing Care C	2,621	2,447	-	-	149,684	-	25,793	200	556	-	656	181,957	
69010	DPHHS	Glendive Vet's Home	952	804	-	-	865	-	14,308	267	3	-	-	17,199	
69010	DPHHS	DPHHS	16,110	44,256	-	-	1,613,604	-	71,045	869	5,994	-	-	1,751,878	
69010	DPHHS	MT Dev. Ctr.	10,160	2,023	-	-	204,193	-	25,079	1,604	759	-	116	243,934	
69010	DPHHS	MT Chem. Dep. Ctr.	884	497	-	-	59,701	-	839	-	222	-	100	62,243	
35010	Office of Pubic Instr.	Office of Public Instr.	1,117	407	-	-	43,031	-	1,534	-	656	-	-	46,745	
42010	Public Service Comm.	Public Service Comm.	798	410	-	-	15,186	-	718	-	124	-	-	17,236	
58010	Revenue	Revenue	13,539	23,466	-	-	171,391	-	39,043	-	2,178	-	-	249,617	
21100	Supreme Court	Supreme Court	5,438	5,277	-	-	137,396	-	14,689	-	1,434	-	-	164,234	
61030	State Fund	State Fund	5,468	7,552	-	-	475,236	-	50,327	200	985	-	-	539,768	
54010	Transportation	Transportation	622	3,021	24,829	8,750	4,665,044	-	286,717	2,606	7,058	17	437	4,999,101	
54010	Transportation	Motor Pool	172,467	-	-	-	-	-	-	-	-	-	-	172,467	
54010	Transportation	Equipment	369,996	-	-	-	-	-	-	-	-	-	-	369,996	
51030	University System	UM	83,805	72,687	-	-	856,373	189,914	1,566,167	7,283	9,439	4,459	-	2,790,127	
51080	University System	Western	7,170	6,088	-	-	69,245	-	164,003	735	763	133	-	248,137	
51020	University System	Comm. Of Higher Ed	-	-	-	-	29,350	142,074	688	-	324	-	1,648	174,084	
51100	University System	MSU Extension Service	5,622	4,994	-	-	54,761	-	966	-	604	-	-	66,947	
51190	University System	MSU FSTS	7,276	6,988	-	-	2,697	-	388	-	30	-	-	17,379	
51090	University System	MSU AES	48,857	35,033	-	-	63,521	-	66,839	601	700	-	-	215,551	
51060	University System	MSU Billings	15,100	18,012	-	-	178,694	-	379,616	2,740	1,970	317	1,942	598,391	
35130	University System	GF College MSU	2,143	2,424	-	-	59,208	-	78,683	601	653	8	-	143,720	
35140	University System	Helena College UM	7,838	1,914	-	-	36,576	-	64,466	735	403	12	-	111,944	
51040	University System	MSU Bozeman	61,293	38,465	-	-	969,947	-	1,719,952	4,276	10,691	12,975	-	2,817,599	
51050	University System	MT Tech	17,918	25,049	-	-	163,731	-	301,987	1,002	1,805	463	-	511,955	
51070	University System	MSU Northern	22,922	5,315	-	-	75,027	-	166,475	2,539	827	159	12,500	285,764	
FY 2019 Premium			2,022,570		169,961		14,613,042				6,930,000			23,735,573	
FY 2016 Premium			1,498,200		169,961		10,824,476				6,300,000			18,792,637	
% Change			35.00%		0.00%		35.00%				10.00%			26.30%	

2019 BIENNIUM BASE BUDGET

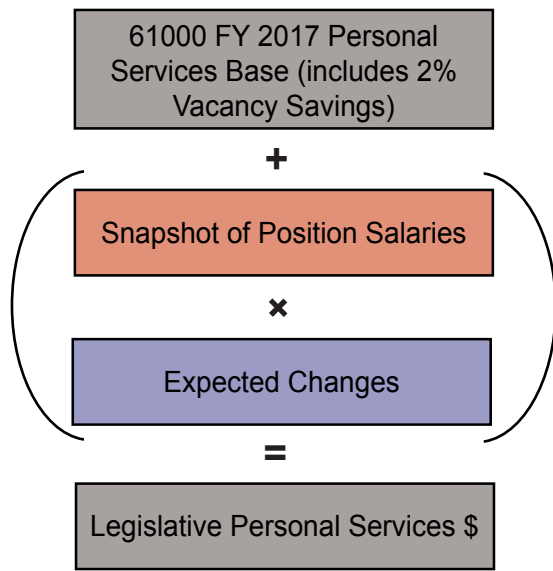
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

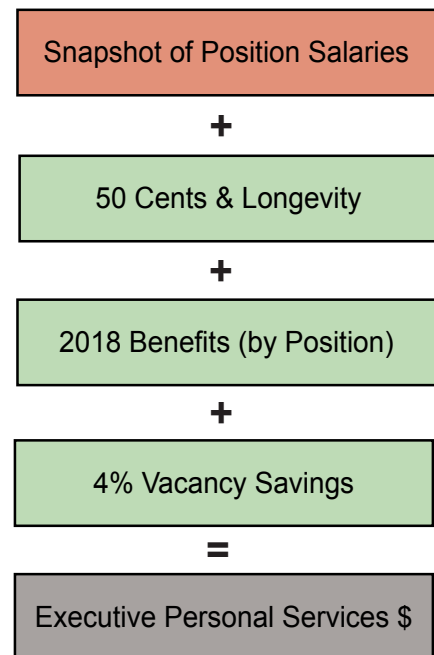
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

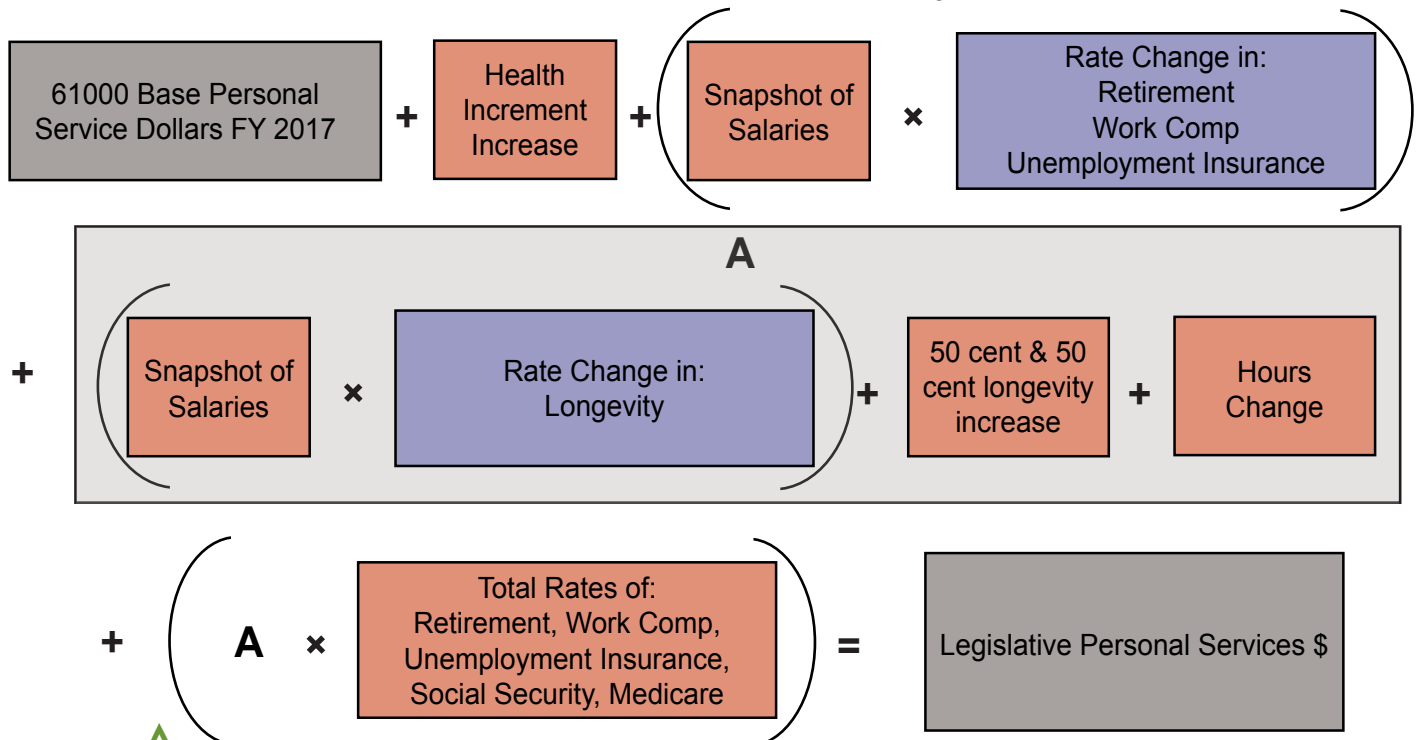
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



DEPARTMENT OF COMMERCE

An Agency Profile Prepared by the
Legislative Fiscal Division

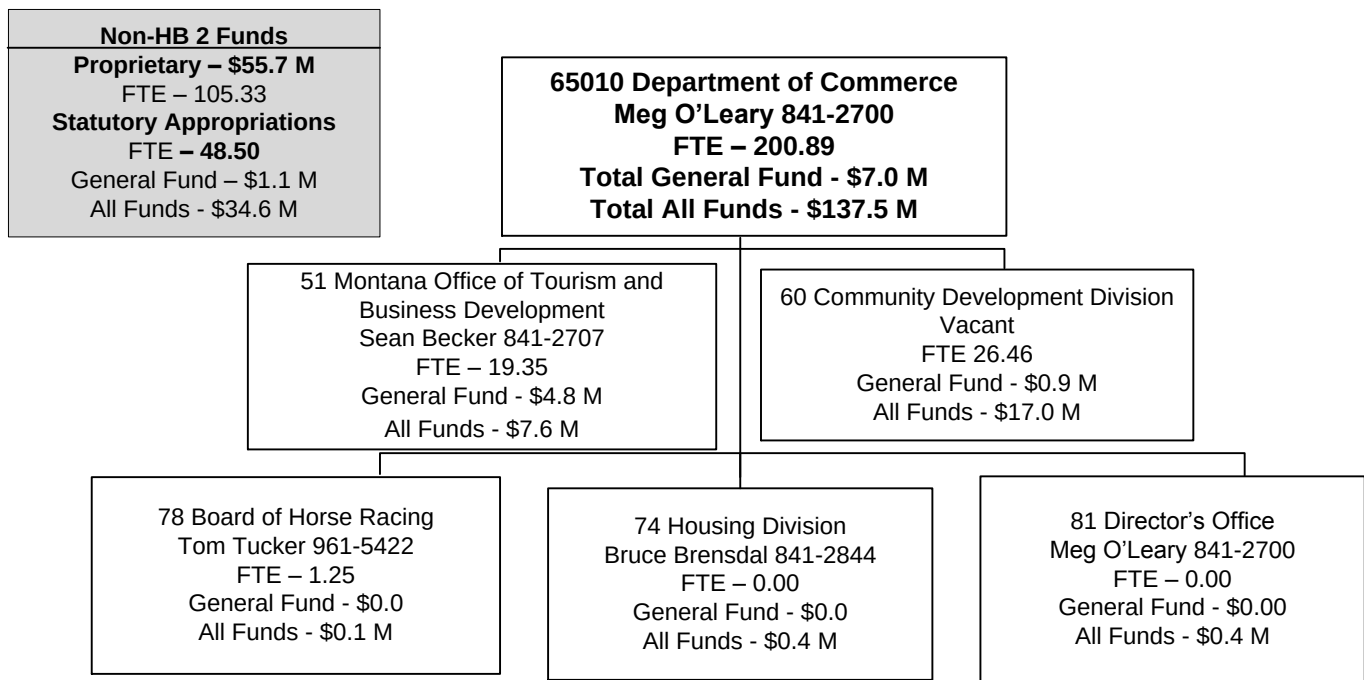
November, 2016



INTRODUCTION

The Department of Commerce (DOC) works with economic and community development organizations, businesses, communities, governmental entities, tribal governments, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of Montana's infrastructure, housing, and facilities.

Below is an organizational chart of the department, including full-time employee (FTE) numbers and the HB 2 general fund expenditures and total expenditures from all funds.



HOW SERVICES ARE PROVIDED

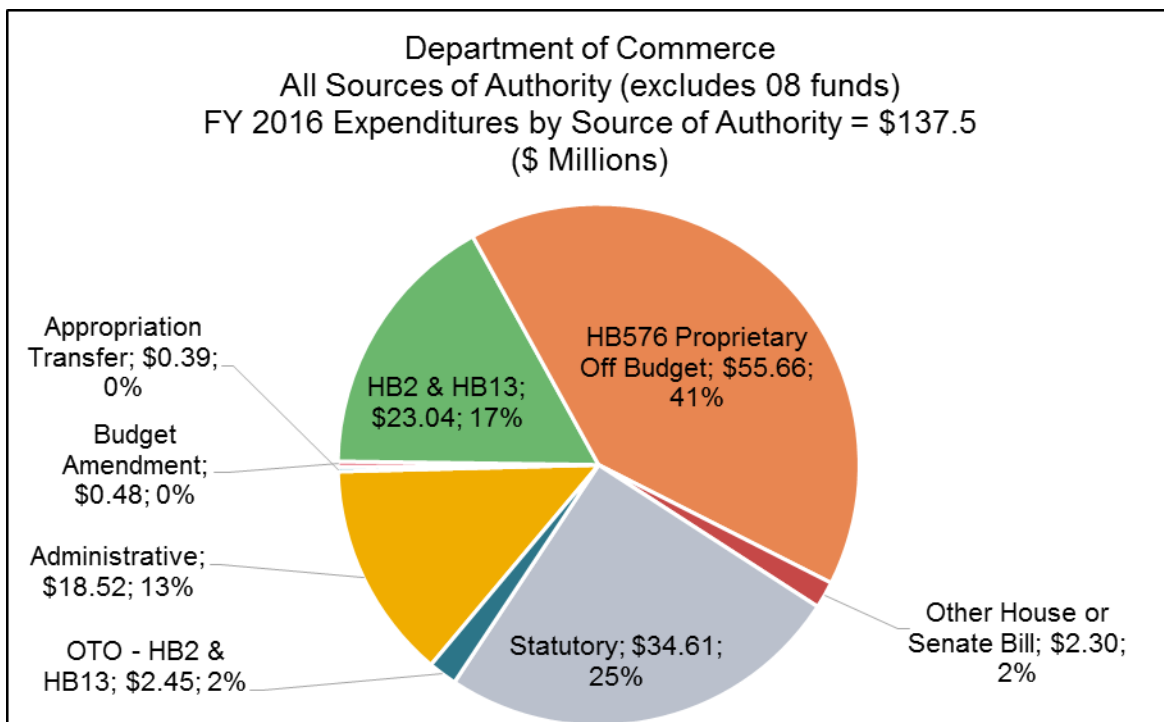
The Department of Commerce provides these services through a structure consisting of eight divisions with the following functions:

- Montana Office of Tourism and Business Development
 - Provides businesses with technical assistance through the Small Business Development Center and trade and international relations
 - Provides economic and demographic analysis, maps, and data through the Census and Economic Information Center
 - Provides economic development assistance to Montana's tribes through the State Tribal Economic Development Commission
 - Provides research for commercialization of businesses in Montana using the Board of Research and Commercialization
 - Markets and promotes Montana tourism and film industries
- Community Development Division
 - Awards Community Development Block Grants (CDBG), which are federal funds, to local governments for community development, housing, and public facility projects
 - Awards state funded grants in the Treasure State Endowment Program (TSEP) to local governments, water and sewer districts, and tribes' for planning and constructing infrastructure projects; grants are awarded by the Legislature

- Awards state funded grants in the Quality Schools Grant Program to K-12 public school districts for school facility projects, planning, and emergency grants; grants are awarded by the Legislature
- Awards state funded grants to local governments, tribes, school districts, and special districts to remediate effects of coal mining on communities in designated coal development areas
- Provides technical assistance, analysis, mitigation, and mediation services to local governments and hard rock mining developers where potentially adverse public fiscal impacts from largescale development are identified
- Provides state funded grants and technical assistance to non-profit organizations and local governments for downtown revitalization and historic preservation
- Awards federal funded block grants in the HOME program to create affordable housing for low-income households
- Provides technical assistance in land use and planning to local governments and the public and private sector for the purposes of aiding and encouraging orderly, productive, and coordinated development of the communities of the state (Community Technical Assistance Program)
- Facilities Finance Authority
 - Assists non-profit healthcare and human service facilities, and pre-release centers acquire low-interest and low-cost capital financing
- Housing Division
 - Supports safe and affordable housing in communities throughout Montana through rental assistance, construction financing, rehabilitation financing, and low interest mortgages
- Board of Investments
 - Invests essentially all of State of Montana funds including daily cash amounts, trust funds, and pension monies
 - Provides short term investment alternatives to local governments
 - Administers loan programs that support Montana businesses and municipalities
- Board of Horse Racing
 - Monitors and regulates the horse racing industry in Montana
- Heritage Preservation and Development Commission
 - Manages and preserves historic cultural properties and artifacts for the State of Montana, notably the Virginia City and Nevada City holdings, and Reeder's Alley in Helena
- Director's Office
 - Provides overall leadership, communication, and management support to agency staff, programs, bureaus, divisions, and administratively attached boards
 - Maintains a federally funded contract with the Montana Council on Developmental Disabilities

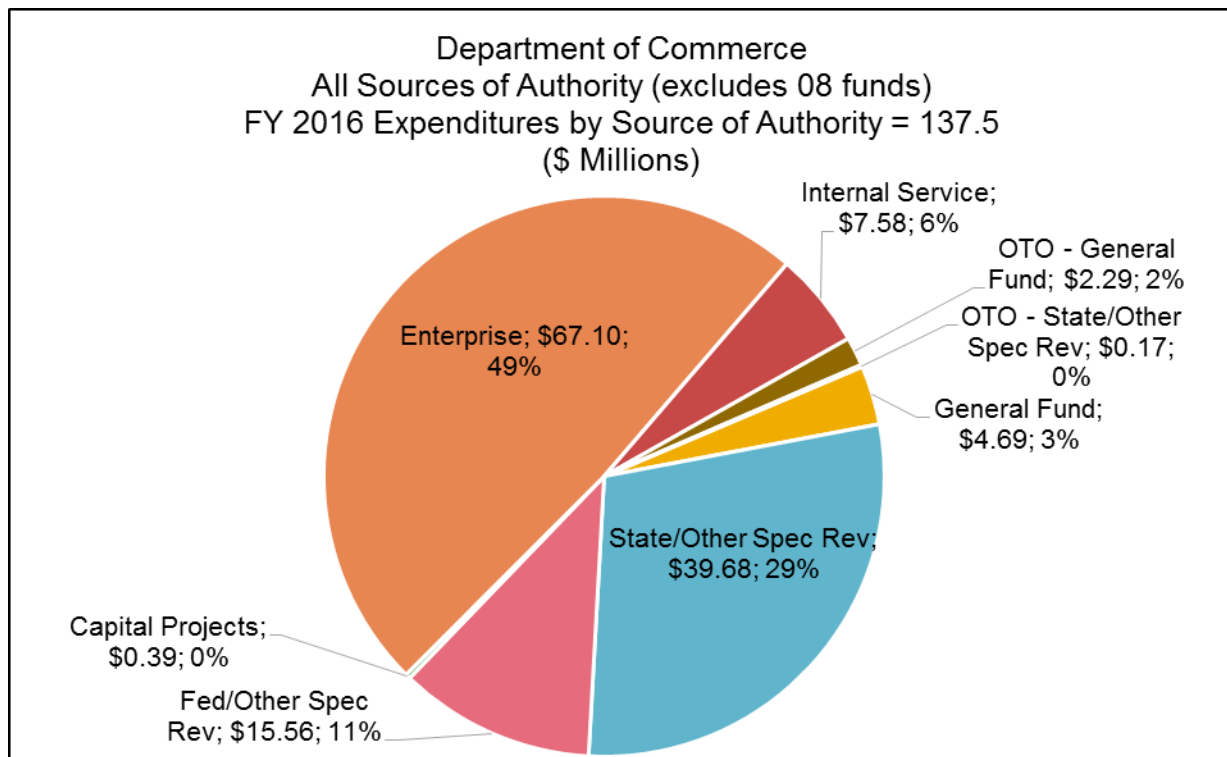
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Department of Commerce that were expended in FY 2016. The operations of DOC are primarily funded through a combination of proprietary, statutory, and HB 2 appropriations.

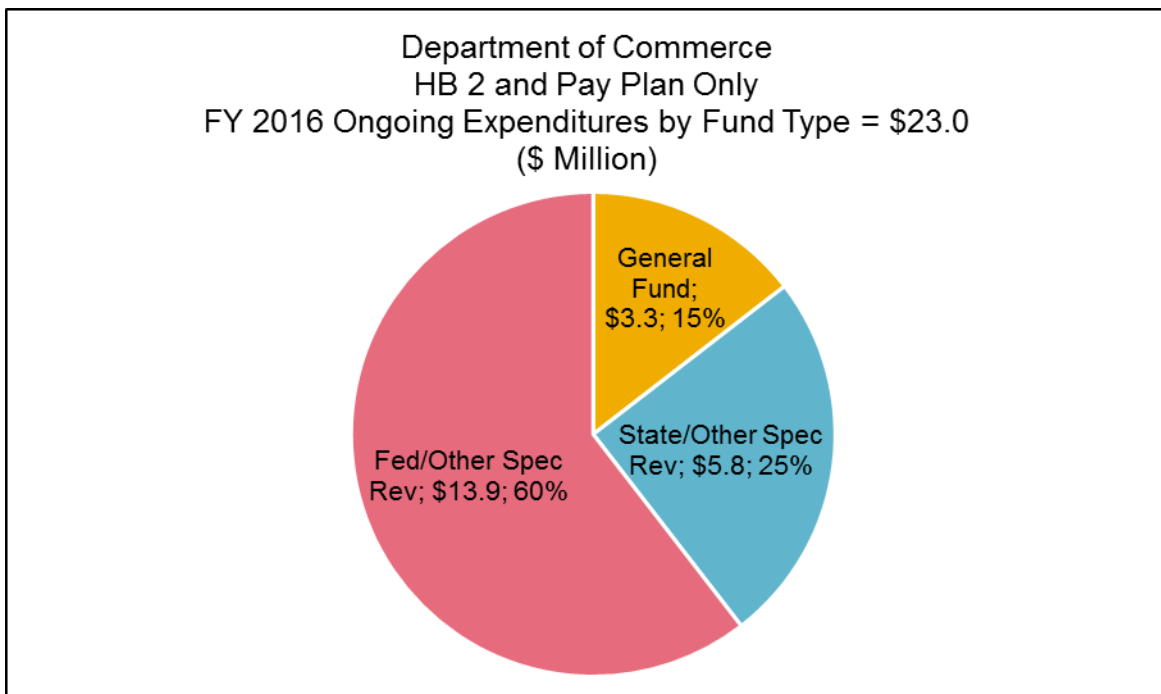


FUNDING

The Department of Commerce is predominately funded with enterprise funds, state special revenue and federal special revenue. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

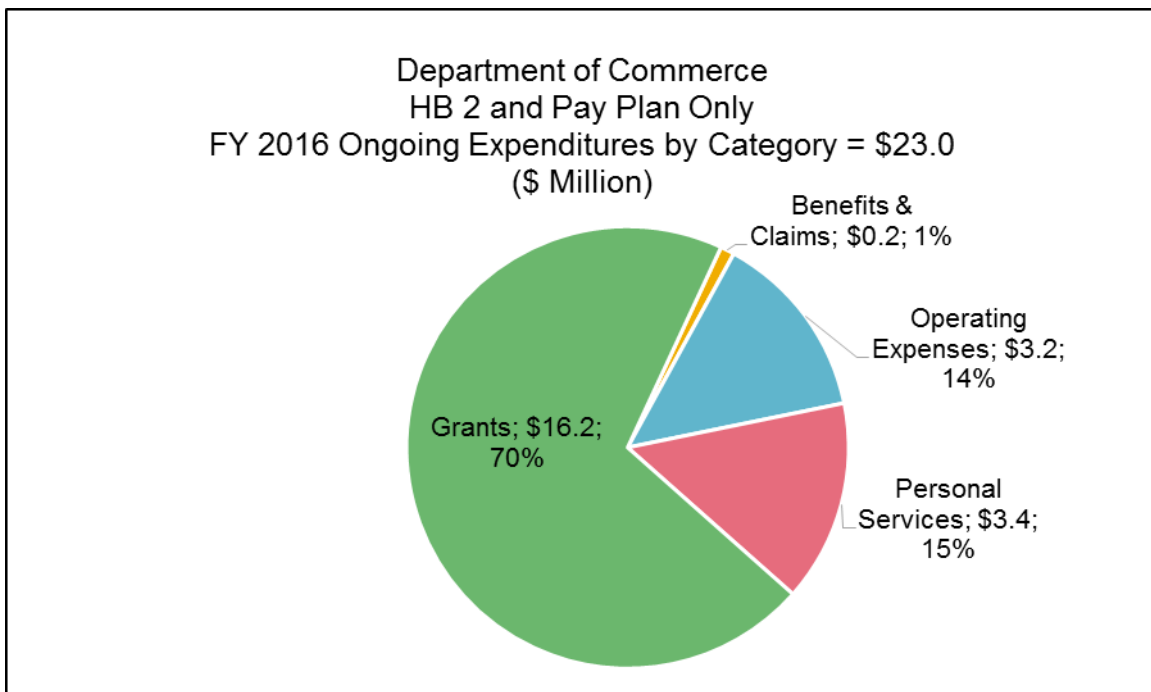


The chart below shows the Department of Commerce's HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The chart below explains how HB 2 and pay plan authority was spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

- Grant and loan/financing program priorities – changes to the funding priorities have an impact on overall expenditures. Such changes may include defining eligibility criteria, ranking criteria, identifying specific types of projects that are preferred and setting minimum or maximum amounts for grants and loans.
- Economic development objectives – defining specific economic development goals that provide the agency with overall policy direction and guidance for measureable achievements.
- Diversification and expansion of economic base - examining existing legislation or creating new legislation to achieve the greatest return for the public investment.
- Infrastructure development priorities – changes to the funding priorities have an impact on overall expenditures. Such changes may include defining eligibility criteria, ranking criteria, identifying specific types of projects that are preferred, and setting minimum or maximum amounts for grants and loans

MAJOR COST DRIVERS

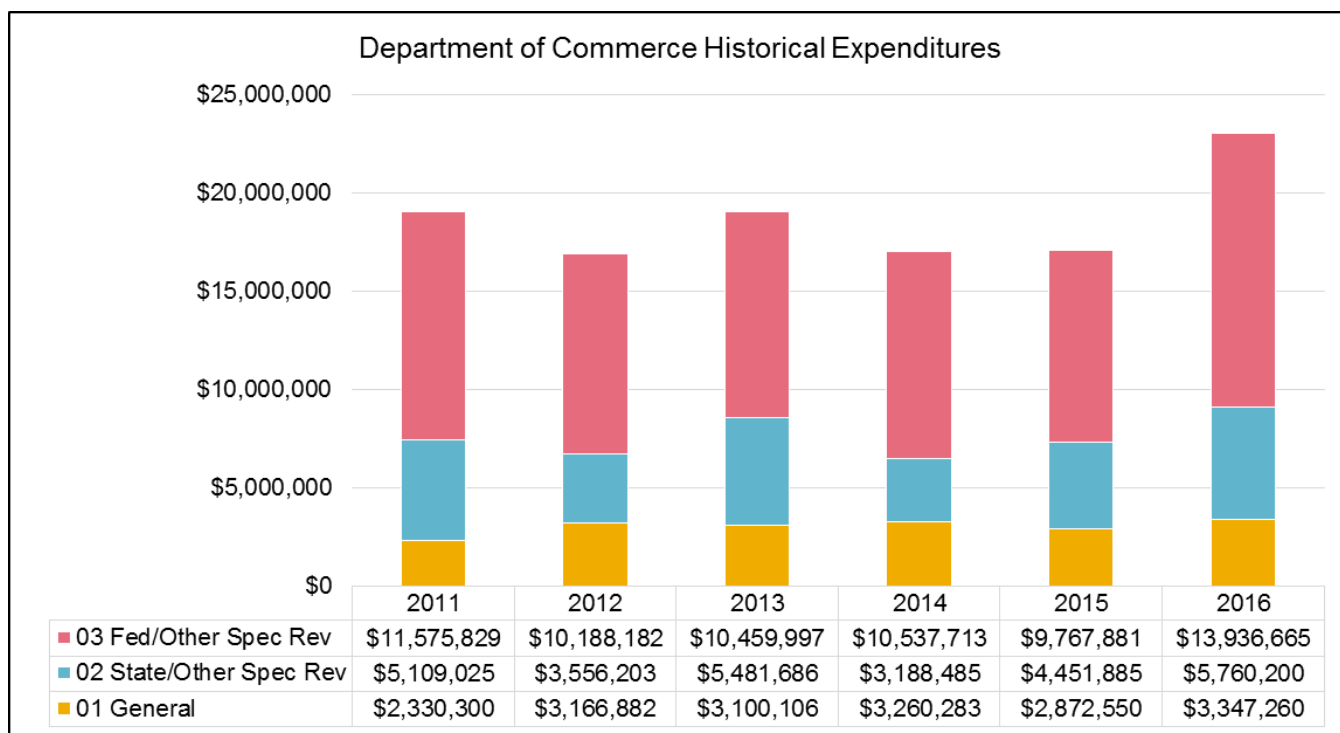
Activity for the Department of Commerce varies depending upon:

- Financing costs for investments for Montana
- Housing market
- Level of coal mined that generates funding for projects
- Recreational and tourism activities

Element	FY 2014	FY 2016	Significance of Data
Research and Commercialization funding	\$332 million	\$365 million	Cumulative level of follow-on-funding generated by projects
Primary Sector Workforce Training	\$0.705 million	\$1.223 million	Awards provided to Montana businesses
Indian Country Economic Development (ICED)	238 Indian Entrepreneur attendees 13 businesses creating/retaining 20 jobs in Indian Equity Fund 31 private small businesses supported via tribal government pass-through; 32 jobs created/trained/retained via tribal government enterprise	137 unique individuals assisted through Native American Business Advisors (formerly Indian Entrepreneur) 26 businesses funded creating/retaining 55 jobs in Indian Equity Fund 8 tribal business enterprises assisted with strategic business planning via Tribal Business Planning Grant	Jobs created/retained/trained
Number of Nonresident Visitors	11.02 million - CY 2013	11.73 million - CY 2015	Impacts of tourism promotion
Amount of Out-of-State Tourism Dollars	\$3.62 billion - CY 2013	\$3.66 billion - CY 2015	Impacts of tourism promotion
Number of CDBG Public Facilities and Housing Grants Awarded	11	9	Fluctuations in federal funding
Amount of Single Family Mortgages (HD)	\$80.00 million	\$80.00 million	Impacts of recession on housing market
Amount of Section 8 Rental Assistance	\$34.0 million	\$40.0 million	Low-income assistance provided
Amount of Section 8 Housing Customers	7,100	7,800	Impacts of recession on allocations
Total Assets Invested by the Board of Investments	\$13.9 billion	\$14.7 billion	Level of the fiduciary responsibility of the board (book value)

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in DOC's funding and expenditures. Increases in Community Development Block Grants and HOME grants account for the increase in federal special revenue expenditures in FY 2016.



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2015 Legislature
 - The Legislature approved increasing the amount of funding available from the permanent coal tax trust fund for the Montana Veteran's Loan Program by \$10.0 million, from the current amount of \$30.0 million to \$40.0 million. Statute authorized the Board of Housing to take the loan servicing fees and administrative charges from the interest paid by the borrower. The fiscal note for the bill estimates that the 2017 biennium cost of the program will be \$50,000.
- 2009 Legislature
 - The Legislature created the Quality Schools Facility Grant Program, provided an account for future funding, required the deposit of specific revenues in to the account, created an initial appropriation of \$12.0 million over the 2011 biennium, and created a statutory appropriation of \$1.0 million annually for school technology specific purposes.
 - The Legislature reallocated 2.9% of coal severance tax revenue from the general fund to the oil, gas, and coal natural resources account. This change doubled the previous allocation for a period of four years beginning in FY 2010 and continuing through FY 2013.
 - The 2009 Legislature created the Distressed Wood Products Industry Revolving Loan Program and a statutory appropriation to the department for the purposes described in the bill.
- 2007 Legislature
 - The Legislature indefinitely extended the allocation of lodging facility use tax (bed tax) to the Montana heritage preservation and development account for the benefit of supporting

facilities and programs at Virginia City and Nevada City. Each year, \$400,000 of this tax is allocated to the Montana heritage preservation and development account. The Legislature also included funding of \$2.0 million from the long-range building fund for preservation and improvements at Virginia City and Nevada City and \$0.5 million from the general fund for the Cowboy Hall of Fame.

- The Legislature revised the amount of workforce training funding from the Big Sky Trust Economic Development program for each expected job from \$5,000 to \$7,500 for high poverty counties. The bill also allows more advantageous match requirements for loans and grants under the program for high poverty areas.
 - The Legislature increased the allocation of coal severance tax trust funds available for value-added and infrastructure loans made pursuant to 17-6-309(2), to enhance economic development and create jobs in the basic sector of the economy. The total allocation for infrastructure loans increased from \$50 million to \$80 million and the total allocation for value-added loans increased from \$50 million to \$70 million.
- 2005 Legislature
 - The Legislature transferred the New Worker Training Program from the Governor's Office of Economic Opportunity to the Department of Commerce and revised the programs funding mechanism. The legislature approved the transfer of 2.00 FTE and appropriated \$2.8 million of one-time-only (OTO) state general fund over the 2007 biennium in HB 2 for the New Worker Training Program.
 - The Legislature established the big sky economic development fund, a sub-fund within the permanent coal severance tax trust with an initial infusion of \$20 million.
 - The Legislature established the Big Sky on the Big Screen Act. HB 584 requires production companies to apply to the Department of Commerce for state certification of a production in order to qualify for the tax credits enumerated in the bill. The application fees established in the bill are deposited in a state special revenue account and statutorily appropriated in an equal amount to the Department of Commerce and the Department of Revenue.
 - 2003 Legislature
 - The Legislature established the Primary Sector Business Workforce Training Act. HB 564 provided for a seven member loan review committee to make grants to qualifying primary sector businesses to pay for employee education and training by eligible service providers and provided funding for workforce training.

For more information on the agency, please visit their website, here: <http://commerce.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	8,139,815	7,567,571	(572,244)	(7.03)%
Operating Expenses	12,338,825	9,637,439	(2,701,386)	(21.89)%
Grants	42,872,570	39,498,979	(3,373,591)	(7.87)%
Benefits & Claims	717,842	717,842	0	0.00 %
Transfers	1,200,000	1,200,000	0	0.00 %
Total Expenditures	\$65,269,052	\$58,621,831	(\$6,647,221)	(10.18)%
General Fund	13,194,168	10,209,629	(2,984,539)	(22.62)%
State/Other Special Rev. Funds	14,650,957	12,177,293	(2,473,664)	(16.88)%
Federal Spec. Rev. Funds	37,423,927	36,234,909	(1,189,018)	(3.18)%
Total Funds	\$65,269,052	\$58,621,831	(\$6,647,221)	(10.18)%
Total Ongoing	\$58,694,112	\$55,021,831	(\$3,672,281)	(6.26)%
Total OTO	\$6,574,940	\$3,600,000	(\$2,974,940)	(45.25)%

Mission Statement

The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image.

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/6501-00agency-profile.pdf.

Agency Highlights

**Department of Commerce
Major Budget Highlights**

- The Department of Commerce 2019 biennium budget request is approximately \$6.6 million or 10.2% lower than the 2017 biennium. Significant changes include:
 - Proposed one-time-only general fund appropriations for the Primary Sector Business Workforce Training program, Indian Country Economic Development program, and Native Language Preservation.
 - Proposed reductions in state special revenue for the Coal Board.
 - Proposed increases in federal special revenue for Community Development Division grants.
 - Proposed reductions in federal special revenue for housing programs due to changes in Housing and Urban Development (HUD) requirements.
 - Proposed reductions in federal special revenue for a decrease in grants available for the Montana Council on Developmental Disabilities.
 - Proposed reductions in general fund and state special revenue funds due to the executive's implementation of a reductions to the budget which is based on the 5% reduction plan.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	47.06	47.06	47.06	47.06	47.06
Personal Services	3,504,518	4,033,362	4,106,453	3,777,941	3,789,630
Operating Expenses	3,467,382	6,166,667	6,172,158	4,845,787	4,791,652
Grants	17,685,382	22,144,604	20,727,966	19,749,219	19,749,760
Benefits & Claims	238,476	358,921	358,921	358,921	358,921
Transfers	600,000	600,000	600,000	600,000	600,000
Total Expenditures	\$25,495,758	\$33,303,554	\$31,965,498	\$29,331,868	\$29,289,963
General Fund	5,633,883	7,324,891	5,869,277	5,106,184	5,103,445
State/Other Special Rev. Funds	5,925,212	7,276,756	7,374,201	6,104,910	6,072,383
Federal Spec. Rev. Funds	13,936,663	18,701,907	18,722,020	18,120,774	18,114,135
Total Funds	\$25,495,758	\$33,303,554	\$31,965,498	\$29,331,868	\$29,289,963
Total Ongoing	\$23,044,150	\$29,266,114	\$29,427,998	\$27,531,868	\$27,489,963
Total OTO	\$2,451,608	\$4,037,440	\$2,537,500	\$1,800,000	\$1,800,000

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The FY 2016 budget of \$33.3 million for the Department of Commerce was 76.6% expended as of the end of the fiscal year. Expenditures related to personal services, operating expenses, and grants were lower than budgeted. Several factors contributed to the lower percentage expended, which include the collection of private funds for tourism 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 timing related to awarding grants.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is primarily in grants. The difference is due to a one-time-only, restricted, biennial appropriation for capital improvements grants in FY 2016.

Executive Request

Overall, the executive is requesting a decrease in FY 2018 and FY 2019. These adjustments will be discussed in further detail at the program level.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Department of Commerce has provided a plan for a reduction of \$167,127 general fund and \$177,260 state special revenue. The plan includes a reduction of funds available for business development activities and community development activities. The agency submitted plan is in the appendix.

Legislative Audit Findings

LFD COMMENT

The Legislative Audit Division conducted a financial compliance audit of the Department of Commerce in October 2015. The audit found:

1. The department did not follow regulations and policies for the Section 8 program and continued to pay vouchers to landlords for recipients who were no longer eligible for the program. Payments on behalf of ineligible recipients totaled \$63,664.
2. The department does not have controls in place to ensure the accuracy and completeness of simulcast wagering information obtained from contractors.

The Legislative Auditor recommends the Department of Commerce:

1. Comply with federal eligibility regulations and department policies for the Section 8 Housing Choice Vouchers Program, and
2. Strengthen internal controls to ensure the completeness and accuracy of simulcast revenues.

Additional information on the audit can be found at: <http://leg.mt.gov/content/Publications/Audit/Summary/15-16-summary.pdf>

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Department of Commerce							
	Leg Approp Allocations		Program Transfers	OP Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
51 Montana Office Of Tourism & Business Dev							
Personal Services	\$1,860,635	\$82,345	(\$172,720)	\$52,951	\$1,823,211	-2.0%	-6.2%
Operating Expenses	3,130,409		(190,182)	(95,246)	2,844,981	-9.1%	-9.1%
Grants	4,004,800		(2,432,995)	42,295	1,614,100	-59.7%	-59.7%
Program Total	8,995,844	82,345	(2,795,897)	0	6,282,292	-30.2%	-30.8%
52 Montana Promotion Division							
Operating Expenses	750,000		(750,000)	0	0	-100.0%	-100.0%
Program Total	750,000		(750,000)	0	0	-100.0%	-100.0%
60 Community Development Division							
Personal Services	1,748,843	178,353	172,720	45,495	2,145,411	22.7%	11.3%
Operating Expenses	2,599,423	49,455	940,182	(1,663,196)	1,925,864	-25.9%	-27.3%
Grants	10,406,604	2,555,267	2,432,995	1,617,701	17,012,567	63.5%	31.3%
Program Total	14,754,870	2,783,075	3,545,897	0	21,083,842	42.9%	20.2%
74 Housing Division							
Operating Expenses	875,141			0	875,141	0.0%	0.0%
Grants	92,174				92,174	0.0%	0.0%
Benefits & Claims	358,921				358,921	0.0%	0.0%
Program Total	1,326,236			0	1,326,236	0.0%	0.0%
78 Board Of Horse Racing							
Personal Services	107,882	3,811		(74,900)	36,793	-65.9%	-67.1%
Operating Expenses	73,935			74,900	148,835	101.3%	101.3%
Program Total	181,817	3,811		0	185,628	2.1%	0.0%
81 Management Services Division							
Grants	550,000				550,000	0.0%	0.0%
Program Total	550,000				550,000	0.0%	0.0%
Grand Total	\$26,558,767	\$2,869,231	\$0	\$0	\$29,427,998	10.8%	0.0%
Leg Approp = Legislative Appropriation							
Allocations = include Contingency Base & Pay Plan							
OP = Operating Plan Changes							

Significant budget changes adopted by the executive include:

- The Coal Board in the Community Development Division received personal services base contingency funding of \$85,894. The board also received base contingency funding in which \$49,455 was allocated to the operating budget and \$2.56 million was allocated to grants.
- The Department of Commerce consolidated the Business Resources and Montana Promotion Divisions into the Montana Office of Tourism and Business Development.
- The department had a change to correct errors that occurred during the budgeting process. This moved \$45,495 into personal services and \$1.6 million into grants from the operating budget.

Funding

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

Total Department of Commerce Funding by Source of Authority 2019 Biennium Budget Request - Department of Commerce						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	6,609,629	3,600,000	0	2,198,412	12,408,041	4.83 %
State Special Total	12,177,293	0	0	68,795,341	80,972,634	31.55 %
Federal Special Total	36,234,909	0	0	2,102,265	38,337,174	14.94 %
Proprietary Total	0	0	121,102,814	3,856,976	124,959,790	48.68 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$55,021,831	\$3,600,000	\$121,102,814	\$76,952,994	\$256,677,639	
Percent - Total All Sources	21.44 %	1.40 %	47.18 %	29.98 %		

Over 75% of the overall funding for the Department of Commerce is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as statutory appropriations. HB 2 appropriations of general fund, state special and federal special revenues comprise the remaining funding for the department and will be discussed in further detail at the program level.

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	3,581,777	3,581,777	7,163,554	70.16 %	29,427,998	29,427,998	58,855,996	100.40 %
SWPL Adjustments	(108,466)	(111,205)	(219,671)	(2.15)%	(192,093)	(242,856)	(434,949)	(0.74)%
PL Adjustments	0	0	0	0.00 %	(1,359,650)	(1,350,792)	(2,710,442)	(4.62)%
New Proposals	1,632,873	1,632,873	3,265,746	31.99 %	1,455,613	1,455,613	2,911,226	4.97 %
Total Budget	\$5,106,184	\$5,103,445	\$10,209,629		\$29,331,868	\$29,289,963	\$58,621,831	

Language and Statutory Authority -

The Department of Commerce requests the following language be included in HB 2:

"If HB 3 is not passed and approved in a form that appropriates \$1,945,617 state special revenue for Coal Board grants, then the Community Development Division is appropriated the difference between any appropriation included in HB 3 for the coal board and \$1,945,617, up to \$1,945,617, state special revenue for the 2019 biennium for Coal Board grants."

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	3,847,007	3,370,200	(476,807)	(12.39)%
Operating Expenses	6,426,707	5,278,324	(1,148,383)	(17.87)%
Grants	6,151,357	5,500,933	(650,424)	(10.57)%
Transfers	1,200,000	1,200,000	0	0.00 %
Total Expenditures	\$17,625,071	\$15,349,457	(\$2,275,614)	(12.91)%
General Fund	9,920,935	8,521,631	(1,399,304)	(14.10)%
State/Other Special Rev. Funds	6,124,236	5,227,287	(896,949)	(14.65)%
Federal Spec. Rev. Funds	1,579,900	1,600,539	20,639	1.31 %
Total Funds	\$17,625,071	\$15,349,457	(\$2,275,614)	(12.91)%
Total Ongoing	\$12,550,131	\$11,749,457	(\$800,674)	(6.38)%
Total OTO	\$5,074,940	\$3,600,000	(\$1,474,940)	(29.06)%

Program Description

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

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

Program Highlights

**Office of Tourism and Business Development
Major Budget Highlights**

- The Office of Tourism and Business Development 2019 biennium budget request is approximately \$2.3 million or 12.9% lower than the 2017 biennium. Significant changes include:
 - Proposed one-time-only general fund for the Primary Sector Workforce Training Grant program, Indian Country Economic Development program, and Native Language Preservation.
 - Proposed reductions in general and state special revenue funds due to the executive's implementation of a reduction to the budget that is based on the 5% reduction plan

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	19.35	19.35	19.35	19.35	19.35
Personal Services	1,801,179	1,922,758	1,924,249	1,681,626	1,688,574
Operating Expenses	2,358,073	3,204,389	3,222,318	2,661,126	2,617,198
Grants	2,799,295	3,078,132	3,073,225	2,753,962	2,746,971
Transfers	600,000	600,000	600,000	600,000	600,000
Total Expenditures	\$7,558,547	\$8,805,279	\$8,819,792	\$7,696,714	\$7,652,743
General Fund	4,750,899	4,938,549	4,982,386	4,260,856	4,260,775
State/Other Special Rev. Funds	2,113,966	3,079,611	3,044,625	2,635,013	2,592,274
Federal Spec. Rev. Funds	693,682	787,119	792,781	800,845	799,694
Total Funds	\$7,558,547	\$8,805,279	\$8,819,792	\$7,696,714	\$7,652,743
Total Ongoing	\$5,106,939	\$6,267,839	\$6,282,292	\$5,896,714	\$5,852,743
Total OTO	\$2,451,608	\$2,537,440	\$2,537,500	\$1,800,000	\$1,800,000

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The 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 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.

Executive Request

The Office of Tourism and Business Development is requesting an overall decrease in appropriations, including one-time-only appropriations, for FY 2018 and FY 2019. A requested decrease in personal services due to a statewide present law

adjustment will be discussed further in the Personal Services section of the narrative. Requests for one-time-only funding for Primary Business Sector Training, Indian Country Economic Development, and Native Language Preservation will be discussed in the New Proposals section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 2

Department Of Commerce: 51 Montana Office Of Tourism And Business Development Personal Services Present Law Calculations			
PS Base:			
\$1,823,211			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$231,885)	(\$228,928)
Legislative	Statutory Personal Service Change	9,728	12,853
	Difference	(241,613)	(241,781)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(33,086)	(33,149)
	Broadband Pay Adjustments	50,954	50,954
	Benefits and Taxes on Pay Adjustment	10,222	10,222
	Other	(269,702)	(269,808)
	Total	(\$241,613)	(\$241,781)

Personal services were \$1.8 million or 20.7% of total FY 2017 appropriations. The executive proposes a decrease of \$231,885 in FY 2018 and \$228,928 in FY 2019. This proposed decrease is approximately \$242,000 less than anticipated by the Legislative Fiscal Division based upon the implementation of the pay plan and statutory personal services adjustments in each fiscal year. The difference in the personal service calculation is due to removing funding for one-time-only positions included in the snapshot (only funding for base positions should be included in the snapshot), the elimination of a partially funded position, the consolidation of FTE, and employee turnover where the positions were rehired at a lower rate. These decreases in personal services were partially offset by broadband pay adjustments. Adjustments made in the Office of Tourism and Business Development were due to reclassifications and market adjustments.

Funding

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

Department of Commerce, 51-Office of Tourism & Business Development Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	4,921,631	3,600,000	0	2,198,412	10,720,043	12.56 %
02090 Business Asst-Private	173,012	0	0	0	173,012	0.24 %
02100 Distressed Wood Products RLF	0	0	0	612,996	612,996	0.86 %
02116 Accommodation Tax Account	39,242	0	0	36,868,206	36,907,448	52.02 %
02154 MT Promotion-Private	645,480	0	0	0	645,480	0.91 %
02210 Microbusiness Admin Acct	258,871	0	0	0	258,871	0.36 %
02212 Microbusiness Loan Acct	1,000,000	0	0	0	1,000,000	1.41 %
02254 Regional Accommodation Tax	0	0	0	13,050,673	13,050,673	18.39 %
02271 L&C Bicentennial Plate Fund	0	0	0	60,000	60,000	0.08 %
02444 BEAR Program	18,000	0	0	0	18,000	0.03 %
02557 Research & Commercialization	0	0	0	2,549,206	2,549,206	3.59 %
02671 Trade Growth thru AG	0	0	0	0	0	0.00 %
02771 Big Sky Economic Dev Program	0	0	0	12,583,947	12,583,947	17.74 %
02848 SBDC PRIVATE REVENUE NONFED	10,010	0	0	0	10,010	0.01 %
02344 Primary Sector Training	2,582,672	0	0	0	2,582,672	3.64 %
02672 GAP Financing Program	500,000	0	0	0	500,000	0.70 %
State Special Total	\$5,227,287	\$0	\$0	\$65,725,028	\$70,952,315	83.11 %
03092 Distressed Woods Federal	0	0	0	2,102,265	2,102,265	56.77 %
03207 Small Business Dev. Centers	1,600,539	0	0	0	1,600,539	43.23 %
03233 SBDC/EPSCoR	0	0	0	0	0	0.00 %
03286 SBCI Treasury Grant	0	0	0	0	0	0.00 %
03331 OIT STEP	0	0	0	0	0	0.00 %
03671 SBA FAST Grant	0	0	0	0	0	0.00 %
03609 Distressed Wood Sequestered	0	0	0	0	0	0.00 %
Federal Special Total	\$1,600,539	\$0	\$0	\$2,102,265	\$3,702,804	4.34 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$11,749,457	\$3,600,000	\$0	\$70,025,705	\$85,375,162	

HB 2 Funding

General fund primarily supports proposed one-time-only funding for Primary Sector Business Training, Indian Country Economic Development, and Native Language Preservation. These requests will be discussed in further detail in the New Proposal section below.

State special revenues include authority for microbusiness loans, primary business sector training, and private contributions for joint private/state targeted tourism advertising campaigns.

Federal special revenues are comprised of federal funding for small business development centers.

Statutory Appropriations

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	2,694,886	2,694,886	5,389,772	63.25 %	6,282,292	6,282,292	12,564,584	81.86 %
SWPL Adjustments	(97,069)	(97,150)	(194,219)	(2.28)%	(195,517)	(237,146)	(432,663)	(2.82)%
PL Adjustments	0	0	0	0.00 %	124,160	121,818	245,978	1.60 %
New Proposals	1,663,039	1,663,039	3,326,078	39.03 %	1,485,779	1,485,779	2,971,558	19.36 %
Total Budget	\$4,260,856	\$4,260,775	\$8,521,631		\$7,696,714	\$7,652,743	\$15,349,457	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(97,079)	(127,220)	(7,586)	(231,885)	0.00	(94,123)	(127,219)	(7,586)	(228,928)
DP 2 - Fixed Costs	0.00	(288)	36,654	(252)	36,114	0.00	(3,537)	(3,729)	(1,418)	(8,684)
DP 3 - Inflation Deflation	0.00	298	(44)	0	254	0.00	510	(44)	0	466
DP 5104 - OTBD Administrative Costs Adjustments	0.00	0	108,258	15,902	124,160	0.00	0	105,901	15,917	121,818
Grand Total All Present Law Adjustments	0.00	(\$97,069)	\$17,648	\$8,064	(\$71,357)	0.00	(\$97,150)	(\$25,091)	\$6,913	(\$115,328)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 5104 - OTBD Administrative Costs Adjustments -

The executive requests an increase in state special revenue and federal special revenue in FY 2018 and FY 2019. This decision package requests a decrease to private funds for tourism in the 2019 biennium to match the amount anticipated to

be received. This change package also requests changes in several other programs to adjust for estimated grant funding and account for the completion of a grant award. It also requests an increase for per diem and other board expenses for the Microbusiness Finance program, rent, and support services paid to the Director's Office.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----					-----Fiscal 2019-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 555 - Appropriation Rebase	0.00	(136,961)	(177,260)	0	(314,221)	0.00	(136,961)	(177,260)	0	(314,221)
DP 5110 - Primary Sector Business Training - (Restricted/OTO)	0.00	600,000	0	0	600,000	0.00	600,000	0	0	600,000
DP 5120 - Indian Country Economic Development - (Restricted/OTO)	0.00	800,000	0	0	800,000	0.00	800,000	0	0	800,000
DP 5130 - Native Language Preservation - (Restricted/Biennial/OTO)	0.00	400,000	0	0	400,000	0.00	400,000	0	0	400,000
Total	0.00	\$1,663,039	(\$177,260)	\$0	\$1,485,779	0.00	\$1,663,039	(\$177,260)	\$0	\$1,485,779

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

DP 5110 - Primary Sector Business Training - (Restricted/OTO) -

The executive requests general fund for the Primary Sector Workforce Training Grant program. This program provides grant funds to primary sector business for training Montanans in newly created full-time and part-time jobs. The legislature has funded this program with one-time-only funds for the last several biennia.

LFD COMMENT

The 2015 Legislature passed SB 163 which created a primary business sector training state special revenue account. At the beginning of each fiscal year, any general fund appropriated to the Department of Commerce's primary sector business training program is transferred to the state special revenue account. The ending fund balance in the state special revenue account for FY 2016 was approximately \$284,000.

DP 5120 - Indian Country Economic Development - (Restricted/OTO) -

The executive requests general fund for the Indian Country Economic Development program. This program provides technical assistance and financial resources to existing tribal businesses to help them expand operations and facilities, trains and employs new workers, assists in the development of tribal businesses, creates new job opportunities, delivers business skills training to Native American entrepreneurs, and helps native businesses access capital. The legislature has funded this program with one-time-only funds for the last several biennia.

DP 5130 - Native Language Preservation - (Restricted/Biennial/OTO) -

The executive requests general fund for the documentation and preservation of the Native American languages of the various tribes in Montana. Speakers fluent in the Native American languages will be recorded and written materials will be

developed to allow younger generations of the various tribes, as well as others, to develop language skills for the various Native American languages. The legislature has funded this program with one-time-only funds for the last several biennia.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	4,221,507	4,160,342	(61,165)	(1.45)%
Operating Expenses	3,866,106	3,847,799	(18,307)	(0.47)%
Grants	35,434,707	32,998,046	(2,436,661)	(6.88)%
Total Expenditures	\$43,522,320	\$41,006,187	(\$2,516,133)	(5.78)%
General Fund	3,273,233	1,687,998	(1,585,235)	(48.43)%
State/Other Special Rev. Funds	7,857,709	6,401,661	(1,456,048)	(18.53)%
Federal Spec. Rev. Funds	32,391,378	32,916,528	525,150	1.62 %
Total Funds	\$43,522,320	\$41,006,187	(\$2,516,133)	(5.78)%
Total Ongoing	\$42,022,320	\$41,006,187	(\$1,016,133)	(2.42)%
Total OTO	\$1,500,000	\$0	(\$1,500,000)	(100.00)%

Program Description

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

- Community Development Block Grant Program (CDBG);
- Community Technical Assistance Program (CTAP);
- HOME Investment Partnerships Program (HOME);
- Montana Main Street Program;
- Quality Schools Grant Program; and
- Treasure State Endowment Program (TSEP).

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

- Montana Coal Board; and
- Montana Hard Rock Mining Impact Board.

Program Highlights

**Community Development Division
Major Budget Highlights**

- The Community Development Division 2019 biennium budget request is approximately \$2.5 million or 5.8% lower than the 2017 biennium. Significant changes include:
 - Proposed reductions in state special revenue for grants appropriated to the Coal Board.
 - Proposed reductions in general fund due to the executive's implementation of a reduction to the budget that is based on the 5% reduction plan.
 - Proposed increases in federal special revenue for Community Development Block Grants to match available funds.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	26.46	26.46	26.46	26.46	26.46
Personal Services	1,691,759	2,076,096	2,145,411	2,078,473	2,081,869
Operating Expenses	856,816	1,940,242	1,925,864	1,928,330	1,919,469
Grants	14,451,720	18,422,140	17,012,567	16,495,257	16,502,789
Total Expenditures	\$17,000,295	\$22,438,478	\$21,083,842	\$20,502,060	\$20,504,127
General Fund	882,984	2,386,342	886,891	845,328	842,670
State/Other Special Rev. Funds	3,561,594	3,863,761	3,993,948	3,195,724	3,205,937
Federal Spec. Rev. Funds	12,555,717	16,188,375	16,203,003	16,461,008	16,455,520
Total Funds	\$17,000,295	\$22,438,478	\$21,083,842	\$20,502,060	\$20,504,127
Total Ongoing	\$17,000,295	\$20,938,478	\$21,083,842	\$20,502,060	\$20,504,127
Total OTO	\$0	\$1,500,000	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Community Development Division expended 75.8% of its FY 2016 budget. Personal services were 81.5% expended which is lower than budgeted because of vacancies within 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. 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 due to the timing of grant awards.

Executive Request

The Community Development Division is requesting an overall decrease in appropriations for FY 2018 and FY 2019. The requested decrease in personal services is primarily due to a statewide present law adjustment and will be discussed further in the Personal Services section below. The decrease in grants is due to present law adjustments that will be discussed in further detail in the Program Present Law section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 3

Department Of Commerce: 60 Community Development Division Personal Services Present Law Calculations				
PS Base:		\$2,145,411		
			FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services		(\$69,164)	(\$65,768)
Legislative	Statutory Personal Service Change		14,455	17,889
	Difference		(83,619)	(83,657)
Management Choices Explaining the Difference				
	Additional 2% Vacancy Savings		(43,079)	(43,148)
	Broadband Pay Adjustments		8,525	8,525
	Benefits and Taxes on Pay Adjustment		1,724	1,724
	Other		(50,790)	(50,758)
	Total		(\$83,619)	(\$83,657)

Personal services were \$2.1 million or 10.2% of total FY 2017 appropriations. The executive proposes a decrease of \$69,164 in FY 2018 and \$65,768 in FY 2019. This proposed decrease is approximately \$84,000 less than anticipated by the Legislative Fiscal Division based upon the implementation of the pay plan and statutory personal services adjustments in each fiscal year. The difference in the personal services calculation is due to a corrections to the executive snapshot, reclassifications, and turnover where the positions were hired at a lower rate. These decreases in personal services were partially offset by broadband pay adjustments. Adjustments made in the Community Development Division were primarily due to market adjustments.

Funding

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

Department of Commerce, 60-Community Development Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,687,998	0	0	0	1,687,998	4.10 %
02049 Hard Rock Mining	472,037	0	0	138,802	610,839	9.34 %
02218 School Facility & Tech Account	796,536	0	0	0	796,536	12.18 %
02270 Treasure State Endowment	1,317,368	0	0	0	1,317,368	20.14 %
02445 Coal Board	3,815,720	0	0	0	3,815,720	58.34 %
State Special Total	\$6,401,661	\$0	\$0	\$138,802	\$6,540,463	15.90 %
03059 Community Development Block	14,815,224	0	0	0	14,815,224	45.01 %
03061 EDA Revolving Loan Fund	947,660	0	0	0	947,660	2.88 %
03300 Home Grants	16,586,402	0	0	0	16,586,402	50.39 %
03932 CDBG RLF	567,242	0	0	0	567,242	1.72 %
Federal Special Total	\$32,916,528	\$0	\$0	\$0	\$32,916,528	80.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$41,006,187	\$0	\$0	\$138,802	\$41,144,989	

General fund is used to provide matching funds for the Community Development Block Grant and to support the Community Technical Assistance Program.

State special revenue is primarily used for Coal Board programs. These programs provide governmental services that are a direct consequence of an increase or decrease of coal development or result from an increase or decrease in the consumption of coal by a coal-using energy complex. Treasure State Endowment Programs (TSEP) are another state special revenue fund. This account is funded with interest earning from the treasure state endowment fund, a sub-fund of the coal tax trust. Revenue from the income account within the trust is transferred to the state special revenue fund for administrative costs and grants provided by the program.

Funding for the Quality Schools Grant Program is derived from the school facility and technology fund. The purpose of the account is to provide funding for a number of needs for public schools in Montana.

**LFD
COMMENT**

At this time the funding in the School Facility and Technology fund is not sufficient to provide for all of the intended uses of the fund. See the LFD Issue in the discussion of the Quality Schools Grant Program in the Long-Range Planning Budget Analysis.

The Community Development Block Grants (CDBG) program is primarily funded with federal block grants allocated through the U.S. Department of Housing and Urban Development. The general fund provides the required match for a portion of the administrative costs of the program.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	886,891	886,891	1,773,782	105.08 %	21,083,842	21,083,842	42,167,684	102.83 %
SWPL Adjustments	(11,397)	(14,055)	(25,452)	(1.51)%	(65,625)	(74,859)	(140,484)	(0.34)%
PL Adjustments	0	0	0	0.00 %	(485,991)	(474,690)	(960,681)	(2.34)%
New Proposals	(30,166)	(30,166)	(60,332)	(3.57)%	(30,166)	(30,166)	(60,332)	(0.15)%
Total Budget	\$845,328	\$842,670	\$1,687,998		\$20,502,060	\$20,504,127	\$41,006,187	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(18,046)	(11,875)	(39,243)	(69,164)	0.00	(17,619)	(9,440)	(38,709)	(65,768)
DP 2 - Fixed Costs	0.00	6,494	(9,293)	6,069	3,270	0.00	3,317	(11,910)	(973)	(9,566)
DP 3 - Inflation Deflation	0.00	155	82	32	269	0.00	247	167	61	475
DP 6002 - CDD Administrative Costs Adjustments	0.00	0	(777,138)	7,526	(769,612)	0.00	0	(766,828)	8,517	(758,311)
DP 6003 - CDD Federal Grants Adjustments	0.00	0	0	283,621	283,621	0.00	0	0	283,621	283,621
Grand Total All Present Law Adjustments	0.00	(\$11,397)	(\$798,224)	\$258,005	(\$551,616)	0.00	(\$14,055)	(\$788,011)	\$252,517	(\$549,549)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 6002 - CDD Administrative Costs Adjustments -

The executive requests a decrease in state special revenue and an increase federal special revenue for FY 2018 and FY 2019. This request includes per diem and the maintenance of a reserve account that is set forth in statute for the Hard

Rock Mining Impact Board. This request also includes a reduction to grants awarded by the Coal Board. Additional costs of this decision package include rental leases, computer equipment, and support services.

DP 6003 - CDD Federal Grants Adjustments -

The executive requests a federal special revenue increase in FY 2018 and FY 2019 for ongoing federal appropriations for grants received by the Community Development Division for the 2019 biennium.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase										
	0.00	(30,166)	0	0	(30,166)	0.00	(30,166)	0	0	(30,166)
Total	0.00	(\$30,166)	\$0	\$0	(\$30,166)	0.00	(\$30,166)	\$0	\$0	(\$30,166)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	545,668	581,663	35,995	6.60 %
Operating Expenses	310,586	336,100	25,514	8.21 %
Grants	100,000	120,000	20,000	20.00 %
Transfers	59,550	73,000	13,450	22.59 %
Total Expenditures	\$1,015,804	\$1,110,763	\$94,959	9.35 %
Proprietary Funds	1,015,804	1,110,763	94,959	9.35 %
Total Funds	\$1,015,804	\$1,110,763	\$94,959	9.35 %

Program Description

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities contain future health care costs by offering debt financing at low-cost, tax-exempt interest rates for capital construction and improvements. The legislature extended eligible facilities to include community pre-release centers and for-profit manufacturing facilities. Cost savings are shared with consumers in the form of lower fees.

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

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

Program Highlights

Facility Finance Authority Major Budget Highlights	
- The Facility Finance Authority 2019 biennium budget request is approximately \$95,000 or 9.4% higher than the 2017 biennium. Significant changes include: - Proposed increases due to statewide present law adjustments for personal services and fixed costs. - Proposed increases due to present law adjustments for administrative costs, including support services, per diem, rent and other expenses.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	3.00	3.00	3.00	3.00	3.00
Personal Services	218,374	269,691	275,977	290,026	291,637
Operating Expenses	127,541	160,871	149,715	177,255	158,845
Grants	0	40,000	60,000	60,000	60,000
Transfers	33,981	39,775	19,775	35,000	38,000
Total Expenditures	\$379,896	\$510,337	\$505,467	\$562,281	\$548,482
Proprietary Funds	379,896	510,337	505,467	562,281	548,482
Total Funds	\$379,896	\$510,337	\$505,467	\$562,281	\$548,482

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Facility Finance Authority 74.4% expended of its FY 2016 budget. The lower percentage expended is partially due to a position that was vacant for nearly all of FY 2016.

Executive Request

The Facility Finance Authority is requesting an increase in its FY 2018 and FY 2019 budget. The requested increase is due to statewide present law adjustments for personal services and fixed costs as well as a present law adjustment for administrative costs. The requested increases will be discussed in further detail in the Present Law Adjustments section below.

Funding

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

Department of Commerce, 71-Facility Finance Authority Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06015 Facilities Finance Authority	0	0	1,110,763	0	1,110,763	100.00 %
Proprietary Total	\$0	\$0	\$1,110,763	\$0	\$1,110,763	100.00 %
Total All Funds	\$0	\$0	\$1,110,763	\$0	\$1,110,763	

The Facility Finance Authority is funded entirely with proprietary rates.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	505,467	505,467	1,010,934	91.01 %	
SWPL Adjustments	0	0	0	0.00 %	28,897	16,472	45,369	4.08 %	
PL Adjustments	0	0	0	0.00 %	27,917	26,543	54,460	4.90 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$562,281	\$548,482	\$1,110,763		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
0.00	0	0	0	13,349	0.00	0	0	0	14,960	
DP 2 - Fixed Costs										
0.00	0	0	0	15,565	0.00	0	0	0	1,513	
DP 3 - Inflation Deflation										
0.00	0	0	0	(17)	0.00	0	0	0	(1)	
DP 7101 - FFA Administrative Costs Adjustments NAPROP										
0.00	0	0	0	27,917	0.00	0	0	0	26,543	
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$56,814	0.00	\$0	\$0	\$0	\$43,015

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 7101 - FFA Administrative Costs Adjustments NAPROP -

The executive requests an increase in proprietary funds for administrative costs which includes support services, per diem, rent, and other expenses.

Other Issues -**Proprietary Rates****Facility Finance Authority – 06015****HFA Loan Program – 06012***Proprietary Program Description*

The Facility Finance Authority (Authority) provides debt through a number of programs. The Authority has established reserve requirements for each including:

- Master Loan Program – The Authority provides qualified borrowers financing through tax exempt bond issuances. Loans can be used for eligible projects including equipment purchases, reimbursement of capital expenditures made during the current fiscal year (as approved by bond counsel), new facility construction, renovation of existing facilities, and refunding or refinancing of outstanding debt.
- Permanent Coal Tax Trust Loan Program – Statute allows the Authority to administer \$15 million of the permanent coal tax trust fund for capital projects. Individual loan amounts may not exceed 10% of the amount administered by the Authority.
- Direct Loan Program – Statute allows the Authority to make direct loans to eligible facilities for eligible projects including construction and renovation, facility acquisition, refinancing of qualified outstanding debt, or purchase of equipment. Funding for the loans is derived from the revenues deposited in the Facilities Finance Authority account that is transferred to the HFA Loan Program. As of fiscal year-end 2016 the Direct Loan Program had a fund balance of \$1.9 million.
- Working capital – National bond rating agencies, national bond insurers, and institutional investor expect the Facility Finance Authority to maintain a working capital reserve of two year's operating capital to assure that it can financially operate between legislative sessions. In FY 2017 that is \$1.0 million.

Figure 4

Department of Commerce Facility Finance Authority Reserve Requirements as of November 2016		
	Required	Funded
Capital Reserve Account A	\$7,987,529	\$2,045,453
Capital Reserve Account B	215,164	(104,513)
Direct Loan Program	1,967,696	1,967,776
Working Capital Fund	<u>1,033,172</u>	<u>1,033,172</u>
Total	\$11,203,561	\$4,941,888
Percent Funded		44.1%

As shown in the figure, the amount of the reserves for FY 2016 is 44.6% of the reserve requirements established by the Authority. This is an improvement over the FY 2014 funded ratio of 23.3%.

*Proprietary Program Narrative*Expenses

The 2019 Biennium Report on Internal Service and Enterprise Funds is shown in the figure below. It provides a summary of anticipated revenues, expenditures, and remaining fund balance for the proprietary funds. The Facility Finance Authority Loan Program (06012) provides direct loans to various facilities. The Facility Finance Authority (06015) funds operations. The accounts have been combine in the report provided below.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 65010	Agency Name: Department of Commerce		Program Name: Facility Finance Authority				
	Fund	Fund Name					
	06015	Facilities Finance Authority					
	06012	HFA Loan Program					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		513,196	874,913	806,621	510,000	505,000	485,000
Fee Revenue B		45,718	38,291	50,634	45,000	60,000	60,000
Total Operating Revenues		558,914	913,204	857,255	555,000	565,000	545,000
Expenses:							
Personal Services		178,086	206,407	218,115	275,977	290,026	291,637
Other Operating Expenses		197,039	613,388	136,921	240,609	237,255	218,845
Total Operating Expenses		375,125	819,795	355,036	516,586	527,281	510,482
Operating Income (Loss)		183,789	93,409	502,219	38,414	37,719	34,518
Nonoperating Revenues:							
Other Revenue A		-	-	5,257	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	5,257	-	-	-
Income (Loss) Before Contributions and Transfers		183,789	93,409	507,476	38,414	37,719	34,518
Transfers Out		(18,833)	(29,607)	(33,981)	(19,775)	(35,000)	(38,000)
Change in Net Position		164,956	63,802	473,495	18,639	2,719	(3,482)
Beginning Net Position - July 1		4,696,849	4,861,805	4,875,607	5,349,066	5,367,705	5,370,424
Prior Period Adjustments		-	(50,000)	(36)	-	-	-
Change in Net Position		164,956	63,802	473,495	18,639	2,719	(3,482)
Ending Net Position - June 30		4,861,805	4,875,607	5,349,066	5,367,705	5,370,424	5,366,942
Net Position (Fund Balance) Analysis							
Unrestricted Net Position		4,861,805	4,875,607	5,349,066	5,367,705	5,370,424	5,366,942

Revenues

The Facility Finance Authority is funded entirely by proprietary funds from two accounts within the enterprise fund. Revenues are collected from interest, fees, and charges to participating institutions. Application and annual administrative fee assessments are contingent upon business volume. The table below provides information on fees.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	0	1,346	1,346	0.00 %
Operating Expenses	1,748,301	148,654	(1,599,647)	(91.50)%
Grants	186,506	0	(186,506)	(100.00)%
Benefits & Claims	717,842	717,842	0	0.00 %
Total Expenditures	\$2,652,649	\$867,842	(\$1,784,807)	(67.28)%
State/Other Special Rev. Funds	300,000	150,000	(150,000)	(50.00)%
Federal Spec. Rev. Funds	2,352,649	717,842	(1,634,807)	(69.49)%
Total Funds	\$2,652,649	\$867,842	(\$1,784,807)	(67.28)%
Total Ongoing	\$2,652,649	\$867,842	(\$1,784,807)	(67.28)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Housing Division includes the Housing and Urban Development (HUD) Section 8 Housing programs and the Board of Housing and its programs.

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing Programs. These programs include the Regular Bond Homeownership Program, Special Set-Aside Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Montana Fund, and the Reverse Annuity Mortgage (RAM) Program.

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

The Housing Assistance Bureau consists of three programs: Housing and Urban Development (HUD) Project Based Section 8 Housing Contract Administration Program; the HUD Tenant Based Section 8 Housing Choice Vouchers; and Moderate Rehabilitation programs Contract Administration.

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

Program Highlights

Housing Division Major Budget Highlights

- The Housing Division 2019 biennium budget proposal is approximately \$1.8 million or 67.3% lower than the 2017 biennium. Significant changes include:
 - Proposed decreases in federal special revenue due to the elimination of funding for the HUD Comprehensive Counseling program, Emergency Homeowners Loan program, and the Board of Housing Mitigation program.
 - Proposed decreases in state special revenue for the Mobile Home Revolving Loan program and federal special revenue for the Shelter Plus Care program.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
Personal Services	0	0	0	0	1,346
Operating Expenses	114,421	873,160	875,141	75,000	73,654
Grants	0	94,332	92,174	0	0
Benefits & Claims	238,476	358,921	358,921	358,921	358,921
Total Expenditures	\$352,897	\$1,326,413	\$1,326,236	\$433,921	\$433,921
State/Other Special Rev. Funds	100,000	150,000	150,000	75,000	75,000
Federal Spec. Rev. Funds	252,897	1,176,413	1,176,236	358,921	358,921
Total Funds	\$352,897	\$1,326,413	\$1,326,236	\$433,921	\$433,921
Total Ongoing	\$352,897	\$1,326,413	\$1,326,236	\$433,921	\$433,921
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Housing Division expended 26.6% of its FY 2016 HB 2 budget. Operating expenses were 13.1% expended. The HUD Comprehensive Counseling and Homeowners Loan Program contributed to the lower percentage expended in the division. The department did not have expenditures in either program.

Executive Request

The Housing Division is requesting a decrease in operating expenses and grants in FY 2018 and FY 2019. This reduction is primarily due to a present law adjustment resulting from changes in HUD requirements. These requested changes will be discussed in the Present Law Adjustments section below.

Funding

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

Department of Commerce, 74-Housing Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02575 Mobile Home Revolving Loan Fun	150,000	0	0	0	150,000	100.00 %
State Special Total	\$150,000	\$0	\$0	\$0	\$150,000	0.15 %
03110 HUD Comprehensive Counseling	0	0	0	0	0	0.00 %
03144 Shelter Plus Care-HUD	717,842	0	0	0	717,842	100.00 %
03282 EMERGENCY HOMEOWNERS LOAN PROG	0	0	0	0	0	0.00 %
03521 Section 811 Project Rental	0	0	0	0	0	0.00 %
03945 BOH FORCLOSURE MITIGATION	0	0	0	0	0	0.00 %
Federal Special Total	\$717,842	\$0	\$0	\$0	\$717,842	0.70 %
06030 BOH Financial Program Fund	0	0	5,525,114	0	5,525,114	5.47 %
06031 Housing Trust Fund	0	0	20,000	0	20,000	0.02 %
06032 Mortgage Loan Servicing	0	0	3,372,430	0	3,372,430	3.34 %
06074 SEC 8 Project Based	0	0	44,731,350	0	44,731,350	44.28 %
06075 Section 8 Vouchers	0	0	42,548,490	0	42,548,490	42.12 %
06078 Housing Montana Fund	0	0	20,000	0	20,000	0.02 %
06079 Revolving Loan Fund - TANF	0	0	20,000	0	20,000	0.02 %
06085 Section 8 Mod Rehab	0	0	4,779,882	0	4,779,882	4.73 %
Proprietary Total	\$0	\$0	\$101,017,266	\$0	\$101,017,266	99.15 %
Total All Funds	\$867,842	\$0	\$101,017,266	\$0	\$101,885,108	

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

Programs funded through HB 2 include the mobile home revolving loan fund and the shelter plus care grant. The mobile home revolving loan state special revenue fund is used to finance the replacement of substandard homes with newer, energy-efficient manufactured homes. The shelter plus grant is funded through federal special revenue. This grant helps provide housing and supportive services on a long-term basis for homeless people with disabilities, serious mental illness, chronic drug or alcohol problems, and AIDS.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	1,326,236	1,326,236	2,652,472	305.64 %
SWPL Adjustments	0	0	0	0.00 %	(10,118)	(10,091)	(20,209)	(2.33)%
PL Adjustments	0	0	0	0.00 %	(882,197)	(882,224)	(1,764,421)	(203.31)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$433,921	\$433,921	\$867,842	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----					-----Fiscal 2019-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	1,346	1,346	0.00	0	0	1,346	1,346
DP 2 - Fixed Costs	0.00	0	0	(11,477)	(11,477)	0.00	0	0	(11,477)	(11,477)
DP 3 - Inflation Deflation	0.00	0	0	13	13	0.00	0	0	40	40
DP 7404 - HD Administrative Costs Adjustments	0.00	0	(75,000)	(807,197)	(882,197)	0.00	0	(75,000)	(807,224)	(882,224)
Grand Total All Present Law Adjustments	0.00	\$0	(\$75,000)	(\$817,315)	(\$892,315)	0.00	\$0	(\$75,000)	(\$817,315)	(\$892,315)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 7404 - HD Administrative Costs Adjustments -

The executive is requesting a decrease in state special revenue and federal special revenue in FY 2018 and FY 2019. This proposal eliminates all funding for the HUD Comprehensive Counseling program, Emergency Homeowners Loan program, and the Board of Housing Mitigation program. Changes in HUD requirements now allow local housing authorities/ organizations to apply directly for these awards rather than receiving funds passing through the Department of Commerce. This proposal also decreases state special revenue funding for the Mobile Home Revolving Loan program and federal special revenue funding for the Shelter Plus Care program.

Other Issues -

Proprietary Rates

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

Proprietary Program Description

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the governor, subject to the confirmation of the State Senate. The board provides policy direction to agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing Programs.

The Board of Housing is funded by five enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed. As such, the legislature does not approve rates for this program. There are no direct appropriations provided in HB 2.

Expenditures

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

Figure 6

Board of Housing				
Program	Actual FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Board of Housing				
Personal Services	\$1,162,519	\$1,247,579	\$1,216,224	\$1,218,713
Operating Expenses	<u>1,508,955</u>	<u>1,545,971</u>	<u>1,591,300</u>	<u>1,558,877</u>
Total Expenditures	2,671,474	2,793,550	2,807,524	2,777,590
Loan Servicing				
Personal Services	999,290	1,010,321	916,440	917,733
Operating Expenses	<u>746,180</u>	<u>776,742</u>	<u>785,681</u>	<u>752,576</u>
Total Expenditures	\$1,745,470	\$1,787,063	\$1,702,121	\$1,670,309

Overall, the executive is proposing a decrease in personal services for the Board of Housing. Operating expenses are increasing in the executive proposal in FY 2018 and FY 2019 for the Board of Housing. Loan servicing operating expenses are proposed to increase in FY 2018 and decrease in FY 2019.

The Board of Housing issues bonds each year to purchase new mortgages. Once the bonds are sold, the BOH must repay the bondholders by making interest and principal payments. BOH is required to use mortgage and investment income to pay bondholders, buy mortgages, or pay operating costs. Bond debt payments are the most significant cost of the Board of Housing at \$18.9 million in FY 2016, and the executive is proposing \$25.5 million in FY 2018 and \$28.2 million in FY 2019. These costs are considered debt services and are presented in the 2019 Biennium Report on Internal Service and Enterprise Funds below.

Revenues

The Board of Housing's income is derived primarily from mortgage investment income. Mortgage income is the interest people pay on BOH loans and is limited by the Internal Revenue Service as a condition of using tax-free bonds as a financing source. Mortgage income is also controlled by the national markets, which set both mortgage rates and bond financing rates. Investment income comes from interest earned on investing reserves the BOH is required to hold and bond and program moneys not yet used to buy mortgages or pay bondholders. Both future mortgage and investment income depends on the interest rate environment, which is determined by the national financial markets. Anticipated revenues for the 2019 biennium are shown below.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 65010	Agency Name: Department of Commerce		Program Name: Housing Division				
	Fund	Fund Name					
	06030	BOH Financial Program Fund					
	06078	Housing Montana Fund					
	06079	Revolving Loan Fund - TANF					
	06032	Mortgage Loan Servicing					
	06031	Housing Trust Fund					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		2,364,574	2,413,235	2,306,193	2,932,652	3,453,015	4,066,095
Fee Revenue B		25,651,257	24,123,396	23,877,704	32,168,098	35,366,838	38,884,794
Fee Revenue C		255	-	-	-	-	-
Fee Revenue D		-	73,000	-	-	-	-
Fee Revenue E		27,713	61,766	309	-	-	-
Fee Revenue F		126,846	84,599	49,238	76,951	76,951	76,951
Total Operating Revenues		28,170,645	26,755,996	26,233,444	35,177,701	38,896,804	43,027,840
Expenses:							
Personal Services		1,674,445	1,934,143	2,204,809	2,257,900	2,132,664	2,136,446
Other Operating Expenses		1,763,358	1,663,697	2,259,133	2,360,809	2,376,981	2,311,453
Expense B		24,233,410	21,680,608	18,934,488	23,476,387	25,512,121	28,156,941
Total Operating Expenses		27,671,213	25,278,448	23,398,430	28,095,096	30,021,766	32,604,840
Operating Income (Loss)		499,432	1,477,548	2,835,014	7,082,605	8,875,038	10,423,000
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		499,432	1,477,548	2,835,014	7,082,605	8,875,038	10,423,000
Transfers In							
Transfers Out		750,000	-	-	-	-	-
Change in Net Position		(750,000)	-	-	-	-	-
		499,432	1,477,548	2,835,014	7,082,605	8,875,038	10,423,000
Beginning Net Position - July 1		157,530,107	152,073,761	153,492,063	156,327,077	163,409,682	172,284,720
Prior Period Adjustments		(5,955,778)	(59,246)	-	-	-	-
Change in Net Position		499,432	1,477,548	2,835,014	7,082,605	8,875,038	10,423,000
Ending Net Position - June 30		152,073,761	153,492,063	156,327,077	163,409,682	172,284,720	182,707,720
Net Position (Fund Balance) Analysis							
Restricted Net Pos(Enterprise Fund Only)		152,073,761	153,492,063	156,327,077	163,409,682	172,284,720	182,707,720

Proprietary Rates

The Board of Housing recovers costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on loan programs.

Requested Rates for Enterprise Funds Fee/Rate Information					
Fee		Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Cancellation fees-Single Family Program	1/2 of 1 % of the loan amount reserved	No Change	No Change	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change
Post Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change
Pre 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change
Post 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change	No Change	No Change
PreApp/10%/Final Fees-Housing Credit Program		\$750	\$750	\$1,000	\$1,000
Reservation fees-Housing Credit Program	% of the tax credit amount reserved	5.00%	6.00%	6.00%	6.00%
Compliance fees-Housing Credit Program	per unit	\$40	\$40	\$45	\$45
Interest income on reverse annuity mortgage loans	5% (new) 7% (old) loans	No Change	No Change	No Change	No Change
Housing Revolving Loan Fund (HRLA)	variable rates ranging from 2% to 6%	No Change	No Change	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change	No Change	No Change

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

HUD Section 8 Project Based Housing – 06074

Proprietary Program Description

The Project Based Section 8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Section 8 Program renews rent contracts to project owners as they expire. Contract managers prepare special damage claims and annual rental increases, respond to emergencies, check

compliance for fair housing and waiting lists, conduct on-site management reviews, follow-up to physical inspections, review management decisions, and budget assistance to local property owners.

Expenses

The figure below shows the proposed expenditures for Project Based Section 8 Housing.

Figure 7

Board of Housing				
Program	Actual FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Project Based Section 8 Housing				
Personal Services	\$680,270	\$728,962	\$703,468	\$706,621
Operating Expenses	338,197	322,379	364,787	352,214
Benefits & Claims	<u>19,888,067</u>	<u>20,376,039</u>	<u>20,987,320</u>	<u>21,616,940</u>
Total Expenditures	\$20,906,534	\$21,427,380	\$22,055,575	\$22,675,775

Overall, the executive is proposing a decrease in personal services. Operating expenses and benefits and claims are proposed to increase in FY 2018 and FY 2019.

Revenues

Revenues are generated in the Project Based Section 8 Contract Administration under a HUD performance based contract using 17 Incentive Based Performance Standards calculated by HUD monthly, quarterly, and annually. Revenues generated are required to be used for contract administration. Rental assistance payments are made based on contracts negotiated by the program staff and tenant income data. Payments are paid and reimbursed monthly by HUD, based on actual program benefits paid to owners. Projected revenues are reflected in the 2019 Biennium Report on Internal Service and Enterprise Funds in the figure below.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 65010	Agency Name: Department of Commerce			Program Name: Housing Division			
	Fund	Fund Name					
	06074	SEC 8 Project Based					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		11,922	9,357	18,969	13,127	-	-
Fee Revenue B		19,563,866	20,438,349	20,869,004	21,377,964	22,032,824	22,693,809
Total Operating Revenues		19,575,788	20,447,706	20,887,973	21,391,091	22,032,824	22,693,809
Expenses:							
Personal Services		568,732	612,513	689,140	728,962	703,468	706,621
Other Operating Expenses		18,867,306	19,698,040	20,226,260	20,703,833	21,352,107	21,969,154
Total Operating Expenses		19,436,038	20,310,553	20,915,400	21,432,795	22,055,575	22,675,775
Operating Income (Loss)		139,750	137,153	(27,427)	(41,704)	(22,751)	18,034
Nonoperating Revenues:							
Other Revenue B		24	-	-	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		24	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		139,774	137,153	(27,427)	(41,704)	(22,751)	18,034
Change in Net Position		139,774	137,153	(27,427)	(41,704)	(22,751)	18,034
Beginning Net Position - July 1		3,834,678	3,674,452	3,811,605	3,784,178	3,742,474	3,719,723
Prior Period Adjustments		(300,000)	-	-	-	-	-
Change in Net Position		139,774	137,153	(27,427)	(41,704)	(22,751)	18,034
Ending Net Position - June 30		3,674,452	3,811,605	3,784,178	3,742,474	3,719,723	3,737,757
Net Position (Fund Balance) Analysis							
Unrestricted Net Position		3,674,452	3,811,605	3,784,178	3,742,474	3,719,723	3,737,757

Proprietary Rates

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year request for proposal (RFP). Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD based on actual contracts negotiated between the department and the individual owners of the projects, set up on a procedure dictated by HUD.

Requested Rates for Enterprise Funds					
Fee/Rate Information					
		Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Administration Contract					
	Rate	2.00%	2.00%	2.00%	2.00%
Base fee rate paid by HUD = 2% time Fair Market Rent for all projects under ACC contract for standard performance, as judged by HUD monthly, quarterly and annually.					
Administration Contract					
	Rate	1.00%	1.00%	1.00%	1.00%
Performance fee incentive rate based on 17 Incentive Based Performance Standards (IBPS), graded monthly, quarterly, and annually by HUD.					
Can be either positive or negative, based on whether time standards and performance requirements are met on each of the 17 IBPS standards.					
Rate 3 (per unit)					
Rents Contract					
	Rate	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.					

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

HUD Section 8 Housing Program – Tenant Based – 06075

HUD Section 8 Mod Rehab – Tenant Based – 06085

Program Description

The Tenant Based Section 8 Program provides rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

Expenses

The figure below shows the proposed expenditures for Tenant Based Section 8 Housing. Overall, the executive is proposing an increase in personal services, operating expenses and benefits and claims.

Figure 8

Board of Housing				
Program	Actual FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Tenant Based Section 8 Housing				
Personal Services	\$714,451	\$790,214	\$796,664	\$798,295
Operating Expenses	1,901,785	1,860,891	1,940,181	1,924,017
Benefits & Claims	<u>19,209,267</u>	<u>20,024,494</u>	<u>20,625,229</u>	<u>21,243,986</u>
Total Expenditures	\$21,825,503	\$22,675,599	\$23,362,074	\$23,966,298

Revenues

The Tenant Based Section 8 Program is supported by the enterprise fund with revenues derived from a performance based Annual Contribution Contract with HUD. Revenues for the Tenant Based Section 8 Program are generated per unit for each rental unit under lease each month. Projected revenues are in the 2019 Biennium Report on Internal Service and Enterprise funds below.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 65010	Agency Name: Department of Commerce			Program Name: Housing Division			
	Fund	Fund Name					
	06085	Section 8 Mod Rehab					
	06075	Section 8 Vouchers					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		7,400	6,000	17,217	8,085	8,328	8,578
Fee Revenue B		20,655,195	17,767,450	21,760,142	23,029,282	23,720,161	24,431,766
Total Operating Revenues		20,662,595	17,773,450	21,777,359	23,037,367	23,728,489	24,440,344
Expenses:							
Personal Services		644,637	806,583	719,133	790,214	796,664	798,295
Other Operating Expenses		19,189,823	19,119,259	21,112,232	21,888,235	22,565,410	23,168,003
Total Operating Expenses		19,834,460	19,925,842	21,831,365	22,678,449	23,362,074	23,966,298
Operating Income (Loss)		828,135	(2,152,392)	(54,006)	358,918	366,415	474,046
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		828,135	(2,152,392)	(54,006)	358,918	366,415	474,046
Change in Net Position		828,135	(2,152,392)	(54,006)	358,918	366,415	474,046
Beginning Net Position - July 1		5,115,802	5,943,937	3,791,545	3,737,539	4,096,457	4,462,872
Change in Net Position		828,135	(2,152,392)	(54,006)	358,918	366,415	474,046
Ending Net Position - June 30		5,943,937	3,791,545	3,737,539	4,096,457	4,462,872	4,936,918
Net Position (Fund Balance) Analysis							
Unrestricted Net Position		5,943,937	3,791,545	3,737,539	4,096,457	4,462,872	4,936,918

Proprietary Rates

Fund revenues are derived from competitively awarded performance based Annual Contribution Contracts with HUD and the program is completely self-supporting. The department is the only statewide housing authority in Montana and specifically budgeted for in HUD's ongoing appropriation for Tenant Based Section 8.

Requested Rates for Enterprise Funds				
Fee/Rate Information				
	Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Administration Contract				
Rate	\$ 57.51	\$ 57.51	\$ 57.51	\$ 57.51
Base fee rate paid by HUD = \$45.79 per unit per month under lease for Housing Choice Vouchers, and \$45.79 per month for each unit under HAP contract on Mod Rehab. Estimate increases of 3.5% per year for FY 2006 and FY 2007.				
Under HUD contract, for every family with 3 or more minors which either leases the first time or moves; HUD will pay a fee of \$75.00.				
Homeownership Start-up Fee				
Rate	\$200.00	\$200.00	\$200.00	\$200.00
Under HUD contract, for every family the program starts in Homeownership Vouchers Homeownership Assistance, HUD allows a fee of \$1,000.				
Project Based Section 8 Opt-Out Start-up Fee				
Rate	\$250.00	\$250.00	\$ 250.00	\$ 250.00
Under HUD contract, for every unit HUD approves transferring from Project Based Section 8 to the Housing Choice Vouchers Program, HUD provides reimbursement of start-up expenses of \$250.				
Rents Contract				
Rate	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.				

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	7,382,658	7,765,872	383,214	5.19 %
Operating Expenses	5,285,256	6,753,299	1,468,043	27.78 %
Total Expenditures	\$12,667,914	\$14,519,171	\$1,851,257	14.61 %
Proprietary Funds	12,667,914	14,519,171	1,851,257	14.61 %
Total Funds	\$12,667,914	\$14,519,171	\$1,851,257	14.61 %

Program Description

Article VIII, Section 13 of the Montana Constitution created the Unified Investment Program, which includes all state agency funds. The Board of Investments (the "Board"), by law, invests the Unified Investment Program. Local governments may also invest with the Board. To facilitate management of the Unified Investment Program, the Board created seven investment pools, which operate like mutual funds. Investments not managed in pools are included in All Other Funds.

<u>Name of Pool</u>	<u>Eligible Participants</u>
1. Retirement Funds Bond Pool	Retirement systems funds only
2. Trust Funds Investment Pool	Various state trust funds
3. Short Term Investment Pool	Eligible local & state agencies
4. Montana Domestic Equity Pool	Retirement systems funds only
5. Montana International Equity Pool	Retirement systems funds only
6. Montana Private Equity Pool	Retirement systems funds only
7. Montana Real Estate Pool	Retirement systems funds only
8. All Other Funds	Non-pool state agency investments

The Board issues a "consolidated" financial statement for the seven investment pools and All Other Funds that provides a comprehensive view of total pool and All Other Funds assets.

In addition to the Board's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the Board administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs. The In-State Investment Program consists of commercial loans funded by the Coal Tax Trust and low interest loans for first time home buying Montana Veterans.

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

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

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

Program Highlights

Board of Investments Major Budget Highlights	
- The Board of Investments 2019 biennium budget proposal is approximately \$1.9 million or 14.6% higher than the 2017 biennium. Significant changes include: - Proposed increases due to statewide present law changes for personal services and fixed costs. - Proposed increases due to a present law change for consulting and professional services, including legal services, computer hardware, administrative costs, upgrades to databases, and other expenses.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	32.00	32.00	32.00	32.00	32.00
Personal Services	3,544,378	3,594,476	3,788,182	3,879,958	3,885,914
Operating Expenses	2,495,790	2,720,430	2,564,826	3,536,395	3,216,904
Total Expenditures	\$6,040,168	\$6,314,906	\$6,353,008	\$7,416,353	\$7,102,818
Proprietary Funds	6,040,168	6,314,906	6,353,008	7,416,353	7,102,818
Total Funds	\$6,040,168	\$6,314,906	\$6,353,008	\$7,416,353	\$7,102,818

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Board of Investments expended 95.6% of its FY 2016 budget. Personal services were 91.7% expended and operating expenses were 95.6% expended.

Executive Request

The Board of Investments is requesting increases in personal services and operating expenses in FY 2018 and FY 2019. Requested increases are related to statewide present law changes for personal services, fixed costs, and inflation/deflation as well as a present law adjustment. The requested changes will be discussed in further detail in the Present Law Adjustments section below.

Funding

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

Department of Commerce, 75-Board of Investments Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
06014 Economic Development Bond	0	0	1,253,481	3,856,976	5,110,457	27.81 %
06527 Investment Division	0	0	13,265,690	0	13,265,690	72.19 %
Proprietary Total	\$0	\$0	\$14,519,171	\$3,856,976	\$18,376,147	100.00 %
Total All Funds	\$0	\$0	\$14,519,171	\$3,856,976	\$18,376,147	

The Board of Investments is funded entirely with proprietary rates.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	6,353,008	6,353,008	12,706,016	87.51 %
SWPL Adjustments	0	0	0	0.00 %	190,221	108,415	298,636	2.06 %
PL Adjustments	0	0	0	0.00 %	873,124	641,395	1,514,519	10.43 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$7,416,353	\$7,102,818	\$14,519,171	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
0.00	0	0	0	89,725		0.00	0	0	0	95,681
DP 2 - Fixed Costs										
0.00	0	0	0	100,494		0.00	0	0	0	12,660
DP 3 - Inflation Deflation										
0.00	0	0	0	2		0.00	0	0	0	74
DP 7502 - BOI Administrative Costs Adjustments NAPROP										
0.00	0	0	0	873,124		0.00	0	0	0	641,395
Grand Total All Present Law Adjustments										
0.00	\$0	\$0	\$0	\$1,063,345		0.00	\$0	\$0	\$0	\$749,810

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 7502 - BOI Administrative Costs Adjustments NAPROP -

The executive requests an increase in proprietary funds for consulting and professional services, legal services, computer hardware, administrative costs, and other expenses. This proposal also includes an increase in proprietary funds for the 2019 biennium in order to upgrade the division's In-State and INTERCAP loan databases.

Other Issues -

Proprietary Rates

Economic Development Bond - 06014

Investment Division – 06527

Proprietary Program Description

The Board of Investments is funded by two proprietary fund types. The Economic Development Bond Program, an enterprise fund, funds the INTERCAP Program. The Investment Division Program, an internal service fund, funds the Investment Programs. The Board of Investment's customers include state agencies, the university system, local governments, financial institutions, and local economic development organizations.

Expenses

The figure below shows the proposed expenditures for the Investments Division and Economic Development Bond Programs. Overall, the executive is proposing an increase in total expenditures for both programs.

Figure 9

Board of Investments				
Program	Actual FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Economic Development Bond				
Personal Services	\$389,838	\$386,563	\$377,973	\$378,712
Operating Expenses	<u>155,415</u>	<u>167,514</u>	<u>318,474</u>	<u>178,322</u>
Total Expenditures	545,253	554,077	696,447	557,034
Investments Division				
Personal Services	3,154,540	3,401,619	3,501,985	3,507,202
Operating Expenses	<u>2,340,375</u>	<u>2,397,312</u>	<u>3,217,921</u>	<u>3,038,582</u>
Total Expenditures	5,494,915	5,798,931	6,719,906	6,545,784
Total Proposed Budget				
Personal Services	3,544,378	3,788,182	3,879,958	3,885,914
Operating Expenses	<u>2,495,790</u>	<u>2,564,826</u>	<u>3,536,395</u>	<u>3,216,904</u>
Total Expenditures	\$6,040,168	\$6,353,008	\$7,416,353	\$7,102,818

Revenues*Economic Development Bond*

Nearly all program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the program between draws. Remaining revenues are received monthly from the Board of Investments' contract with the Montana Facility Finance Authority. The figure below shows the revenues, expenses and fund balance for the Economic Development Bond that supports the INTERCAP Program.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 65010	Agency Name: Department of Commerce			Program Name: Board of Investments			
	Fund	Fund Name					
	06014	Economic Development Bond					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		809,682	945,386	1,193,688	1,866,530	2,591,121	3,516,873
Other Operating Revenue		-	-	5	-	35,680	35,680
Total Operating Revenues		809,682	945,386	1,193,693	1,866,530	2,626,801	3,552,553
Expenses:							
Personal Services		371,884	345,625	390,635	386,563	377,973	378,712
Other Operating Expenses		149,095	141,949	158,429	174,200	318,474	178,322
Expense B		2,032,896	490,477	637,032	1,594,800	1,547,463	2,309,513
Total Operating Expenses		2,553,855	978,051	1,186,096	2,155,563	2,243,910	2,866,547
Operating Income (Loss)		(1,744,173)	(32,665)	7,597	(289,033)	382,891	686,006
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(1,744,173)	(32,665)	7,597	(289,033)	382,891	686,006
Transfers In							
Change in Net Position		18,833 (1,725,340)	29,607 (3,058)	33,981 41,578	19,775 (269,258)	35,000 417,891	38,000 724,006
Beginning Net Position - July 1		7,223,483	5,498,143	5,495,085	5,536,663	5,267,405	5,685,296
Change in Net Position		(1,725,340)	(3,058)	41,578	(269,258)	417,891	724,006
Ending Net Position - June 30		5,498,143	5,495,085	5,536,663	5,267,405	5,685,296	6,409,302
Net Position (Fund Balance) Analysis							
Unrestricted Net Position		5,498,143	5,495,085	5,536,663	5,267,405	5,685,296	6,409,302

Proprietary Rates

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures and setting a fee at that level. Fees proposed for the INTERCAP Program are shown below.

Figure 10

Requested Rates for Enterprise Funds Fee/Rate Information				
	Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Budgeted Revenues Fees & Investment Revenues	\$1,193,693	\$1,866,530	\$2,626,801	\$3,552,553

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

Revenues

Investment Division Fund

Nearly all Board of Investment revenues are generated from charges to each account that the Board invests. The revenue objective of the Board is to fairly assess the costs of operations while maintaining a 60 day working capital reserve. The figure below shows the revenues, expenses and fund balance for the Investment Division Fund.

2019 Biennium Report on Internal Service and Enterprise Funds								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06527	Investment Division	65010	Dept. of Commerce	Board of Investments				
			Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues								
Fees and Charges								
	Administrative Fees		5,164,248	5,289,816	6,087,180	6,031,846	6,561,455	6,561,455
	Other Operating Revenues		12	45	200	-	-	-
Total Operating Revenues			5,164,260	5,289,861	6,087,380	6,031,846	6,561,455	6,561,455
Expenses								
	Personal Services		2,871,926	3,241,569	3,133,223	3,456,992	3,557,985	3,564,202
	Other Operating Expense		2,225,196	2,107,834	2,340,180	2,424,058	3,217,921	3,038,582
Total Operating Expense			5,097,122	5,349,402	5,473,403	5,881,050	6,775,906	6,602,784
Operating Income (Loss)			67,138	(59,542)	613,977	150,796	(214,451)	(41,329)
Nonoperating Revenues								
	Other Revenue A		-	-	-	-	-	-
	Other Revenue B		-	-	-	-	-	-
Nonoperating Expenses								
	Other Expense A		-	-	-	-	-	-
	Other Expense B		-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers			67,138	(59,542)	613,977	150,796	(214,451)	(41,329)
Capital Contributions								
	Transfers In		-	-	-	-	-	-
	Transfers Out		-	-	-	-	-	-
Change in Net Position			67,138	(59,542)	613,977	150,796	(214,451)	(41,329)
Beginning Net Position - July 1			204,978	272,116	212,575	826,552	977,348	762,897
	Prior Period Adjustments		-	-	-	-	-	-
	Change in Net Position		67,138	(59,542)	613,977	150,796	(214,451)	(41,329)
Ending Net Position - June 30			272,116	212,575	826,552	977,348	762,897	721,568
Net Position (Fund Balance) Analysis								
	Restricted Net Position (Enterprise Funds Only)		-	-	-	-	-	-
	Unrestricted Net Position		272,116	212,575	826,552	977,348	762,897	721,568

Proprietary Rates

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures and setting the fee at that level.

Figure 11

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Approved FY 16	Approved FY 17	Budgeted FY 18	Budgeted FY 19
BOI Administrative Fee Rate	\$6,031,846	\$6,031,846	\$6,561,455	\$6,561,455
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.				

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	71,301	35,683	(35,618)	(49.95)%
Operating Expenses	297,711	362,662	64,951	21.82 %
Total Expenditures	\$369,012	\$398,345	\$29,333	7.95 %
State/Other Special Rev. Funds	369,012	398,345	29,333	7.95 %
Total Funds	\$369,012	\$398,345	\$29,333	7.95 %
Total Ongoing	\$369,012	\$398,345	\$29,333	7.95 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Board of Horse Racing program is responsible for:

1. Regulating the live, simulcast and advance deposit wagering horse racing industry;
2. Ensuring compliance by approximately 1,200 licensees with state laws and board rules;
3. Licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets;
4. Auditing, supervising, and conducting investigations related to the pari-mutuel racing system in Montana.

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

The Board of Horse Racing is funded with state special revenue derived from a 1% tax on gross receipts from pari-mutuel betting. For live racing and simulcast facilities, the tax is the greater of 1% of gross betting receipts or the actual cost to the board for regulating the event.

Program Highlights

Board of Horse Racing Major Budget Highlights
• The Board of Horse Racing 2019 biennium budget request is approximately \$29,000 or 8.0% higher than the 2017 biennium. Significant changes include: ◦ Proposed present law adjustments to decrease the personal services budget and increase to the operating budget to account for the contracted Executive Secretary position.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	1.25	1.25	1.25	1.25	1.25
Personal Services	11,580	34,508	36,793	17,842	17,841
Operating Expenses	138,072	148,876	148,835	181,331	181,331
Total Expenditures	\$149,652	\$183,384	\$185,628	\$199,173	\$199,172
State/Other Special Rev. Funds	149,652	183,384	185,628	199,173	199,172
Total Funds	\$149,652	\$183,384	\$185,628	\$199,173	\$199,172
Total Ongoing	\$149,652	\$183,384	\$185,628	\$199,173	\$199,172
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

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.

Executive Request

The Board of Horse Racing is requesting a decrease in personal services and an increase in operating expenses for FY 2018 and FY 2019. The requested decrease in personal services and subsequent increase in operating expenses is primarily due to a present law adjustment and will be discussed further in the Present Law Adjustments section of the narrative.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 12

Department Of Commerce: 78 Board Of Horse Racing Personal Services Present Law Calculations			
PS Base:		\$36,793	
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$79,171	\$79,244
Legislative	Statutory Personal Service Change	1,011	1,088
	Difference	78,160	78,156
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(2,402)	(2,404)
	Broadband Pay Adjustments	-	-
	Benefits and Taxes on Pay Adjustment	-	-
	Other	80,562	80,560
	Total	\$78,160	\$78,156

Personal services were \$36,793 or 19.8% of total FY 2017 appropriations. The executive proposes an increase of \$79,171 in FY 2018 and \$79,244 in FY 2019. This proposed increase is approximately \$78,000 more than anticipated by the Legislative Fiscal Division based upon the implementation of the pay plan and statutory personal services adjustments in each fiscal year. The difference in the personal services calculation is due to reestablishing personal services funding for the Executive Secretary position. These funds were transferred into operating expenses because the position was contracted. There is a corresponding adjustment that will be discussed in further detail in the Present Law Adjustments section below.

Funding

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

Department of Commerce, 78-Board of Horse Racing Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02029 BOHR Operation Fund	398,345	0	0	550,000	948,345	100.00 %
State Special Total	\$398,345	\$0	\$0	\$550,000	\$948,345	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$398,345	\$0	\$0	\$550,000	\$948,345	

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

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	185,628	185,628	371,256	93.20 %	
SWPL Adjustments	0	0	0	0.00 %	79,167	79,240	158,407	39.77 %	
PL Adjustments	0	0	0	0.00 %	(65,622)	(65,696)	(131,318)	(32.97)%	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$199,173	\$199,172	\$398,345		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
0.00	0	79,171	0	79,171	0.00	0	79,244	0	79,244	
DP 3 - Inflation Deflation										
0.00	0	(4)	0	(4)	0.00	0	(4)	0	(4)	
DP 7801 - BOHR Administrative Costs Adjustments										
0.00	0	(65,622)	0	(65,622)	0.00	0	(65,696)	0	(65,696)	
Grand Total All Present Law Adjustments	0.00	\$0	\$13,545	\$0	\$13,545	0.00	\$0	\$13,544	\$0	\$13,544

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 3 - Inflation Deflation -

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

DP 7801 - BOHR Administrative Costs Adjustments -

The executive requests a decrease in state special revenue in FY 2018 and FY 2019. This proposal would reduce the personal services budget and increase the operating budget to account for the contracted Executive Secretary position. This proposed change does not eliminate the 1.00 FTE Executive Secretary position.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	1,042,196	990,069	(52,127)	(5.00)%
Operating Expenses	1,494,502	1,367,442	(127,060)	(8.50)%
Equipment & Intangible Assets	12,000	24,000	12,000	100.00 %
Total Expenditures	\$2,548,698	\$2,381,511	(\$167,187)	(6.56)%
State/Other Special Rev. Funds	2,548,698	2,381,511	(167,187)	(6.56)%
Total Funds	\$2,548,698	\$2,381,511	(\$167,187)	(6.56)%
Total Ongoing	\$2,548,698	\$2,381,511	(\$167,187)	(6.56)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Montana Heritage Commission (MHC) manages three historic sites in Montana--Virginia City, Nevada City, and Reeder's Alley and the Pioneer Cabin in Helena.

The 1997 Montana Legislature established the Montana Heritage Preservation and Development Commission (MHC) to acquire and manage historic properties for the State of Montana. The legislation approved the purchase of the historic sites in Virginia City and Nevada City including 250 buildings, 160 acres of land, hundreds of thousands of artifacts, and a tourist railroad. The Montana Board of Land Commissioners later approved the acquisition of historic Reeder's Alley in Helena on November 19, 2001 via a private donation. The Pioneer Cabin at the base of Reeder's Alley, was also acquired through private donation from the Last Chance Gulch Restoration Association on June 19, 2006. Today, MHC manages these sites to generate revenue for its own operations that includes building leases for private businesses, visitor services, historic preservation, collections management and public education.

The Commissions responsibilities are mandated primarily in Title 22, Chapter 3 Chapter 1, MCA.

Program Highlights

**Montana Heritage Commission
Major Budget Highlights**

- The Montana Heritage Commission is funded entirely with statutory appropriations. The 2019 biennium budget request is approximately \$167,000 or 6.6% lower than the 2017 biennium. Significant changes include:
 - Proposed increases due to statewide present law adjustments for personal services and fixed costs.
 - Proposed decreases due to statewide present law adjustments for inflation/deflation.
 - Proposed increases due to present law adjustments for indirect costs paid to the Director's Office.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	8.00	8.00	8.00	8.00	8.00
Personal Services	522,207	572,224	469,972	494,599	495,470
Operating Expenses	729,426	830,176	664,326	684,578	682,864
Equipment & Intangible Assets	0	0	12,000	12,000	12,000
Total Expenditures	\$1,251,633	\$1,402,400	\$1,146,298	\$1,191,177	\$1,190,334
State/Other Special Rev. Funds	1,251,633	1,402,400	1,146,298	1,191,177	1,190,334
Total Funds	\$1,251,633	\$1,402,400	\$1,146,298	\$1,191,177	\$1,190,334
Total Ongoing	\$1,251,633	\$1,402,400	\$1,146,298	\$1,191,177	\$1,190,334
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

The Montana Heritage Commission is funded entirely with statutory appropriations. As such, the legislature does not approve either the expenditures or the funding of the program. The table below shows the actual and proposed expenditures and funding for the program.

Figure 13

Department of Commerce Montana Heritage Commission				
	Actuals FY 2016	Appropriated FY 2017	Proposed FY 2018	Proposed FY 2019
Beginning Fund Balance	(\$10,560)	(\$10,766)	\$238,999	\$443,885
Revenues				
Taxes	666,062	627,395	627,395	627,395
Charges for Services	239,805	438,776	438,776	438,776
BOI Investment Earnings	630	105	105	105
Sales of Documents/Mdse/Property	55,090	54,195	54,195	54,195
Rentals/Leases/Royalties	204,986	229,936	229,936	229,936
Contributions/Premiums	890	220	220	220
Grants/Transfers/Misc	<u>56,018</u>	<u>45,436</u>	<u>45,436</u>	<u>45,436</u>
Total Revenues	1,223,481	1,396,063	1,396,063	1,396,063
Expenditures				
Personal Services	522,208	469,972	494,599	495,470
Operating Expenses	729,424	664,326	684,578	682,864
Equipment and Intangible Assets	<u>0</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
Total Expenditures	1,251,632	1,146,298	1,191,177	1,190,334
Adjustments	<u>27,945</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	(\$10,766)	\$238,999	\$443,885	\$649,614

**LFD
COMMENT**

The Montana Heritage Commission forecasts that revenues from all sources will increase at a rate of 14% and revenues for services will increase 83% above FY 2016 actuals. Changes in total charges for service revenues from FY 2008 through FY 2016 are shown in the figure below.

Figure 14

Department of Commerce Montana Heritage Commission Charges for Services Revenue		
Fiscal Year	Revenues	Percent Change
2008	\$176,062	
2009	164,909	-6.3%
2010	191,847	16.3%
2011	136,395	-28.9%
2012	113,744	-16.6%
2013	176,397	55.1%
2014	193,171	9.5%
2015	222,874	15.4%
2016	\$239,805	7.6%
7 year average	\$179,467	
3 year average	\$218,617	

As shown in the table, revenues from charges for services have varied significantly between fiscal years. Yet, in no period of the last 9 years have revenues increase by more than 55% over the previous year. However, even if revenues from services see no growth from FY 2016 actual revenues and other revenues and expenses are as projected, the Montana Heritage Commission will have positive fund balances in FY 2017, FY 2018 and FY 2019.

Funding

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

Department of Commerce, 80-Montana Heritage Commission Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02102 Montana Heritage Commission	0	0	0	2,381,511	2,381,511	100.00 %
State Special Total	\$0	\$0	\$0	\$2,381,511	\$2,381,511	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$0	\$0	\$0	\$2,381,511	\$2,381,511	

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

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	1,146,298	1,146,298	2,292,596	96.27 %	
SWPL Adjustments	0	0	0	0.00 %	30,278	30,711	60,989	2.56 %	
PL Adjustments	0	0	0	0.00 %	14,601	13,325	27,926	1.17 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$1,191,177	\$1,190,334	\$2,381,511		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	24,627	0	24,627	0.00	0	25,498	0	25,498
DP 2 - Fixed Costs	0.00	0	10,227	0	10,227	0.00	0	8,290	0	8,290
DP 3 - Inflation Deflation	0.00	0	(4,576)	0	(4,576)	0.00	0	(3,077)	0	(3,077)
DP 8002 - MHC Administrative Costs Adjustments SA	0.00	0	14,601	0	14,601	0.00	0	13,325	0	13,325
Grand Total All Present Law Adjustments	0.00	\$0	\$44,879	\$0	\$44,879	0.00	\$0	\$44,036	\$0	\$44,036

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 8002 - MHC Administrative Costs Adjustments SA -

The executive requests an increase in state special revenue for indirect costs paid to the Director's Office.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Grants	1,100,000	1,000,000	(100,000)	(9.09)%
Total Expenditures	\$1,100,000	\$1,000,000	(\$100,000)	(9.09)%
Federal Spec. Rev. Funds	1,100,000	1,000,000	(100,000)	(9.09)%
Total Funds	\$1,100,000	\$1,000,000	(\$100,000)	(9.09)%
Total Ongoing	\$1,100,000	\$1,000,000	(\$100,000)	(9.09)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Director's Office provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. The office provides executive, administrative, legal, and policy direction along with offering problem-solving guidance. The office keeps abreast of department-related issues and acts in a public relations and informational capacity to ensure the public is informed of the important services provided by the department. The office works closely with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base. The office acts as the liaison with private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, other governmental agencies, and the Governor's Office.

The Montana Council on Developmental Disabilities (MCDD), which is administratively attached to the department, is a citizen based advocacy group. Its members, appointed by the Governor, work to provide increased independence, integration and productivity for persons with developmental disabilities.

Program Highlights

Director's Office Major Budget Highlights
The Director's Office 2019 biennium budget request is \$100,000 or 9.1% lower than the 2017 biennium. This requested change is to match anticipated available federal funds.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
Grants	434,367	550,000	550,000	500,000	500,000
Total Expenditures	\$434,367	\$550,000	\$550,000	\$500,000	\$500,000
Federal Spec. Rev. Funds	434,367	550,000	550,000	500,000	500,000
Total Funds	\$434,367	\$550,000	\$550,000	\$500,000	\$500,000
Total Ongoing	\$434,367	\$550,000	\$550,000	\$500,000	\$500,000
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

The federal Developmental Disabilities Assistance and Bill of Rights Act of 2000 requires each state to designate a state agency to administer the federal funds as long as the designated state agency does not provide or pay for services for individuals with developmental disabilities.

Since FY 2005 the department has had a contract with the Montana Council on Developmental Disabilities, a nonprofit corporation that carries out the responsibilities of the Developmental Disabilities Planning and Advisory Council (DDPAC). DDPAC still remains administratively attached to the department, with the agency acting as a go-between for disbursing federal funds to the nonprofit under the terms and conditions of the contract.

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The tables above only reflect the funding for DDPAC, which is the only portion of this program included in the appropriation section of HB 2. DDPAC expended 79.0% of its FY 2016 budget. This lower percentage expended was due to grants being lower than anticipated in the budget.

Executive Request

The program is requesting a decrease in grants for FY 2018 and FY 2019. This will be discussed in further detail in the Program Present Law section below.

Funding

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

Department of Commerce, 81-Directors Office Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03441 DDPAC - Dev Disabled Council	1,000,000	0	0	0	1,000,000	100.00 %
Federal Special Total	\$1,000,000	\$0	\$0	\$0	\$1,000,000	18.33 %
06542 Commerce Centralized Services	0	0	4,455,614	0	4,455,614	100.00 %
Proprietary Total	\$0	\$0	\$4,455,614	\$0	\$4,455,614	81.67 %
Total All Funds	\$1,000,000	\$0	\$4,455,614	\$0	\$5,455,614	

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

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

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	550,000	550,000	1,100,000	110.00 %
SWPL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	(50,000)	(50,000)	(100,000)	(10.00)%
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$500,000	\$500,000	\$1,000,000	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8101 - DO Federal Grants Adjustments	0.00	0	0	(50,000)	(50,000)	0.00	0	0	(50,000)	(50,000)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	(\$50,000)	(\$50,000)	0.00	\$0	\$0	(\$50,000)	(\$50,000)

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

DP 8101 - DO Federal Grants Adjustments -

The executive is requesting a decrease in federal special revenue in FY 2018 and FY 2019. This request is to adjust ongoing federal appropriations for grants received by the Director's Office to match estimated available federal funds for the 2019 biennium for the Montana Council on Developmental Disabilities.

Other Issues -

Proprietary Rates

Commerce Centralized Services – 06542

Program Proprietary Description

The Director's Office provides overall leadership, communication, and management support to Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. Services provided include accounting, budgeting, legal, human resources, information technology, and public relations. The Director's Office allocates charges to programs for the services used based on an indirect cost rate that is discussed in further detail below.

Expenses

The figure below shows the proposed expenditures for the Director's Office. Overall, the executive is proposing an increase total expenditures for the program.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 65010	Agency Name: Department of Commerce			Program Name: Directors Office			
	Fund 06542	Fund Name Commerce Centralized Services					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		1,616,871	1,617,375	1,718,418	1,785,872	2,093,323	2,079,502
Fee Revenue B		259	433	125	-	-	-
Total Operating Revenues		1,617,130	1,617,808	1,718,543	1,785,872	2,093,323	2,079,502
Expenses:							
Personal Services		1,526,464	1,652,537	1,772,514	1,915,025	1,921,812	1,929,397
Other Operating Expenses		270,618	306,116	312,269	302,153	302,166	302,239
Total Operating Expenses		1,797,082	1,958,653	2,084,783	2,217,178	2,223,978	2,231,636
Operating Income (Loss)		(179,952)	(340,845)	(366,240)	(431,306)	(130,655)	(152,134)
Nonoperating Revenues:							
Other Revenue A		334,973	284,882	269,227	302,365	302,365	302,365
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		334,973	284,882	269,227	302,365	302,365	302,365
Income (Loss) Before Contributions and Transfers		155,021	(55,963)	(97,013)	(128,941)	171,710	150,231
Transfers Out							
		-	(1,020)	(503)	-	-	-
Change in Net Position		155,021	(56,983)	(97,516)	(128,941)	171,710	150,231
Beginning Net Position - July 1		232,730	387,751	330,768	233,046	104,105	275,815
Prior Period Adjustments		-	-	(206)	-	-	-
Change in Net Position		155,021	(56,983)	(97,516)	(128,941)	171,710	150,231
Ending Net Position - June 30		387,751	330,768	233,046	104,105	275,815	426,046
Net Position (Fund Balance) Analysis							
Unrestricted Net Position		387,751	330,768	233,046	104,105	275,815	426,046

Revenues

The Director's Office is funded by revenues from charges allocated to divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated and legislatively approved indirect cost rates applied to actual personal services expenditures.

Proprietary Rates

The Director's Office calculates a federal indirect cost rate on an annual basis. This rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department.

The federally calculated rate requires that a carryforward amount be built into the rate. This carryforward represents the amount the Director's Office under-recovered or over-recovered in a given fiscal year. This computation compares what was originally calculated to what actually occurred. The difference is then carried forward into the following year's rate.

Figure 15

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Fee Description:				
State Programs				
Indirect Cost Rate	14.10%	14.10%	16.35%	16.35%
Federal Programs				
Indirect Cost Rate	14.10%	14.10%	16.35%	16.35%
Allocation Methodology: Indirect costs for the Director's Office are allocated to supported programs via a federally calculated indirect cost plan for federally funded programs, and a legislatively approved rate for state funded programs. Indirect cost rates are charged to supported programs based upon actual personal services expenditures.				
Authority: Federally calculated indirect cost plan for federally funded programs, and legislatively approved rate for state funded programs. The FY 2018 and FY 2019 federally approved rate is an estimated rate.				

5% Base Budget Reduction Form

[17-7-111-3\(f\)](#)

AGENCY CODE & NAME:

		Minimum Requirement	
		General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 167,127	\$ 177,260
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Reduce non-restricted and non-matched annual HB 2 general fund support in the Office of Tourism and Business Development in an across the board reduction of 6.207% in FY 2018 and 6.469% in FY 2019.	\$ 136,961	
2	Reduce non-restricted and non-matched annual HB 2 general fund support in the Community Development Division (CTAP) in an across the board reduction of 6.207% in FY 2018 and 6.469% in FY 2019.	\$ 30,166	
3	Reduce HB 2 private fund authority in the Office of Tourism and Business Development Division by \$177,260.		\$ 177,260
4			
5			
6			
7			
8			
9			
10			
11			
TOTAL SAVINGS		\$ 167,127	\$ 177,260
DIFFERENCE		0	0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

Reduce non-restricted and non-matched annual HB 2 general fund support in the Office of Tourism and Business Development in an across the board reduction of 6.207% in FY 2018 and 6.469% in FY 2019.

#2 THE SAVINGS THAT ARE EXPECTED:

An overall annual reduction of \$136,961 in general fund authority in HB 2 would be recognized, and reduce the amount of funds available for business development activities across the State.

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

All non-restricted and non-matched business development programs funded with general fund would be impacted in this across the board reduction.

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

Reduced business development activities will diminish economic development across the State.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

Reduce non-restricted and non-matched annual HB 2 general fund support in the Community Development Division (CTAP) in an across the board reduction of 6.207% in FY 2018 and 6.469% in FY 2019.

#2 THE SAVINGS THAT ARE EXPECTED:

An overall annual reduction of \$30,166 in general fund authority in HB 2 would be recognized, and reduce the amount of funds available for community technical assistance activities across the State.

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

Reduced community technical assistance activities.

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

Reduced efforts to provide advice and information technical assistance that encourage the planning and sustainable development of Montana communities. Customers include county and local governments, planning departments, private developers, non-profit organizations and the public.

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

No.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME:

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

The Department proposes to reduce the amount of HB 2 private funds authority for the Office of Tourism and Business Development Division by \$177,260.

#2 THE SAVINGS THAT ARE EXPECTED:

An overall annual reduction of \$177,260 in SSR authority in HB 2 would be recognized, and reduce the amount of funds from private organizations that could be used in cooperative marketing efforts.

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

Reduced cooperative marketing efforts.

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

Reduced cooperative marketing efforts would translate into less exposure of MT as a tourist destination.

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

No.

Form B

FY 2017 Fund Appropriation Transactions - Department of Commerce							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
51 Montana Office Of Tourism And Business Development							
01100 General Fund	\$2,732,116	\$61,770	(\$99,000)		\$2,694,886	-1.4%	-1.4 %
02090 Business Asst-Private	88,575			45	88,620	0.1%	0.1 %
02154 MT Promotion-Private			750,000		750,000	100.0%	100.0 %
02210 Microbusiness Admin Acct	130,760	4,135			134,895	3.2%	3.2 %
02212 Microbusiness Loan Acct	536,105			(9,000)	527,105	-1.7%	-1.7 %
02258 Employment Security Account	1,280,000			(1,280,000)	0	-100.0%	-100.0 %
02344 Primary Sector Training				1,280,000	1,280,000	100.0%	100.0 %
02444 BEAR Program				9,000	9,000	100.0%	100.0 %
02563 NDC Training Program	45			(45)	0	-100.0%	-100.0 %
02848 SBDC Private Revenue NonFed	5,005				5,005	0.0%	0.0 %
03059 Community Development Block	2,656,219	8,220	(2,689,446)	25,007	0	-100.0%	-100.0 %
03061 EDA Revolving Loan Fund	473,830		(473,830)		0	-100.0%	-100.0 %
03207 Small Business Dev. Centers	759,554	8,220			767,774	1.1%	1.1 %
03233 SBDC/EPSCoR	25,007				25,007	0.0%	0.0 %
03932 CDBG RLF	308,628		(283,621)	(25,007)	0	-100.0%	-100.0 %
Program Total	8,995,844	82,345	(2,795,897)	0	6,282,292	-30.2%	-30.2 %
52 Montana Promotion Division							
02116 Accommodation Tax Account	477			(477)	0	-100.0%	-100.0 %
02154 MT Promotion-Private	749,523		(750,000)	477	0	-100.0%	-100.0 %
Program Total	750,000		(750,000)	0	0	-100.0%	-100.0 %
60 Community Development Division							
01100 General Fund	765,017	22,874	99,000		886,891	15.9%	15.9 %
02049 Hard Rock Mining	203,579	4,666		16,542	224,787	10.4%	10.4 %
02210 Microbusiness Admin Acct	69,347			(69,347)	0	-100.0%	-100.0 %
02218 School Facility & Tech Account	384,271	13,997		17,083	415,351	8.1%	8.1 %
02270 Treasure State Endowment	602,096	20,710		35,722	658,528	9.4%	9.4 %
02445 Coal Board	0	2,695,282			2,695,282	100.0%	100.0 %
03059 Community Development Block	6,059,883	8,921	2,689,446	(1,633,773)	7,124,477	17.6%	17.6 %
03061 EDA Revolving Loan Fund			473,830		473,830	100.0%	100.0 %
03300 Home Grants	6,670,677	16,625		1,633,773	8,321,075	24.7%	24.7 %
03932 CDBG RLF			283,621		283,621	100.0%	100.0 %
Program Total	14,754,870	2,783,075	3,545,897	0	21,083,842	42.9%	42.9 %
74 Housing Division							
02575 Mobile Home Revolving Loan Fun	150,000				150,000	0.0%	0.0 %
03110 HUD Comprehensive Counseling	274,933				274,933	0.0%	0.0 %
03144 Shelter Plus Care-HUD	375,000				375,000	0.0%	0.0 %
03282 EMERGENCY HOMEOWNERS LOA	250,000			1,303	251,303	0.5%	0.5 %
03300 Home Grants	1,303			(1,303)	0	-100.0%	-100.0 %
03945 BOH FORCLOSURE MITIGATION	275,000				275,000	0.0%	0.0 %
Program Total	1,326,236			0	1,326,236	0.0%	0.0 %
78 Board Of Horse Racing							
02029 Board of Horse Racing	181,817	3,811			185,628	2.1%	2.1 %
Program Total	181,817	3,811			185,628	2.1%	2.1 %
81 Management Services Division							
03441 DDPAC - Dev Disabled Council	550,000				550,000	0.0%	0.0 %
Program Total	550,000				550,000	0.0%	0.0 %
Grand Total	\$26,558,767	\$2,869,231	\$0	\$0	\$29,427,998	10.8%	10.8%

FY 2017 Fund Appropriation Transactions - Department of Commerce							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislativ e Approp	% Change from Approp + Allocations
01100 General Fund	\$3,497,133	\$84,644	\$0		\$3,581,777	2.4%	0.0%
02029 Board of Horse Racing	181,817	3,811			185,628	2.1%	0.0%
02049 Hard Rock Mining	203,579	4,666		16,542	224,787	10.4%	7.9%
02090 Business Asst-Private	88,575			45	88,620	0.1%	0.1%
02116 Accommodation Tax Account	477			(477)	0	-100.0%	-100.0%
02154 MT Promotion-Private	749,523		0	477	750,000	0.1%	0.1%
02210 Microbusiness Admin Acct	200,107	4,135		(69,347)	134,895	-32.6%	-34.0%
02212 Microbusiness Loan Acct	536,105			(9,000)	527,105	-1.7%	-1.7%
02218 School Facility & Tech Account	384,271	13,997		17,083	415,351	8.1%	4.3%
02258 Employment Security Account	1,280,000			(1,280,000)	0	-100.0%	-100.0%
02270 Treasure State Endowment	602,096	20,710		35,722	658,528	9.4%	5.7%
02344 Primary Sector Training				1,280,000	1,280,000	100.0%	100.0%
02444 BEAR Program				9,000	9,000	100.0%	100.0%
02445 Coal Board	0	2,695,282			2,695,282	100.0%	0.0%
02563 NDC Training Program	45			(45)	0	-100.0%	-100.0%
02575 Mobile Home Revolving Loan Fun	150,000				150,000	0.0%	0.0%
02848 SBDC Private Revenue NonFed	5,005				5,005	0.0%	0.0%
03059 Community Development Block	8,716,102	17,141	0	(1,608,766)	7,124,477	-18.3%	-18.4%
03061 EDA Revolving Loan Fund	473,830		0		473,830	0.0%	0.0%
03110 HUD Comprehensive Counseling	274,933				274,933	0.0%	0.0%
03144 Shelter Plus Care-HUD	375,000				375,000	0.0%	0.0%
03207 Small Business Dev. Centers	759,554	8,220			767,774	1.1%	0.0%
03233 SBDC/EPSCoR	25,007				25,007	0.0%	0.0%
03282 EMERGENCY HOMEOWNERS LI	250,000			1,303	251,303	0.5%	0.5%
03300 Home Grants	6,671,980	16,625		1,632,470	8,321,075	24.7%	24.4%
03441 DDPAC - Dev Disabled Council	550,000				550,000	0.0%	0.0%
03932 CDBG RLF	308,628		0	(25,007)	283,621	-8.1%	-8.1%
03945 BOH FORCLOSURE MITIGATION	275,000				275,000	0.0%	0.0%
Grand Total	\$26,558,767	\$2,869,231	\$0	\$0	\$29,427,998	10.8%	0.0%

2019 BIENNIUM BASE BUDGET

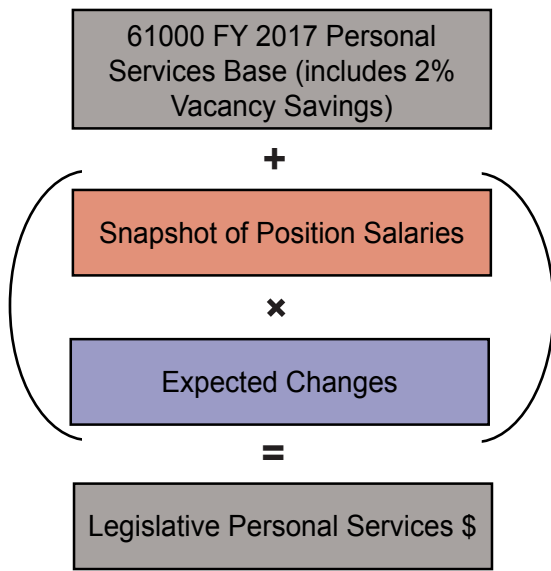
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

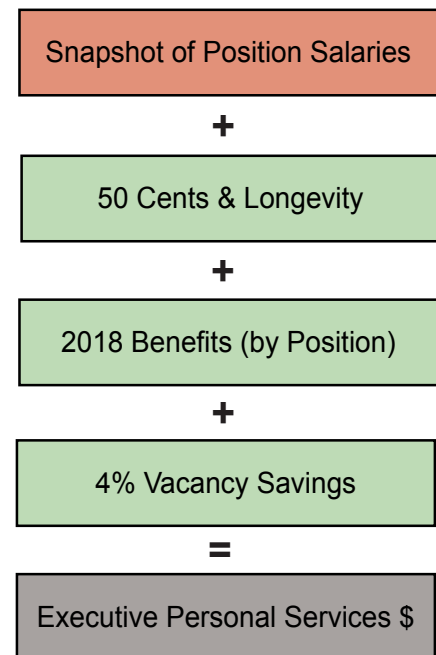
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

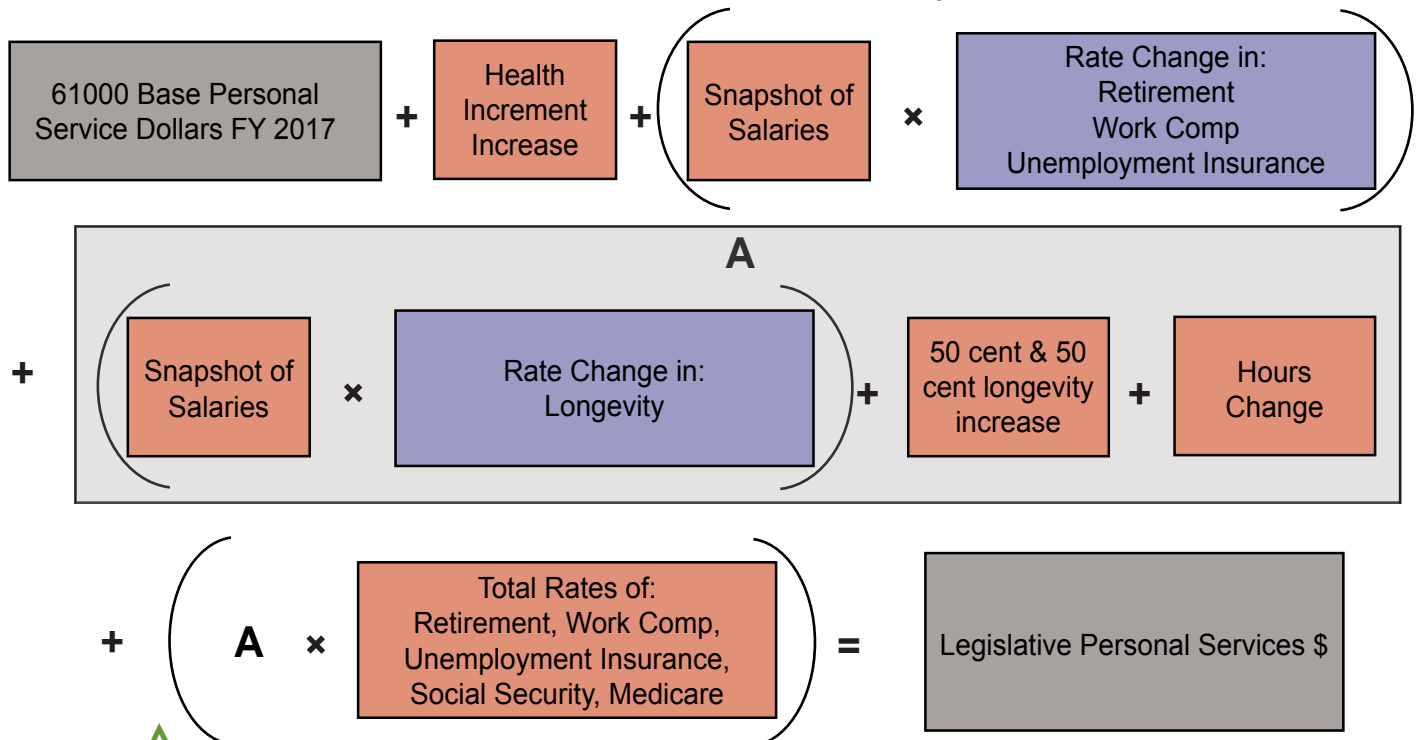
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



DEPARTMENT OF LABOR AND INDUSTRY

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016

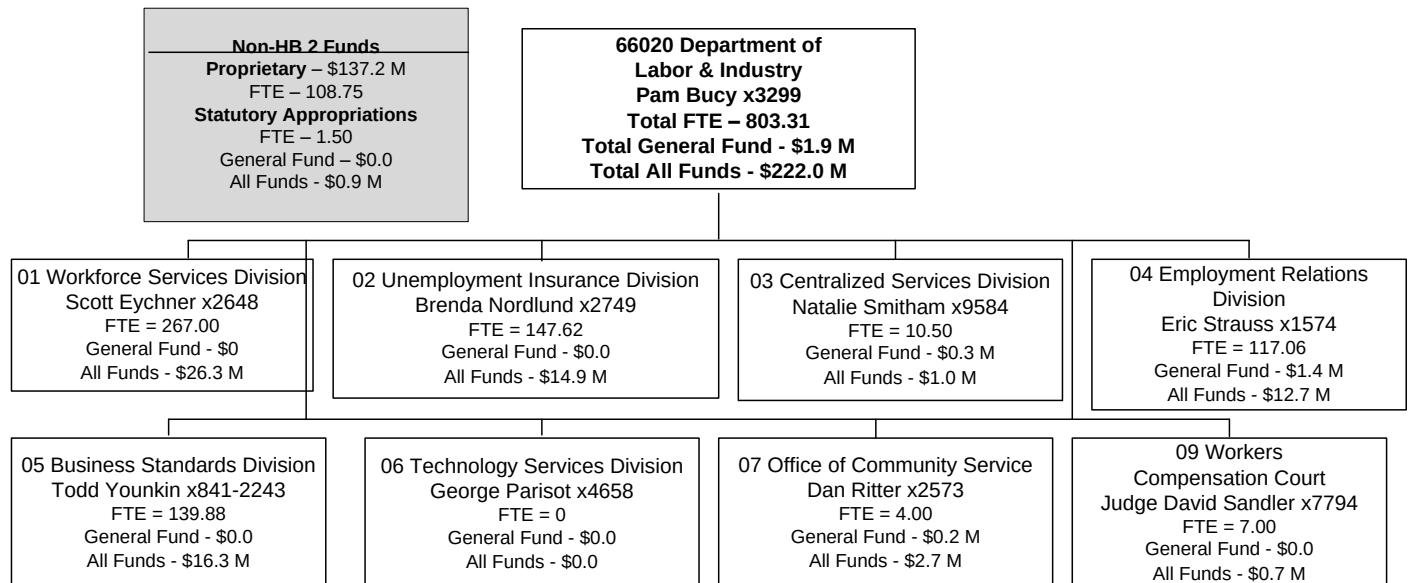


INTRODUCTION

The mission of the Department of Labor and Industry (DOLI) is to promote the well-being of Montana's workers, employers, and citizens, and to uphold their rights and responsibilities. DOLI has a number of functions, which in part include:

- Serving as an employment agency, providing job training to assist individuals in preparing for and finding jobs, and assisting employers in finding workers
- Overseeing federal and state training and apprenticeship programs
- Conducting research, collecting employment statistics and collecting, analyzing and providing workforce and career information
- Administering the unemployment insurance program and disbursing state unemployment benefits
- Enforcing state and federal labor standards, anti-discrimination laws, and state and federal safety-occupational health laws
- Providing adjudicative services in labor-management disputes
- Licensing, inspecting, testing, and certifying all weighing or measuring devices used in making commercial transactions in the State of Montana
- Providing administrative and clerical services to professional boards and occupational licensing programs authorized by state statutes
- Establishing and enforcing minimum building codes
- Administering the federal AmeriCorps, Campus Corps, and Volunteer Montana programs through the Office of Community Services
- Overseeing and regulating the Montana Workers' Compensation system

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



HOW SERVICES ARE PROVIDED

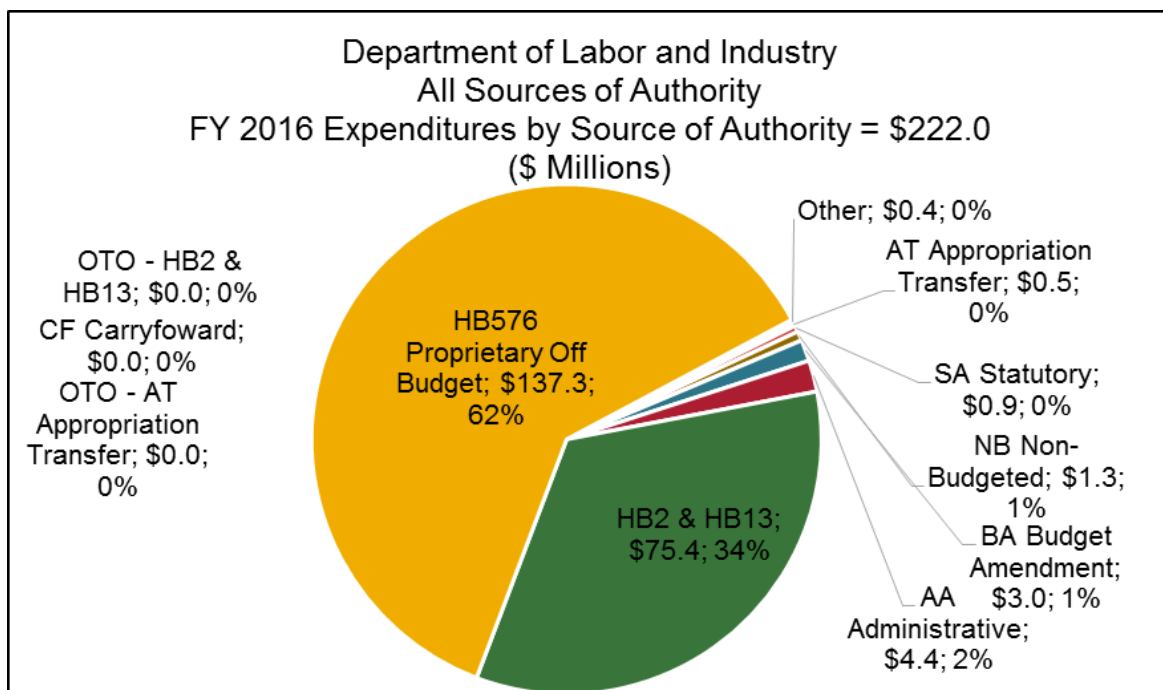
The Department of Labor and Industry:

- Provides both federal- and state-funded employment and training programs
- Administers state unemployment insurance law and related federal programs through which benefits are paid, responds to inquiries concerning claims, collects employer contributions, and adjudicates disputed benefit claims

- Hears appeals concerning the administration of Montana unemployment insurance law and employer/employee relationships (Board of Labor Appeals)
- Regulates workers' compensation insurance requirements, administers the contractor registration and independent contractor exemptions functions, assists with settlements of disputed workers' compensation claims, enforces state and federal labor laws related to payment of wages, conducts mediation of collective bargaining contracts, hears disputes regarding both labor relations and wage and hour issues, enforces state and federal industrial safety laws, and investigates and resolves complaints of illegal discrimination
- Establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator, and boiler codes
- Licenses and regulates persons and businesses engaged in specific professions and occupations
- Licenses, inspects, tests, and certifies all weighing and measuring devices used in commercial transactions

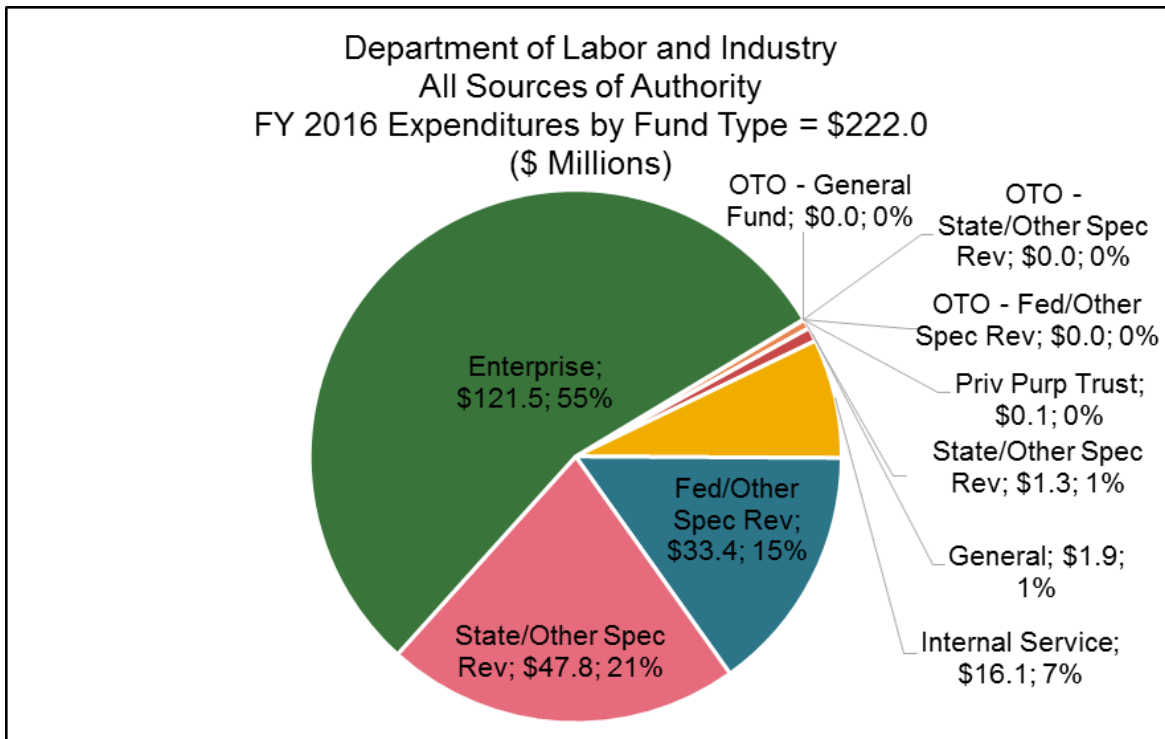
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Department of Labor and Industry that were expended in FY 2016. DOLI receives nearly all of its spending authority from proprietary funds, HB 2 and the pay plan.

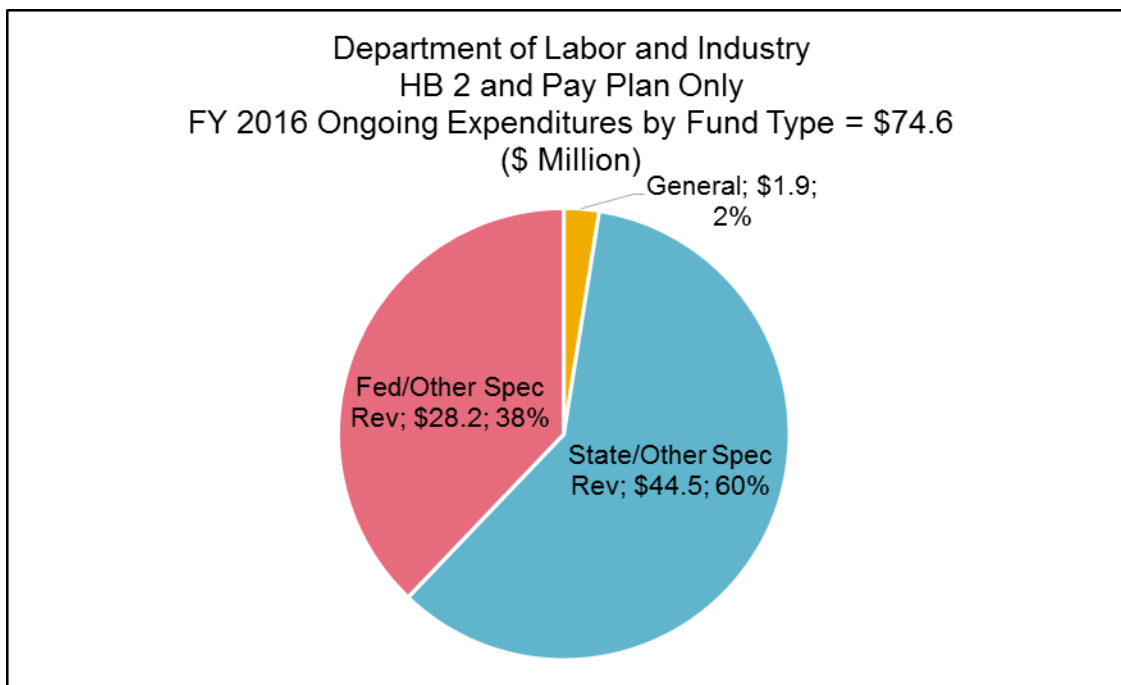


FUNDING

The Department of Labor and Industry is predominately funded with enterprise, state special revenue, and federal special revenue funds. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

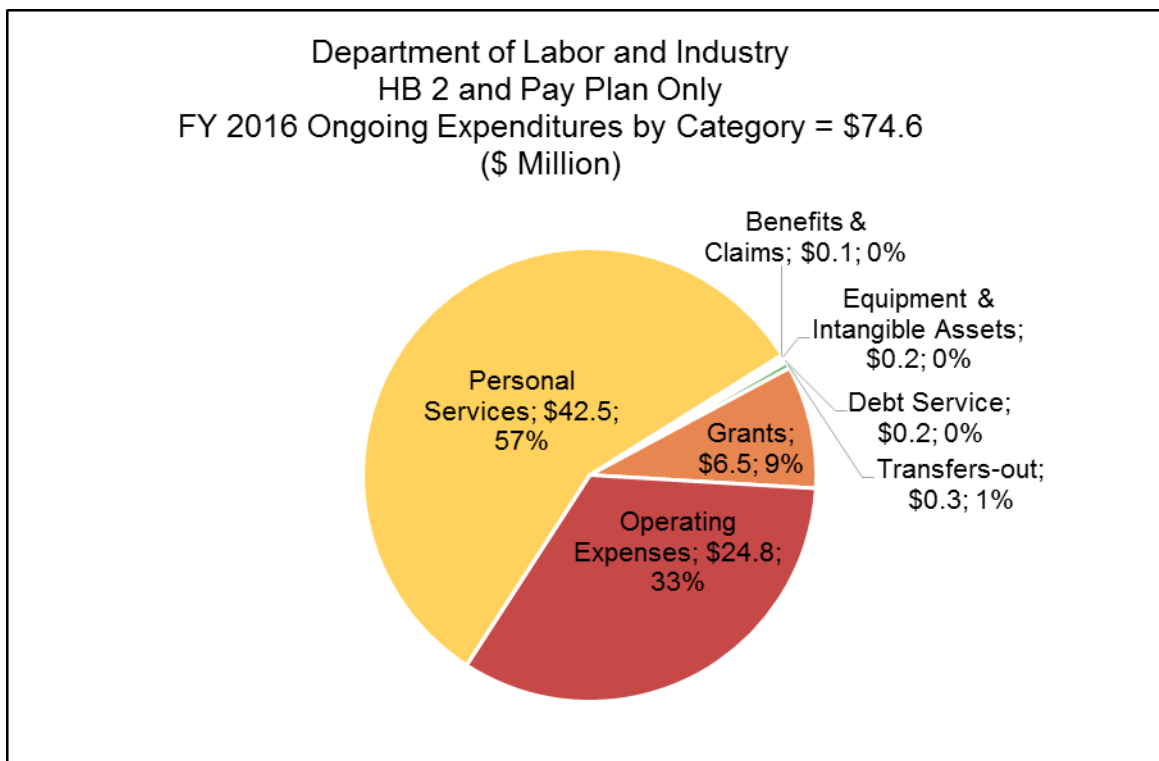


The chart below shows DOLI's HB 2 and pay plan expenditures by fund type which primarily consists of state special and federal special revenues.



EXPENDITURES

The chart below explains how HB2 and pay plan authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

- Workplace safety regulations – although there is a body of federal regulation that governs workplace safety (e.g., OSHA), state government also has the opportunity to regulate workplace conditions and determine how those regulations will be enforced. Addressing the definitions of workplace regulations as well as the frequency and manner that regulations are enforced and defining the remedies and sanctions related to violations may influence activity of the Department of Labor and Industry. All of these affect the DOLI's work in this area, including hearings activity.
- Human/civil rights protections – addressing the regulations, protections, and remedies or sanctions in this area may change DOLI activity. There are rights and protections that are a matter of federal regulation, but state regulations may provide broader coverage than the federal regulations.
- Unemployment benefit eligibility and employer taxation – while much of the unemployment benefits system is driven by federal regulation (U.S. Department of Labor), each state has the authority to define the eligibility criteria for benefits, the benefit levels for eligible recipients, and the tax schedule that employers use in contributing to the unemployment insurance trust fund. Therefore, addressing the definitions of eligibility, benefit levels and tax schedules can change DOLI activity.
- Building codes/weights and measures – the regulations that govern building codes as well as weights and measures include a body of state statute that defines both the standards as well as the frequency and content of inspections and enforcement. Each of these definitions can be addressed in order to change department activity in this area.
- Number of professional/occupational licensing boards – presently DOLI provides administrative support for licensing boards and programs. The regulations that govern these boards and programs, as well as the potential for additional areas to regulate, are a function of how the state defines its responsibilities in this area. DOLI activity may be addressed through these definitions and through decisions regarding the number professions/occupations the state regulates and oversees.

- Accessibility of job service programs – in order to deliver employment agency and job training programs to dislocated workers and employers, DOLI operates Job Service centers across Montana. Addressing either the number of centers in operation and/or the level of program offered at each center may change DOLI activity in this area.

MAJOR COST DRIVERS

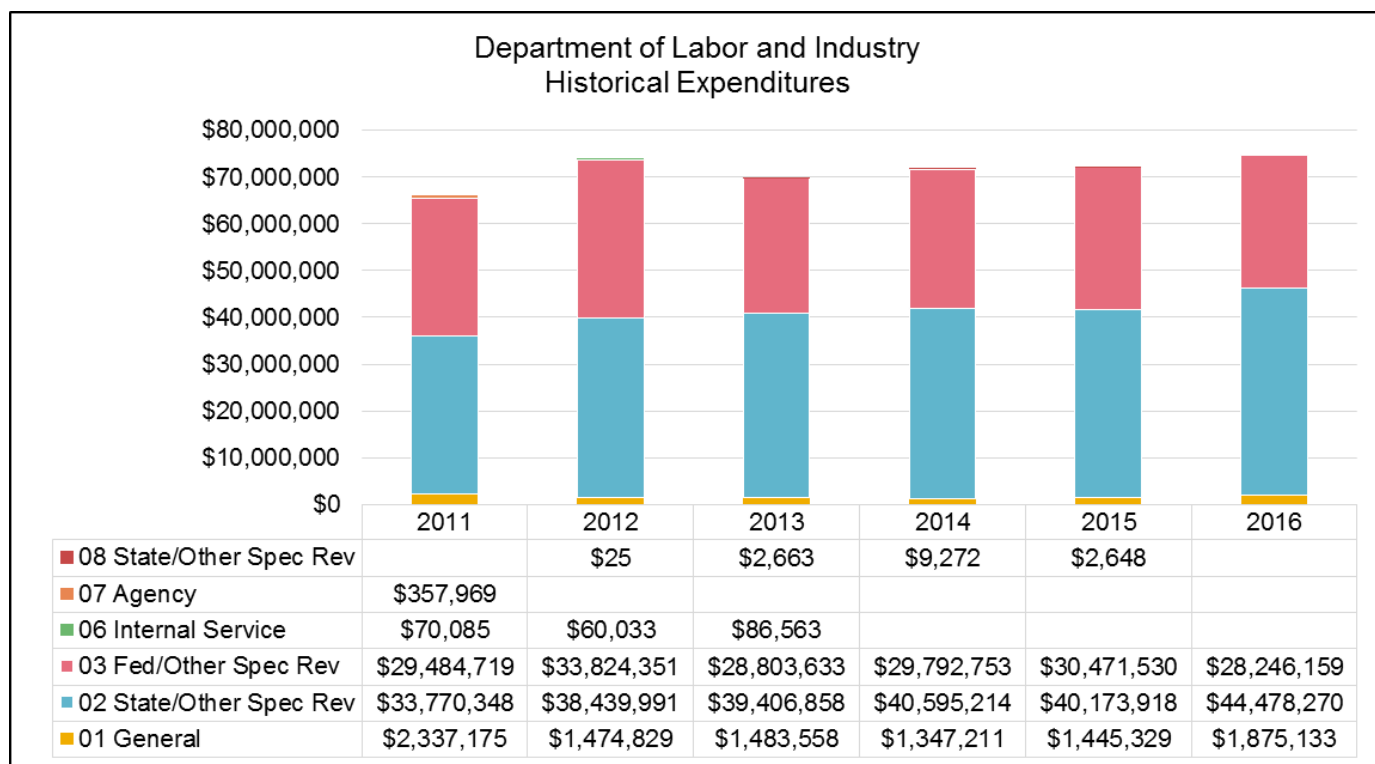
Activity for the Department of Labor and Industry varies depending upon:

- Level of unemployment within Montana
- Number of Montanans seeking employment
- Number of licensed businesses and professions
- Number of injured workers in Montana
- Number of workers' compensation court trials

Element	FY 2014	FY 2016	Significance of Data
Montana unemployment rate	5.20%	4.10%	Influences job service programs and unemployment benefits administration
Unemployment benefits paid	\$135.0 million	\$119.2 million	Indicates demand for benefits administration
Workers receiving training	2,235	2,338	Indicates demand for job services programs
Total number of jobseekers	120,222	100,666	Indicates demand for job services programs
Workers' compensation claims filed	25,448	24,598	Indicates demand for services
Weights and measures inspections	19,530	17,434	Indicates demand for services
Licensed devices	23,888	24,024	Indicates demand for services
Building inspections	51,810	52,631	Indicates demand for services and workload over time
Number of professional and occupations licensing boards	33	33	Indicates demand for services and workload over time
Number of AmeriCorps members	345	404	Indicates demand for program and changes to workload
Workers' Compensation Court trials, hearing, and reported conferences	76	53	Indicates demand for services and insight into changes to workers' compensation claims and regulations

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's funding and expenditures.



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2015 Legislature
 - The Legislature revised the fund structure and budgetary process for the Board of Accountants. An enterprise fund was established and statutorily appropriated for use by the board rather than the state special revenue account.
 - The Legislature increased the percentage that may be assessed against workers' compensation insurers for the administration of the workers' compensation act and created a new assessment for administering occupational safety and health laws.
- 2013 Legislature
 - The Legislature enacted numerous revisions to the workers' compensation laws in Montana. An appropriation of \$851,000 state special revenue for the costs associated with implementing these changes was made in HB 2 and included an addition of 1.50 FTE.
- 2009 Legislature
 - The Legislature appropriated funds received by the state from the federal government under the American Recovery and Reinvestment Act (ARRA) of 2009. The Department of Labor and Industry was provided \$15.3 million in federal fund spending authority for worker and community benefit programs including worker training programs, special assistance to workers displaced by trade activities, re-employment services, job search assistance, funding for community service programs, and funding for the modernization and administration of the Unemployment Insurance Program.
 - The Legislature codified the Incumbent Worker Training Program at the Department of Labor and Industry.
 - The Legislature revised the Workers' Compensation Act regarding independent contractor laws which included the ongoing process of scanning and indexing all documents.

- The Legislature revised the Workers' Compensation Act on exemptions, claims examiners, and safety funding and required the establishment of a program to certify, maintain documentation, and approve training for claims examiners.
- The Legislature provided for substitution of the Workers' Compensation Court judge in the event of a recusal by the Workers' Compensation judge.
- 2007 Legislature
 - The Legislature reduced the state unemployment tax and increased the employer security account tax. The state unemployment tax rate schedules were reduced by .25%, lowering the average tax rate from 1.37% to 1.12%. The bill increased the employer security account tax rates by 0.05% for experience rated private employers, 0.04% for governmental experience rated employers, and 0.03% for reimbursable employers to generate additional revenues to be used for administration of the unemployment insurance program.
 - The Legislature required at least one representative to be a military veteran in the membership of the State Workforce Investment Board.
- 2005 Legislature
 - The Legislature revised the requirements for certification of independent contractors. The legislature appropriated \$1.6 million and added 6.00 FTE in HB 2 in the Employment Relations Division.

For more information on the agency, please visit their website, here: <http://dli.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	97,089,361	95,096,714	(1,992,647)	(2.05)%
Operating Expenses	54,823,941	53,772,597	(1,051,344)	(1.92)%
Equipment & Intangible Assets	599,418	686,623	87,205	14.55 %
Grants	16,489,740	17,535,584	1,045,844	6.34 %
Benefits & Claims	200,778	200,778	0	0.00 %
Transfers	661,760	623,966	(37,794)	(5.71)%
Debt Service	519,821	495,458	(24,363)	(4.69)%
Total Expenditures	\$170,384,819	\$168,411,720	(\$1,973,099)	(1.16)%
General Fund	3,816,043	3,645,177	(170,866)	(4.48)%
State/Other Special Rev. Funds	98,533,206	98,862,854	329,648	0.33 %
Federal Spec. Rev. Funds	68,035,570	65,903,689	(2,131,881)	(3.13)%
Total Funds	\$170,384,819	\$168,411,720	(\$1,973,099)	(1.16)%
Total Ongoing	\$169,484,151	\$168,311,720	(\$1,172,431)	(0.69)%
Total OTO	\$900,668	\$100,000	(\$800,668)	(88.90)%

Mission Statement

The purpose of the Department of Labor and Industry is to promote and protect the well-being of Montana's workers, employers, and citizens, and to uphold their rights and responsibilities. The department is divided into six divisions:

- Workforce Services;
- Unemployment Insurance;
- Commissioner's Office/Centralized Services;
- Employment Relations;
- Business Standards; and
- Technology Services Division.

The Office of Community Services, Workers' Compensation Court, and three additional boards are administratively attached.

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/6602-00agency-profile.pdf.

Agency Highlights

**Department of Labor and Industry
Major Budget Highlights**

- The Department of Labor and Industry 2019 biennium budget request is approximately \$2.0 million or 1.2% lower than the 2017 biennium. Significant changes include:
 - Proposed funding switches from federal special revenue to state special revenue due to anticipated declining federal funding.
 - Proposed state special revenue funding for the Industry Driven Workforce Development Partnership, Jobs for Montana Graduates program, and the Montana Career Information System due to federal grant funding ending.
 - Proposed decreases to state special revenue for the Board of Public Accountants due to a switch to proprietary funding.
 - Proposed increases in federal special revenue for additional AmeriCorps federal grant funding.
 - Proposed decreases in general fund due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	693.06	693.06	693.06	692.06	692.06
Personal Services	42,507,162	47,621,129	49,468,232	47,475,532	47,621,182
Operating Expenses	24,767,905	27,384,385	27,439,556	26,858,172	26,914,425
Equipment & Intangible Assets	192,889	286,844	312,574	377,099	309,524
Grants	6,544,867	8,132,451	8,357,289	8,767,792	8,767,792
Benefits & Claims	70,012	100,389	100,389	100,389	100,389
Transfers	332,289	349,777	311,983	311,983	311,983
Debt Service	197,443	270,698	249,123	247,729	247,729
Total Expenditures	\$74,612,567	\$84,145,673	\$86,239,146	\$84,138,696	\$84,273,024
General Fund	1,875,133	1,875,267	1,940,776	1,821,041	1,824,136
State/Other Special Rev. Funds	44,480,497	48,594,273	49,938,933	49,251,497	49,611,357
Federal Spec. Rev. Funds	28,256,937	33,676,133	34,359,437	33,066,158	32,837,531
Total Funds	\$74,612,567	\$84,145,673	\$86,239,146	\$84,138,696	\$84,273,024
Total Ongoing	\$74,597,867	\$83,695,339	\$85,788,812	\$84,088,696	\$84,223,024
Total OTO	\$14,700	\$450,334	\$450,334	\$50,000	\$50,000

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The FY 2016 budget of \$84.1 million for the Department of Labor and Industry, which primarily consists of state special revenues and federal special revenues, was 88.7% expended through the end of the fiscal year. Personal services were 89.3% expended. This lower percentage expended was primarily due to a decline in federal grants, employee turnover and vacant positions. Operating expenses were 90.4% expended and grants were 80.5% expended. These lower percentages expended were primarily due to the department receiving less federal funding than anticipated.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is primarily in personal services and due to the allocation of the pay plan.

Executive Request

Overall, the executive is requesting a decrease in FY 2018 and FY 2019. These adjustments will be discussed in further detail at the program level.

**LFD
COMMENT**

The Legislative Audit Division conducted a performance audit of the Licensing Real Estate Professionals in January 2016. The audit found:

1. DLI conducts compliance checks on 100% of licensees for the Board of Realty Regulation, which is time consuming and costly, but in 2014 only conducted compliance checks on three percent of licensees, which can expose DLI to legal risks. DLI needs to define their compliance protocol.

The Legislative Auditor recommends the Board of Realty Regulation:

1. Revise the continuing education self-certification question on renewal applications,
2. Define a continuing education audit protocol, and
3. Eliminate the requirement for course providers to upload course roster information.

Additional information on the audit can be found at: <http://leg.mt.gov/content/Publications/Audit/Summary/15P-01-summary.pdf>

The Legislative Audit Division conducted a performance audit of the Regulation of Independent Contractors in May 2016. The audit found:

1. DLI should improve its access to income tax information maintained by the Montana Department of Revenue, as a tool to better identify potential employee misclassification.

The Legislative Auditor recommends the Department of Labor and Industry:

1. Revise and maintain its memorandum of understanding with the Department of Revenue to provide access to relevant state-collected tax data,
2. Identify and implement processes to integrate tax data in analysis of issues relating to the misclassification of employees as independent contractors, and
3. Review its participation in the Questionable Employment Tax Practices program.

Additional information on the audit can be found at: <http://leg.mt.gov/content/Publications/Audit/Summary/15P-02-summary.pdf>

The Legislative Audit Division conducted a information technology audit of STAARS in September 2016. The audit found:

1. Increasing controls over certain areas of STAARS functionality would improve accuracy of tax rates and associated revenues and ensure collections are maximized, and
2. Lack of data validations increases the risk for fraud or errors that could affect unemployment insurance tax revenues.

The Legislative Auditor recommends the Department of Labor and Industry:

1. Increase systematic and manual controls related to NAICS code, custom interest rates, payment agreement abatements, and tax rate changes, and
2. Increase validation and processes concerning invalid and incorrect SSNs, blank last names, and NAICS codes used in rating, and
3. Document these validations and the procedures used to remediate any identified errors.

Additional information on the audit can be found at: <http://leg.mt.gov/content/Publications/Audit/Report/16DP-01.pdf>

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Department of Labor and Industry								
	Leg	Approp	Allocations	Program	OP	Other	2017 Base	% Change % Change from from Legislative Approp + Approp Allocations
01 Workforce Services Div								
Personal Services	\$16,148,622	\$1,217,033	\$8,000	(\$63,797)	\$487,654	\$17,797,512	10.2%	2.5%
Operating Expenses	6,232,313		(94,000)	(3,142)	232,036	6,367,207	2.2%	2.2%
Equipment & Intangible Assets	12,908					12,908	0.0%	0.0%
Grants	5,517,770				180,000	5,697,770	3.3%	3.3%
Transfers-out	45,114					45,114	0.0%	0.0%
Debt Service	155,587					155,587	0.0%	0.0%
Program Total	28,112,314	1,217,033	(86,000)	(66,939)	899,690	30,076,098	7.0%	2.5%
02 Unemployment Insurance Div								
Personal Services	8,749,798	1,409,003	(22,984)			10,135,817	15.8%	-0.2%
Operating Expenses	6,511,138		64,710			6,575,848	1.0%	1.0%
Debt Service	29,905					29,905	0.0%	0.0%
Program Total	15,290,841	1,409,003	41,726			16,741,570	9.5%	0.2%
03 Commissioner'S Office/Csd								
Personal Services	753,606	72,665	14,984	63,797		905,052	20.1%	9.5%
Operating Expenses	300,517		29,290	3,142		332,949	10.8%	10.8%
Debt Service	1,194					1,194	0.0%	0.0%
Program Total	1,055,317	72,665	44,274	66,939		1,239,195	17.4%	9.9%
04 Employment Relations Division								
Personal Services	8,897,268	541,940				9,439,208	6.1%	0.0%
Operating Expenses	4,900,342	240,000		(17,089)		5,123,253	4.5%	-0.3%
Equipment & Intangible Assets	10,941					10,941	0.0%	0.0%
Benefits & Claims	100,389					100,389	0.0%	0.0%
Debt Service				17,089		17,089	100.0%	100.0%
Program Total	13,908,940	781,940				14,690,880	5.6%	0.0%
05 Business Standards Division								
Personal Services	9,521,750	637,122				10,158,872	6.7%	0.0%
Operating Expenses	8,373,889					8,373,889	0.0%	0.0%
Equipment & Intangible Assets	288,725					288,725	0.0%	0.0%
Grants	5,000					5,000	0.0%	0.0%
Transfers-out	34,869					34,869	0.0%	0.0%
Debt Service	42,081					42,081	0.0%	0.0%

Program Total	18,266,314	637,122	-	18,903,436	3.5%	0.0%
07 Office Of Community Services						
Personal Services	298,237	13,351		311,588	4.5%	0.0%
Operating Expenses	177,291		(952)	176,339	-0.5%	-0.5%
Grants	2,886,519		(232,000)	2,654,519	-8.0%	-8.0%
Transfers-out			232,000	232,000	100.0%	100.0%
Debt Service			952	952	100.0%	100.0%
Program Total	3,362,047	13,351	-	3,375,398	0.4%	0.0%
09 Workers Compensation Court						
Personal Services	560,822	49,527		610,349	8.8%	0.0%
Operating Expenses	149,571		-	149,571	0.0%	0.0%
Debt Service	2,315			2,315	0.0%	0.0%
Program Total	712,708	49,527	-	762,235	6.9%	0.0%
Grand Total	\$80,708,481	\$4,180,641	-	\$899,690	\$85,788,812	6.3% 1.1%
Leg Approp = Legislative Appropriation						
Allocations = include Contingency Base & Pay Plan						
OP = Operating Plan Changes						

Significant budget changes adopted by the executive include:

- The department receiving \$2.3 million for the pay plan and \$1.6 million in personal services base contingency funding.
- The department transferring a portion of the Health and Economic Livelihood Partnership (HELP) Act appropriation. The department transferred \$899,690 from FY 2016 to FY 2017 to better align the \$1.76 million biennial appropriation into the fiscal year it will be expended.

Funding

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

Total Department of Labor and Industry Funding by Source of Authority 2019 Biennium Budget Request - Department of Labor and Industry							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	3,645,177	0	0	0	3,645,177	0.76 %	
State Special Total	98,844,658	18,196	0	1,581,282	100,444,136	21.06 %	
Federal Special Total	65,821,885	81,804	0	0	65,903,689	13.82 %	
Proprietary Total	0	0	306,365,010	639,234	307,004,244	64.36 %	
Other Total	0	0	0	0	0	0.00 %	
Total All Funds	\$168,311,720	\$100,000	\$306,365,010	\$2,220,516	\$476,997,246		
Percent - Total All Sources	35.29 %	0.02 %	64.23 %	0.47 %			

Proprietary funding is 64.2% of all funding for the department. Of this, approximately 87.0% is non-budgeted proprietary funding for unemployment benefits. State special revenue funds include the employment security account, accounts for professional licensing board or program, and the uninsured employers fund. General fund supports activities within the

Commissioner's Office and Centralized Services Division, Employment Relations Division, and the Office of Community Services.

Budget Summary by Category

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

Budget Summary by Category								
	-----General Fund-----				-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,940,776	1,940,776	3,881,552	106.48 %	85,788,812	85,788,812	171,577,624	101.88 %
SWPL Adjustments	(25,978)	(22,883)	(48,861)	(1.34)%	(2,215,969)	(2,054,066)	(4,270,035)	(2.54)%
PL Adjustments	0	0	0	0.00 %	240,596	213,021	453,617	0.27 %
New Proposals	(93,757)	(93,757)	(187,514)	(5.14)%	325,257	325,257	650,514	0.39 %
Total Budget	\$1,821,041	\$1,824,136	\$3,645,177		\$84,138,696	\$84,273,024	\$168,411,720	

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	35,093,501	35,290,982	197,481	0.56 %
Operating Expenses	13,721,292	12,994,944	(726,348)	(5.29)%
Equipment & Intangible Assets	15,676	25,816	10,140	64.68 %
Grants	11,170,705	11,395,540	224,835	2.01 %
Transfers	90,050	90,228	178	0.20 %
Debt Service	342,473	311,174	(31,299)	(9.14)%
Total Expenditures	\$60,433,697	\$60,108,684	(\$325,013)	(0.54)%
State/Other Special Rev. Funds	24,293,997	25,108,520	814,523	3.35 %
Federal Spec. Rev. Funds	36,139,700	35,000,164	(1,139,536)	(3.15)%
Total Funds	\$60,433,697	\$60,108,684	(\$325,013)	(0.54)%
Total Ongoing	\$60,433,697	\$60,108,684	(\$325,013)	(0.54)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Workforce Services Division (WSD) is a gateway to government services that includes retraining and reemployment services for laid-off workers and employment and training services for people transitioning from welfare to work, as well as for youth, veterans, seasonal/migrant farm workers, and general job seekers.

WSD operates through four bureaus:

- The Job Service Operations Bureau coordinates and guides the delivery of workforce development services to communities through a network of 24 Job Service Centers across the state.
- The Strategic Initiatives and Workforce Programs Bureau performs oversight, regulatory, registration, and support functions statewide for both state and federal programs such as the State Displaced Homemaker Program, Workforce Innovation and Opportunity Act (WIOA), Apprenticeship and Training, and Jobs for Montana Graduates.
- The Research and Analysis Bureau works in partnership with the U.S. Department of Labor to provide labor market information that is used at the national and state level by businesses, policy makers, and educators. The bureau also provides k-adult career resources for use by educators, students, workforce development agencies, and job seekers.
- The Division Management Services Bureau provides support functions for the entire division including fiscal, federal reporting, and policy services.

Also housed within WSD are the Incumbent Worker Training Program and State Workforce Innovation Board (SWIB).

Program Highlights

**Workforce Services Division
Major Budget Highlights**

- The Workforce Services Division 2019 biennium budget request is approximately \$325,000 or 0.5% lower than the 2017 biennium. Significant changes include:
 - Proposed increases in state special revenue for the Industry Driven Workforce Development Partnership, Jobs for Montana Graduates program, and Montana Career Information System due to funding from grants expiring.
 - Proposed funding switch from federal special revenue to state special revenue due to anticipated declining federal revenues.
 - Proposed decreases to personal services because of statewide present law adjustments.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	267.00	267.00	267.00	267.00	267.00
Personal Services	14,900,594	17,295,989	17,797,512	17,619,516	17,671,466
Operating Expenses	6,771,420	7,354,085	6,367,207	6,495,409	6,499,535
Equipment & Intangible Assets	0	2,768	12,908	12,908	12,908
Grants	4,509,605	5,472,935	5,697,770	5,697,770	5,697,770
Transfers	44,936	44,936	45,114	45,114	45,114
Debt Service	116,782	186,886	155,587	155,587	155,587
Total Expenditures	\$26,343,337	\$30,357,599	\$30,076,098	\$30,026,304	\$30,082,380
State/Other Special Rev. Funds	12,125,861	12,484,662	11,809,335	12,444,184	12,664,336
Federal Spec. Rev. Funds	14,217,476	17,872,937	18,266,763	17,582,120	17,418,044
Total Funds	\$26,343,337	\$30,357,599	\$30,076,098	\$30,026,304	\$30,082,380
Total Ongoing	\$26,343,337	\$30,357,599	\$30,076,098	\$30,026,304	\$30,082,380
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

The Legislature passed the Health and Economic Livelihood Partnership (HELP) Act during the 2015 session. As part of this Act, the Department of Labor and Industry is responsible for implementing a workforce development program that:

- Focuses on specific labor force needs within the state
- Has the goal of reducing the number of people depending on social programs
- Increases the earning capacity, economic stability, and self-sufficiency of program participants.

An appropriation from the Employment Security Account of \$1.76 million provides funding for the workforce training programs. The department started launching training programs in January and has hired 1.00 FTE. Through the end of FY 2016 the department expended \$604,164. This includes \$260,165 in personal services, \$247,832 in operating expenses, and \$196,167 in grants.

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Workforce Services Division expended 86.8% of its FY 2016 budget. Personal services were 86.2% expended, operating expenses were 92.1% expended, and grants were 82.4% expended at the end of the fiscal year. These lower expenditure percentages were due to a decline in National Emergency Grants and Trade Adjustment Assistance participants.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations primarily in personal services, operating expenses, and grants. There are two main reasons for these differences. The allocation of the pay plan is contributing to an increase in personal services. The reallocation of the budget for the HELP Act biennial appropriation is contributing to a portion of the difference in personal services, operating expenses, and grants. Program transfers to allow for information technology expenditures to be recorded in the correct division are also contributing to the difference in operating expenses.

Executive Request

The Workforce Services Division is requesting a decrease in personal services and an increase in operating expenses in FY 2018 and FY 2019. Statewide present law adjustments are driving the reduction in personal services and will be discussed in further detail in the Personal Services section below. Increases in operating expenses are primarily due to grants expiring and will be discussed in further detail in the New Proposals section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 2

Department Of Labor And Industry: 01 Workforce Services Division			
Personal Services Present Law Calculations			
PS Base:	\$17,797,512		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$398,414)	(\$346,464)
Legislative	Statutory Personal Service Change	<u>170,512</u>	<u>223,790</u>
	Difference	(568,926)	(570,254)
Management	Choices Explaining the Difference		
	Additional 2% Vacancy Savings	(362,354)	(363,455)
	Broadband Pay Adjustments	115,914	115,914
	Benefits and Taxes on Pay Adjustment	24,390	24,390
	Other	(346,876)	(347,104)
	Total	(\$568,926)	(\$570,254)

Personal services were \$17.8 million or 59.2% of total FY 2017 appropriations. The executive proposes a decrease of \$398,414 in FY 2018 and \$346,464 in FY 2019. This proposal is approximately \$569,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is related to, in part, position vacancies. The HELP Act provided funding of \$1.3 million for 13.00 FTE. As of the end of FY 2016, the division hired 1.00 FTE. Since unfilled positions are captured in the executive snapshot at 83% of market, these vacant positions are contributing to the decrease. Additionally, the division had employee turnover. Turnover generally lowers salaries because senior employees are typically paid at a higher rate and are replaced by lower paid employees.

While overall personal services decreased, there were some pay adjustments that increased employee salaries in FY 2016. These adjustments were predominately due to career ladders, performance adjustments, and reclassifications. Adjustments totaled \$116,000 during the fiscal year.

Funding

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

Department of Labor and Industry, 01-Workforce Services Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02242 Contracts From PHHS	0	0	0	0	0	0.00 %
02252 DLI Operations	0	0	0	0	0	0.00 %
02258 Employment Security Account	24,872,728	0	0	0	24,872,728	99.06 %
02455 Workers' Comp Regulation	0	0	0	0	0	0.00 %
02347 Safety Administration Fund	235,792	0	0	0	235,792	0.94 %
State Special Total	\$25,108,520	\$0	\$0	\$0	\$25,108,520	41.76 %
03124 Employment Trng Grants	16,174,008	0	0	0	16,174,008	46.21 %
03128 L & I Federal Funding	789,836	0	0	0	789,836	2.26 %
03131 OSHA Stat Prgm Fed.St Sdy	235,678	0	0	0	235,678	0.67 %
03194 Research & Analysis BLS	1,506,564	0	0	0	1,506,564	4.30 %
03197 WSD-Dept of Education Grant	0	0	0	0	0	0.00 %
03297 Labor And Industry Veteran Gra	1,367,910	0	0	0	1,367,910	3.91 %
03338 Contracts From PHHS	0	0	0	0	0	0.00 %
03682 Wagner Peyser	11,873,076	0	0	0	11,873,076	33.92 %
03692 Alien Labor Certification(ALC)	226,000	0	0	0	226,000	0.65 %
03693 Wrk Opportunities Tx Crdt/WOTC	111,490	0	0	0	111,490	0.32 %
03694 Trade Adjustment Assist/NAFTA	1,394,258	0	0	0	1,394,258	3.98 %
03954 UI Administrative Grants	1,321,344	0	0	0	1,321,344	3.78 %
03662 TAACCT Grant	0	0	0	0	0	0.00 %
Federal Special Total	\$35,000,164	\$0	\$0	\$0	\$35,000,164	58.21 %
06051 Montana Career Info System	0	0	16,322	0	16,322	100.00 %
Proprietary Total	\$0	\$0	\$16,322	\$0	\$16,322	0.03 %
Total All Funds	\$60,108,684	\$0	\$16,322	\$0	\$60,125,006	

HB 2 Funding

General Fund

No general fund is used in the Workforce Services Division.

State Special Revenue

The majority of the state special revenue funding is from the employment security account. The revenue for this account is generated from an administrative assessment against the payrolls of Montana employers. Statute enumerates the use of the fund, including the operating expenses of the Job Services offices.

Federal Special Revenues

Approximately 58.0% of the total funding for the Workforce Services Division is from federal special revenue. Approximately 80.0% of federal special revenues are from two federal programs: Wagner-Peyser Act and Workforce Innovation and Opportunity Act (WIOA) Grant. The uses and requirements for these funds are determined by the federal agencies granting the funding.

Proprietary Funds

Proprietary funding is received from rates charged to entities participating in the Montana Career Information System and is discussed in the Proprietary Rates section of the narrative.

Program Budget Summary by Category

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

Budget Summary by Category								
	-----General Fund-----				-----Total Funds-----			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	30,076,098	30,076,098	60,152,196	100.07 %
SWPL Adjustments	0	0	0	0.00 %	(468,808)	(412,732)	(881,540)	(1.47)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	419,014	419,014	838,028	1.39 %
Total Budget	\$0	\$0	\$0		\$30,026,304	\$30,082,380	\$60,108,684	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	(398,414)	(398,414)	0.00	0	0	(346,464)	(346,464)
DP 2 - Fixed Costs	0.00	0	38,152	(111,375)	(73,223)	0.00	0	36,107	(111,144)	(75,037)
DP 3 - Inflation Deflation	0.00	0	2,517	312	2,829	0.00	0	8,268	501	8,769
Grand Total All Present Law Adjustments	0.00	\$0	\$40,669	(\$509,477)	(\$468,808)	0.00	\$0	\$44,375	(\$457,107)	(\$412,732)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals	Fiscal 2018					Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1001 - WSD Fund Switch	0.00	0	175,166	(175,166)	0	0.00	0	391,612	(391,612)	0
DP 1002 - WSD Workforce Development Partnership	0.00	0	111,744	0	111,744	0.00	0	111,744	0	111,744
DP 1003 - WSD Jobs for Montana Graduates	0.00	0	222,270	0	222,270	0.00	0	222,270	0	222,270
DP 1004 - WSD MT Career Information System (MCIS)	0.00	0	85,000	0	85,000	0.00	0	85,000	0	85,000
Total	0.00	\$0	\$594,180	(\$175,166)	\$419,014	0.00	\$0	\$810,626	(\$391,612)	\$419,014

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

DP 1001 - WSD Fund Switch -

The executive is requesting state special revenue funds to replace federal special revenue. The department anticipates declining federal revenue and is proposing replacing these funds with Employment Security Account state special revenue funds.

DP 1002 - WSD Workforce Development Partnership -

The executive is requesting state special revenue in FY 2018 and FY 2019 to fund the department's portion of the costs for the director of the Industry Driven Workforce Development Partnership position. Costs for this position are shared with the Office of the Commissioner of Higher Education. The department currently pays their portion of the costs with grant funding that expires in FY 2018.

DP 1003 - WSD Jobs for Montana Graduates -

The executive is requesting state special revenue to continue operating the Jobs for Montana Graduates program in certain tribal schools. The federal grant used by the department to fund this program is no longer available.

DP 1004 - WSD MT Career Information System (MCIS) -

The executive is requesting state special revenue for the Montana Career Information System (MCIS). This is a comprehensive career information delivery system that is accessible online and has been available at no cost to Montanans through grant funding. This grant will end in FY 2017. The division charges a fee for optional components used by other

organizations. The division is requesting state special revenue authority in order to continue providing the basic service free of cost.

Other Issues -

Proprietary Rates

Montana Career Info System – 06051

Proprietary Program Description

The purpose of the Montana Career Information System (MCIS) is to deliver current career and labor market information to Montanans in an easy-to-use and easy-to-understand format. MCIS is currently being funded by a the Trade Adjustment Assistance Community College and Career Training grant for a wide variety of users: job service offices, vocational rehabilitation offices, high schools, community colleges, universities, tribal colleges, educational and training agencies, home use, and adult education programs. The grant ends in FY 2017, so the department is requesting state special revenue funds to continue providing this service free of cost. There are currently optional components of MCIS not funded by the grant, such as IDEAS (an interest inventory), Peterson Practice Tests, and Dependable Strengths. These optional components require the program to collect fees associated with each component. The table below shows projected revenues and expenses for the 2019 biennium.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Workforce Services Division			
	Fund 06051	Fund Name Montana Career Info System					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		437	4,653	3,888	8,161	8,161	8,161
Total Operating Revenues		437	4,653	3,888	8,161	8,161	8,161
Expenses:							
Other Operating Expenses		8,162	3,250	3,150	8,161	8,161	8,161
Total Operating Expenses		8,162	3,250	3,150	8,161	8,161	8,161
Operating Income (Loss)		(7,725)	1,403	738	-	-	-
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(7,725)	1,403	738	-	-	-
Change in Net Position		(7,725)	1,403	738	-	-	-
Beginning Net Position - July 1		10,318	2,593	3,996	4,734	4,734	4,734
Change in Net Position		(7,725)	1,403	738	-	-	-
Ending Net Position - June 30		2,593	3,996	4,734	4,734	4,734	4,734
Net Position (Fund Balance) Analysis							

Proprietary Program Narrative

Expenses

The expenses of the proprietary program are limited to operational expenses of the optional features. These are typically site specific licensing fees.

Revenues

Revenues are generated through fees from the purchase of a one year optional component license. The department collects the fees from the sites purchasing the license/assessment and then pays those fees to the service provider on a 1:1 ratio.

Proprietary Rates

The chart below shows the rates proposed by the executive for the 2019 biennium.

Figure 3

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Fee Description:				
(fees are collected from schools and transferred to MCIS contractor on a 1:1 ratio)				
IDEAS Assessment @ \$100/test	\$ 1,800.00	\$ 3,800.00	\$ 3,800.00	\$ 3,800.00
Dependable Strengths Assessment @ \$200/test	\$ -	\$ -	\$ -	\$ -
Peterson's Academic Practice Tests - Pkg 1 @\$225/test	\$ 1,350.00	\$ 2,700.00	\$ 2,700.00	\$ 2,700.00
Peterson's Academic Practice Tests - Pkg 2 @\$175/test	\$ 350.00	\$ 1,400.00	\$ 1,400.00	\$ 1,400.00
Peterson's Civil Service Practice Tests @ \$175/test	\$ 350.00	\$ -	\$ -	\$ -
Misc.	\$ 37.50	\$ 261.00	\$ 261.00	\$ 261.00
Total	\$ 3,887.50	\$ 8,161.00	\$ 8,161.00	\$ 8,161.00

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	19,984,018	18,842,541	(1,141,477)	(5.71)%
Operating Expenses	12,758,331	13,001,732	243,401	1.91 %
Debt Service	52,538	59,810	7,272	13.84 %
Total Expenditures	\$32,794,887	\$31,904,083	(\$890,804)	(2.72)%
State/Other Special Rev. Funds	10,245,143	11,203,029	957,886	9.35 %
Federal Spec. Rev. Funds	22,549,744	20,701,054	(1,848,690)	(8.20)%
Total Funds	\$32,794,887	\$31,904,083	(\$890,804)	(2.72)%
Total Ongoing	\$32,674,887	\$31,804,083	(\$870,804)	(2.67)%
Total OTO	\$120,000	\$100,000	(\$20,000)	(16.67)%

Program Description

The Unemployment Insurance (UI) Division administers the state unemployment insurance law and related federal programs, which provide temporary, partial wage replacement to unemployed workers. The division provides services through three bureaus: 1) Contributions, 2) Claims Processing, and 3) Program Support. The Contributions Bureau is responsible for UI employer registration, contribution rate assignments, tax and wage report collection, wage revisions, and employer audits. The Claims Processing Bureau has two claims processing centers (Billings and Helena) that file and process claims (monetary eligibility, issue investigation, adjudication, and employer charging) and respond to all UI claim related inquiries. The Claims Processing Bureau is also responsible for Trade Readjustment Assistance, military, federal, and multi-state claims. The Program Support Bureau manages the division budget, accounting, and the UI trust fund. They also provide management analysis and research for economic, program management, reporting, and legislative purposes in addition to operating tax and benefit quality control, benefit payment control, and integrity programs.

Program Highlights

**Unemployment Insurance Division
Major Budget Highlights**

- The Unemployment Insurance Division's 2019 biennium budget request is approximately \$891,000 or 2.7% lower than the 2017 biennium. Significant changes include:
 - Proposed decreases due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation.
 - Proposed increases in state special and federal special revenues for contract adjustments for the Status, Tax, Accounting, Audit, and Rating System (STAARS) and overtime.
 - Proposed funding switch from federal special revenue to state special revenue due to anticipated declining federal revenue from Unemployment Insurance Administrative Grants.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	147.62	147.62	147.62	147.62	147.62
Personal Services	8,814,855	9,788,201	10,195,817	9,406,400	9,436,141
Operating Expenses	6,030,320	6,182,483	6,575,848	6,479,944	6,521,788
Debt Service	22,632	22,633	29,905	29,905	29,905
Total Expenditures	\$14,867,807	\$15,993,317	\$16,801,570	\$15,916,249	\$15,987,834
State/Other Special Rev. Funds	4,669,715	4,850,764	5,394,379	5,530,223	5,672,806
Federal Spec. Rev. Funds	10,198,092	11,142,553	11,407,191	10,386,026	10,315,028
Total Funds	\$14,867,807	\$15,993,317	\$16,801,570	\$15,916,249	\$15,987,834
Total Ongoing	\$14,854,860	\$15,933,317	\$16,741,570	\$15,866,249	\$15,937,834
Total OTO	\$12,947	\$60,000	\$60,000	\$50,000	\$50,000

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Unemployment Insurance Division expended 93.0% of its FY 2016 budget. Personal services were 90.1% expended and operating expenses were 97.5% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is in personal services and operating expenses. In personal services the increase is primarily due to the allocation of the pay plan and personal services base contingency funding. The operating expense difference between the two fiscal years is mainly related to program transfers out of the division in FY 2016 to allow for information technology expenditures to be recorded in the correct division.

Executive Request

Statewide present law changes for personal services, fixed costs, and deflation are causing the decrease in the requested appropriations for FY 2018 and FY 2019. The requested decrease in personal services will be discussed in further detail in the Personal Services section below. The remaining requests will be discussed in the Present Law Adjustments section.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 4

Department Of Labor And Industry: 02 Unemployment Insurance Div Personal Services Present Law Calculations			
PS Base:	\$10,135,817		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$779,417)	(\$749,676)
Legislative	Statutory Personal Service Change	55,180	86,274
	Difference	(834,597)	(835,950)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(194,672)	(195,290)
	Broadband Pay Adjustments	71,126	71,126
	Benefits and Taxes on Pay Adjustment	15,430	15,430
	Other	(726,482)	(727,217)
	Total	(\$834,597)	(\$835,950)

Personal services were \$10.1 million or 60.7% of total FY 2017 appropriations. The executive is requesting a decrease of \$779,417 in FY 2018 and \$749,676 in FY 2018. This request is approximately \$835,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. Part of this difference is due to an additional 2% vacancy savings rate proposed by the executive and the division using personal services base contingency funding for verification requirements put into place through the HELP Act. This funding was allocated to non-base FTE. Therefore, funding is included in the personal services base but was not included in the executive snapshot, which only includes base FTE.

Funding

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

Department of Labor and Industry, 02-Unemployment Insurance Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02103 BSD Capital Assets	0	0	0	0	0	0.00 %
02258 Employment Security Account	11,044,833	18,196	0	0	11,063,029	98.75 %
02315 DLI Info Exchange/Rental	140,000	0	0	0	140,000	1.25 %
State Special Total	\$11,184,833	\$18,196	\$0	\$0	\$11,203,029	3.73 %
03278 UI PENALTY & INTEREST	1,257,549	2,784	0	0	1,260,333	6.09 %
03954 UI Administrative Grants	19,361,701	79,020	0	0	19,440,721	93.91 %
03967 UI Reed Act	0	0	0	0	0	0.00 %
Federal Special Total	\$20,619,250	\$81,804	\$0	\$0	\$20,701,054	6.89 %
06069 UI Tax Benefit Fund	0	0	268,417,592	0	268,417,592	100.00 %
Proprietary Total	\$0	\$0	\$268,417,592	\$0	\$268,417,592	89.38 %
Total All Funds	\$31,804,083	\$100,000	\$268,417,592	\$0	\$300,321,675	

HB 2

The HB 2 funded functions of the division support the administrative and operational portions of unemployment insurance.

General Fund

No general fund is used in the Unemployment Insurance Division.

State Special Revenues

The majority of the state special revenues are derived from an assessment charged to employers as a percentage of their payroll and deposited into the employment security account.

Federal Revenues

Unemployment insurance (UI) administrative grants are federal funds that Montana receives for the administration of the unemployment insurance program. Montana businesses pay a federal unemployment tax that is partially used to fund these grants.

Proprietary Funding

State unemployment taxes (SUTA) are paid into a proprietary account to fund unemployment benefits for claimants. The amount of the tax depends on the ratio of unemployment insurance trust fund balance to the total covered wages in Montana and the employer's experience. Montana uses 11 schedules with 10 contribution rates in each schedule to assess SUTA. In calendar year 2015 Montana used schedule III and in calendar year 2016 the rate will be calculated using schedule I, which results in a reduction in costs to Montana employers.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	16,741,570	16,741,570	33,483,140	104.95 %	
SWPL Adjustments	0	0	0	0.00 %	(925,321)	(903,736)	(1,829,057)	(5.73)%	
PL Adjustments	0	0	0	0.00 %	100,000	150,000	250,000	0.78 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$15,916,249	\$15,987,834	\$31,904,083		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
0.00	0	(165,626)	(613,791)	(779,417)	0.00	0	(159,307)	(590,369)	(749,676)	
DP 2 - Fixed Costs										
0.00	0	(67,788)	(49,276)	(117,064)	0.00	0	(72,967)	(53,016)	(125,983)	
DP 3 - Inflation Deflation										
0.00	0	(16,742)	(12,098)	(28,840)	0.00	0	(16,299)	(11,778)	(28,077)	
DP 2002 - UID Contract Accelerator										
0.00	0	50,000	0	50,000	0.00	0	100,000	0	100,000	
DP 2003 - UID Overtime (RST)										
0.00	0	9,098	40,902	50,000	0.00	0	9,098	40,902	50,000	
Grand Total All Present Law Adjustments	0.00	\$0	(\$191,058)	(\$634,263)	(\$825,321)	0.00	\$0	(\$139,475)	(\$614,261)	(\$753,736)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 2002 - UID Contract Accelerator -

The executive is requesting state special revenue funds for an incremental contract adjustment for the division's STAARS system.

DP 2003 - UID Overtime (RST) -

The executive requests state special and federal special revenues for overtime. The division has an increased workload in the winter months and overtime is used instead of hiring additional staff.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2004 - UID Fund Switch	0.00	0	340,000	(340,000)	0	0.00	0	431,000	(431,000)	0
Total	0.00	\$0	\$340,000	(\$340,000)	\$0	0.00	\$0	\$431,000	(\$431,000)	\$0

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

DP 2004 - UID Fund Switch -

The executive is requesting state special revenue funds to replace federal special revenue. The department anticipates declining federal revenue from Unemployment Insurance Administrative Grants and are proposing replacing these funds with Employment Security Account state special revenue funds.

Other Issues -

Proprietary Rates

UI Tax Benefit Fund – 06069

Proprietary Program Description

The Department of Labor and Industry collects contributions paid by employers, based on their industry or individual experience rates, to pay for their Unemployment Insurance. The department expends the funds by paying Unemployment Insurance benefit claims. The table below shows projected revenues and expenses for the 2019 biennium.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Unemployment Insurance Division			
	Fund	Fund Name					
	06069	UI Tax Benefit Fund					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Other Operating Revenue		186,893,676	164,819,630	135,269,318	117,827,000	134,907,000	138,343,000
Total Operating Revenues		186,893,676	164,819,630	135,269,318	117,827,000	134,907,000	138,343,000
Expenses:							
Other Operating Expenses		136,174,297	112,951,782	119,087,623	117,000,000	117,000,000	117,000,000
Total Operating Expenses		136,174,297	112,951,782	119,087,623	117,000,000	117,000,000	117,000,000
Operating Income (Loss)		50,719,379	51,867,848	16,181,695	827,000	17,907,000	21,343,000
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		50,719,379	51,867,848	16,181,695	827,000	17,907,000	21,343,000
Change in Net Position		50,719,379	51,867,848	16,181,695	827,000	17,907,000	21,343,000
Beginning Net Position - July 1		179,686,756	230,406,135	282,273,983	298,455,678	299,282,678	317,189,678
Change in Net Position		50,719,379	51,867,848	16,181,695	827,000	17,907,000	21,343,000
Ending Net Position - June 30		230,406,135	282,273,983	298,455,678	299,282,678	317,189,678	338,532,678
Net Position (Fund Balance) Analysis							

*Proprietary Program Narrative*Expenses

Significant costs for the program are unemployment insurance benefits paid to claimants while unemployed, including federal withholding tax benefits and child support payments the claimants have elected to be taken out of the benefit check.

Revenue

The revenues received in the proprietary fund are from unemployment insurance tax collections, federal reimbursement for claims on federal employees, military personnel, claimants in other states, and interest earnings to the Unemployment Insurance Trust Fund.

Figure 5

Requested Rates for Internal Service or Enterprise Funds Fee/Rate Information				
	Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Fee Description:				
Unemployment Insurance Premiums	\$114,571,753	\$97,599,000	\$114,635,000	\$118,027,000
Investment Earnings	\$6,813,202	\$6,828,000	\$6,872,000	\$6,916,000
MCA 39-51-1217 sets the rate which the employers are charged contributions for the purpose of paying Unemployment Insurance Benefits.				

The Unemployment Insurance Division administers the state unemployment insurance law. The rate calculation is set in statute under 39-51-1217, MCA.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	1,680,093	1,604,532	(75,561)	(4.50)%
Operating Expenses	658,004	646,622	(11,382)	(1.73)%
Transfers	10,722	0	(10,722)	(100.00)%
Debt Service	2,949	2,388	(561)	(19.02)%
Total Expenditures	\$2,351,768	\$2,253,542	(\$98,226)	(4.18)%
General Fund	595,770	582,041	(13,729)	(2.30)%
State/Other Special Rev. Funds	701,201	718,957	17,756	2.53 %
Federal Spec. Rev. Funds	1,054,797	952,544	(102,253)	(9.69)%
Total Funds	\$2,351,768	\$2,253,542	(\$98,226)	(4.18)%
Total Ongoing	\$2,351,768	\$2,253,542	(\$98,226)	(4.18)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Commissioner's Office and the Centralized Services Division provide program direction, legal, administration, and support services to the department's six programs and two administratively attached entities.

Program Highlights

Commissioner's Office Major Budget Highlights
- The Commissioner's Office and the Centralized Services Division 2019 biennium budget request is approximately \$98,000 or 4.2% lower than the 2017 biennium. Significant changes include: - Proposed decreases due to statewide present law changes for personal services, fixed costs, inflation/deflation, and the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	10.50	10.50	10.50	10.50	10.50
Personal Services	737,814	775,041	905,052	801,678	802,854
Operating Expenses	273,284	325,055	332,949	322,908	323,714
Transfers	10,722	10,722	0	0	0
Debt Service	1,697	1,755	1,194	1,194	1,194
Total Expenditures	\$1,023,517	\$1,112,573	\$1,239,195	\$1,125,780	\$1,127,762
General Fund	283,322	283,329	312,441	290,937	291,104
State/Other Special Rev. Funds	259,352	306,285	394,916	359,381	359,576
Federal Spec. Rev. Funds	480,843	522,959	531,838	475,462	477,082
Total Funds	\$1,023,517	\$1,112,573	\$1,239,195	\$1,125,780	\$1,127,762
Total Ongoing	\$1,023,517	\$1,112,573	\$1,239,195	\$1,125,780	\$1,127,762
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Commissioner's Office and Centralized Services Division expended 92.0% of its FY 2016 budget. Personal services were 95.2% expended and operating expenses were 84.1% expended. This lower percentage expended was primarily due to a reduction in Main Street Montana Project expenditures.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is mainly in personal services. The pay plan and personal services base contingency funding are contributing to this difference.

Executive Request

Statewide present law changes for personal services, fixed costs, inflation/deflation, and the executive's reduction to the budget are causing the decrease in the requested appropriations for FY 2018 and FY 2019. These decreases will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 6

Department Of Labor And Industry: 03 Commissioner's Office/Csd Personal Services Present Law Calculations			
PS Base:	\$905,052		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$96,291)	(\$95,115)
Legislative	Statutory Personal Service Change	(5,487)	(4,273)
	Difference	(90,804)	(90,842)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(16,846)	(16,871)
	Broadband Pay Adjustments	23,559	23,559
	Benefits and Taxes on Pay Adjustment	4,662	4,662
	Other	(102,180)	(102,193)
	Total	(\$90,804)	(\$90,842)

Personal services were \$905,052 or 73.0% of total FY 2017 appropriations. The executive proposes a decrease of \$96,291 in FY 2018 and \$95,115 in FY 2019. The executive proposal is approximately \$91,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is partly due to the additional 2% vacancy savings rate proposed by the executive and to turnover in the program.

Funding

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

Department of Labor and Industry, 03-Commissioner's Office Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	582,041	0	0	0	582,041	3.66 %	
02233 BSD Hearings	128,774	0	0	0	128,774	17.91 %	
02258 Employment Security Account	572,368	0	0	0	572,368	79.61 %	
02315 DLI Info Exchange/Rental	2,142	0	0	0	2,142	0.30 %	
02941 Uninsured Employer Fund	15,673	0	0	0	15,673	2.18 %	
State Special Total	\$718,957	\$0	\$0	\$0	\$718,957	4.52 %	
03122 EEOC	64,288	0	0	0	64,288	6.75 %	
03954 UI Administrative Grants	888,256	0	0	0	888,256	93.25 %	
Federal Special Total	\$952,544	\$0	\$0	\$0	\$952,544	5.99 %	
06546 Commissioner's Office/CSD	0	0	8,300,752	0	8,300,752	60.80 %	
06552 Admin Services	0	0	5,351,283	0	5,351,283	39.20 %	
Proprietary Total	\$0	\$0	\$13,652,035	\$0	\$13,652,035	85.83 %	
Total All Funds	\$2,253,542	\$0	\$13,652,035	\$0	\$15,905,577		

HB 2 Funding

The majority of the funding for HB 2 supports the Hearings Unit. General fund supports approximately 3.7% of the Office's budget. The state special revenue is mainly derived from the assessments on employers deposited into the employment security account. Federal special revenue is primarily made up of unemployment insurance administrative grants.

Proprietary Rates

The Commissioner's Office and Centralized Services Division have two different proprietary funding sources for the operations of the various functions within the office. A discussion of the proposed uses and funding for each of the functions is included in the Proprietary Rates section of the narrative. These funds are considered and approved as rates charged to other divisions within the agency.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	312,441	312,441	624,882	107.36 %	1,239,195	1,239,195	2,478,390	109.98 %
SWPL Adjustments	(7,338)	(7,171)	(14,509)	(2.49)%	(99,249)	(97,267)	(196,516)	(8.72)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(14,166)	(14,166)	(28,332)	(4.87)%	(14,166)	(14,166)	(28,332)	(1.26)%
Total Budget	\$290,937	\$291,104	\$582,041		\$1,125,780	\$1,127,762	\$2,253,542	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(7,187)	(33,114)	(55,990)	(96,291)	0.00	(7,199)	(33,088)	(54,828)	(95,115)
DP 2 - Fixed Costs	0.00	(95)	(1,780)	(242)	(2,117)	0.00	78	(1,635)	199	(1,358)
DP 3 - Inflation Deflation	0.00	(56)	(641)	(144)	(841)	0.00	(50)	(617)	(127)	(794)
Grand Total All Present Law Adjustments	0.00	(\$7,338)	(\$35,535)	(\$56,376)	(\$99,249)	0.00	(\$7,171)	(\$35,340)	(\$54,756)	(\$97,267)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(14,166)	0	0	(14,166)	0.00	(14,166)	0	0	(14,166)
Total	0.00	(\$14,166)	\$0	\$0	(\$14,166)	0.00	(\$14,166)	\$0	\$0	(\$14,166)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Other Issues -

Proprietary Rates

Commissioner's Office/CSD - 06552

Proprietary Program Description

Support services provided by the Commissioner's Office and Centralized Services Division are funded through an indirect cost rate whereby the department programs are assessed a percentage of their personal services costs.

Proprietary Program Narrative

Expenses

The figure below shows the proposed expenditures for Commissioner's Office and Centralized Services Division fund. Overall, the executive is proposing a decrease in personal services and operating expenses for FY 2018 and FY 2019.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Commissioner's Office			
	Fund	Fund Name					
	06546	Commissioner's Office/CSD					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		3,476,228	3,845,228	3,942,589	4,388,262	4,338,196	4,350,294
Total Operating Revenues		3,476,228	3,845,228	3,942,589	4,388,262	4,338,196	4,350,294
Expenses:							
Personal Services		2,135,509	2,446,051	2,373,239	2,591,538	2,512,157	2,521,432
Other Operating Expenses		1,504,277	1,501,218	1,510,066	1,722,348	1,712,795	1,554,368
Total Operating Expenses		3,639,786	3,947,269	3,883,305	4,313,886	4,224,952	4,075,800
Operating Income (Loss)		(163,558)	(102,041)	59,284	74,376	113,244	274,494
Nonoperating Revenues:							
Other Revenue A		287	967	1,366	-	-	-
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		287	967	1,366	-	-	-
Income (Loss) Before Contributions and Transfers		(163,271)	(101,074)	60,650	74,376	113,244	274,494
Change in Net Position		(163,271)	(101,074)	60,650	74,376	113,244	274,494
Beginning Net Position - July 1		426,636	236,013	134,939	195,589	269,965	383,209
Prior Period Adjustments		(27,352)	-	-	-	-	-
Change in Net Position		(163,271)	(101,074)	60,650	74,376	113,244	274,494
Ending Net Position - June 30		236,013	134,939	195,589	269,965	383,209	657,703
Net Position (Fund Balance) Analysis							

Revenues

The Commissioner's Office and Centralized Services Division is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based on federally calculated and federally approved indirect cost rates applied to actual personal services expenditures and time distribution.

The cost allocation plan (CAP) must be approved by the U.S. Department of Labor, which has requirements including a working capital of no more than 60 days. The rate, which is assessed to personal services expenditures, is determined by calculating the total costs of providing the services divided by the projected department personal services expenditures. The rates requested for the 2019 biennium are included in the table below.

Figure 7

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Fee Description:	8.00%	8.00%	8.00%	8.00%

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

Admin Services - 06552

Proprietary Program Description

The Office of Legal Services provides legal assistance to the department's six programs and two administratively attached entities, whereby an hourly rate for attorney fees is established.

Proprietary Program Narrative

Expenses

The figure below shows the proposed expenditures for the administrative services fund. Overall, the executive is proposing an increase in personal services and decrease in operating expenses for FY 2018 and FY 2019.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Commissioner's Office			
	Fund 06552	Fund Name Admin Services					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Revenue A		2,421,572	2,185,356	2,452,325	2,575,000	2,671,765	2,679,518
Total Operating Revenues		2,421,572	2,185,356	2,452,325	2,575,000	2,671,765	2,679,518
Expenses:							
Personal Services		1,995,473	1,852,763	1,820,152	1,932,395	2,050,411	2,057,894
Other Operating Expenses		396,264	377,593	391,740	624,643	621,354	621,624
Total Operating Expenses		2,391,737	2,230,356	2,211,892	2,557,038	2,671,765	2,679,518
Operating Income (Loss)		29,835	(45,000)	240,433	17,962	-	-
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		29,835	(45,000)	240,433	17,962	-	-
Change in Net Position		29,835	(45,000)	240,433	17,962	-	-
Beginning Net Position - July 1		(50,595)	(20,760)	(65,760)	174,673	192,635	192,635
Change in Net Position		29,835	(45,000)	240,433	17,962	-	-
Ending Net Position - June 30		(20,760)	(65,760)	174,673	192,635	192,635	192,635
Net Position (Fund Balance) Analysis							

LFD COMMENT

Administrative services operating expenses are overstated in the request for FY 2018 and FY 2019 because of an error in a budget change document for FY 2017. The intent of the budget change was to bring the personal services level for the fund to the requested amount. However, the change increased the operating expense category instead of the personal services category. The result was the operating budget being overstated in FY 2017, which is the base budget year.

Calculations for the rate are not affected. The rates are based on FY 2016 actual expenses and actual hours so the rates are accurate.

Revenues

Revenues for the Office of Legal Services are derived from charges for attorney time incurred by Department of Labor and Industry divisions. The rate per hour is calculated on actual costs of services divided by actual direct hours of service provided in FY 2016.

Figure 8

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Fee Description:	\$103/hour	\$103/hour	\$103/hour	\$103/hour

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	18,467,519	17,865,478	(602,041)	(3.26)%
Operating Expenses	9,696,975	10,238,191	541,216	5.58 %
Equipment & Intangible Assets	21,882	21,882	0	0.00 %
Benefits & Claims	200,778	200,778	0	0.00 %
Debt Service	38,483	34,178	(4,305)	(11.19)%
Total Expenditures	\$28,425,637	\$28,360,507	(\$65,130)	(0.23)%
General Fund	2,914,907	2,767,537	(147,370)	(5.06)%
State/Other Special Rev. Funds	23,628,831	23,737,918	109,087	0.46 %
Federal Spec. Rev. Funds	1,881,899	1,855,052	(26,847)	(1.43)%
Total Funds	\$28,425,637	\$28,360,507	(\$65,130)	(0.23)%
Total Ongoing	\$28,425,637	\$28,360,507	(\$65,130)	(0.23)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Employment Relations Division (ERD) provides five service areas to the public:

1. The Workers' Compensation (WC) Regulation Bureau regulates WC insurance coverage requirements, policy compliance, contractor registration, independent contractor exemptions/registration, Professional Employer Organization (PEO) license, Managed Care Organization (MCO) license, Uninsured Employers, Subsequent Injury Fund (SIF) applications and management of Extra Territorial agreements;
2. The WC Claims Assistance Bureau assists organizations and individuals to arrive at early, less expensive settlements of their disputes, and provides management information on the workers' compensation system;
3. The Labor Standards Bureau (and administratively attached Board of Personnel Appeals) enforces state and federal labor laws related to the payment of wages and administers the Collective Bargaining Act for Public Employees;
4. The Safety and Health Bureau administers federal and state industrial safety laws and works with businesses, mines and public entities to improve their safety through training and consultation services; and
5. The Human Rights Bureau informally investigates complaints of discrimination, facilitates voluntary resolution, and educates Montanans on their rights and responsibilities under both state and federal anti-discrimination laws.

Program Highlights

Employment Relations Division Major Budget Highlights
• The Employment Relations Division 2019 biennium budget request is approximately \$65,000 or 0.2% lower than the 2017 biennium. Significant changes include: ◦ Proposed decreases due to statewide present law changes for personal services, fixed costs, and the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	117.06	117.06	117.06	117.06	117.06
Personal Services	8,302,888	9,028,311	9,439,208	8,920,725	8,944,753
Operating Expenses	4,313,183	4,573,722	5,123,253	5,117,267	5,120,924
Equipment & Intangible Assets	1,710	10,941	10,941	10,941	10,941
Benefits & Claims	70,012	100,389	100,389	100,389	100,389
Debt Service	21,253	21,394	17,089	17,089	17,089
Total Expenditures	\$12,709,046	\$13,734,757	\$14,690,880	\$14,166,411	\$14,194,096
General Fund	1,441,438	1,441,564	1,473,343	1,382,530	1,385,007
State/Other Special Rev. Funds	10,427,847	11,357,190	12,271,641	11,857,329	11,880,589
Federal Spec. Rev. Funds	839,761	936,003	945,896	926,552	928,500
Total Funds	\$12,709,046	\$13,734,757	\$14,690,880	\$14,166,411	\$14,194,096
Total Ongoing	\$12,709,046	\$13,734,757	\$14,690,880	\$14,166,411	\$14,194,096
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -*FY 2016 Appropriation Compared to FY 2016 Actual Expenditures*

The Employment Relations Division expended 92.5% of its FY 2016 budget. Personal services were 92.0% expended and operating expenses were 94.3% expended. The lower percentage expended in personal services was due to employee turnover.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is mainly in personal services and operating expenditures. The allocation of the pay plan is contributing to this difference in personal services. Operating expenditure differences are primarily related the transfer of funds to record information technology costs in the correct division.

Executive Request

Statewide present law changes for personal services, fixed costs, and the executive's reduction to the budget are causing the decrease in the requested appropriations for FY 2018 and FY 2019. These requests will be discussed in further detail in the Personal Services, Present Law Adjustments, and New Proposals sections below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 9

Department Of Labor And Industry: 04 Employment Relations Division Personal Services Present Law Calculations			
PS Base: \$9,439,208			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$451,783)	(\$427,755)
Legislative	Statutory Personal Service Change	<u>60,857</u>	<u>85,690</u>
	Difference	(512,640)	(513,445)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(186,849)	(187,350)
	Broadband Pay Adjustments	60,826	60,826
	Benefits and Taxes on Pay Adjustment	12,408	12,408
	Other	(399,025)	(399,329)
	Total	(\$512,640)	(\$513,445)

Personal services were \$9.4 million or 64.3% of total FY 2017 appropriations. The executive is requesting reductions of \$451,783 in FY 2018 and \$427,755 in FY 2018. The executive request is approximately \$513,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This difference is partly due to an additional 2% vacancy savings rate proposed by the executive and the division using personal services base contingency funding for spending a one-time grant award. This contingency base funding was allocated to non-base FTE. Therefore, funding is included in the personal services base but was not included in the executive snapshot, which resulted in the decrease. The department also had staff turnover which contributed to the decrease in personal services.

Funding

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

Department of Labor and Industry, 04-Employment Relations Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	2,767,537	0	0	0	2,767,537	8.39 %
02252 DLI Operations	0	0	0	0	0	0.00 %
02258 Employment Security Account	3,200,563	0	0	0	3,200,563	12.64 %
02263 Subsequent Injury Admin	72,081	0	0	0	72,081	0.28 %
02315 DLI Info Exchange/Rental	12,062	0	0	0	12,062	0.05 %
02346 Contractor Registration	2,733,237	0	0	0	2,733,237	10.80 %
02455 Workers' Comp Regulation	9,928,833	0	0	0	9,928,833	39.22 %
02941 Uninsured Employer Fund	3,237,950	0	0	1,579,942	4,817,892	19.03 %
02347 Safety Administration Fund	4,553,192	0	0	0	4,553,192	17.98 %
State Special Total	\$23,737,918	\$0	\$0	\$1,579,942	\$25,317,860	76.73 %
03122 EEOC	487,841	0	0	0	487,841	26.30 %
03130 Coal Mine Safety	297,018	0	0	0	297,018	16.01 %
03195 On-Site Consultation	1,070,193	0	0	0	1,070,193	57.69 %
03985 Data Management Unit Grant	0	0	0	0	0	0.00 %
Federal Special Total	\$1,855,052	\$0	\$0	\$0	\$1,855,052	5.62 %
06040 Subsequent Injury-Trust Fund	0	0	3,056,752	0	3,056,752	100.00 %
Proprietary Total	\$0	\$0	\$3,056,752	\$0	\$3,056,752	9.26 %
Total All Funds	\$28,360,507	\$0	\$3,056,752	\$1,579,942	\$32,997,201	

HB 2

General fund is approximately 8.0% of the funding for the division and supports the personal services and general operating costs of the Human Rights Bureau and a small percentage of the overall administration of the division.

State special revenue funds comprise the majority of the funds utilized by the department. State special revenue funds include:

- Employment security funds generated through an assessment charged to employers as a percentage of their payroll
- Worker compensation regulation funds generated by an annual administrative assessment of 4% on all compensation and medical benefits (excluding costs above \$200,000 per claim) paid during the previous calendar year
- Contractor registration funds from registration fees for independent contractor exemptions and construction contractor application fees. These funds support the Workers' Compensation Regulations Bureau and a portion of administration
- Uninsured employer fund assessments statutorily set at the premium uninsured employers would have paid had they been carrying workers' compensation insurance, with a minimum penalty \$200. The funds are used to provide benefits to employees injured on the job while working for an employer that does not carry workers' compensation insurance as required by law
- Safety administration funds generated from penalties assessed on inspection violations, recovery of costs for onsite safety and industrial health consultation services to mine operators, all fees paid by an assessment on paid losses plus administrative fines and interest, and any grants of funds from private entities or the federal government intended for defraying occupational safety and health costs

Proprietary Funds

The division oversees the subsequent injury fund, a proprietary account that assists disabled persons in becoming employed by offering a financial incentive to employers who hire them. The fund rate is based on the total amount of paid losses reimbursed by the fund in the preceding calendar year.

Statutory Appropriations

Payments for indemnity and medical benefits for workers injured while working for a business that does not carry workers' compensation insurance are statutorily appropriated to the division. The costs of administering the program are included as part of HB 2 appropriations.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,473,343	1,473,343	2,946,686	106.47 %	14,690,880	14,690,880	29,381,760	103.60 %
SWPL Adjustments	(18,741)	(16,264)	(35,005)	(1.26)%	(452,397)	(424,712)	(877,109)	(3.09)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(72,072)	(72,072)	(144,144)	(5.21)%	(72,072)	(72,072)	(144,144)	(0.51)%
Total Budget	\$1,382,530	\$1,385,007	\$2,767,537		\$14,166,411	\$14,194,096	\$28,360,507	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(18,556)	(412,885)	(20,342)	(451,783)	0.00	(16,171)	(392,743)	(18,841)	(427,755)
DP 2 - Fixed Costs	0.00	46	(5,679)	41	(5,592)	0.00	30	(6,139)	22	(6,087)
DP 3 - Inflation Deflation	0.00	(231)	4,252	957	4,978	0.00	(123)	7,830	1,423	9,130
Grand Total All Present Law Adjustments	0.00	(\$18,741)	(\$414,312)	(\$19,344)	(\$452,397)	0.00	(\$16,264)	(\$391,052)	(\$17,396)	(\$424,712)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase										
	0.00	(72,072)	0	0	(72,072)	0.00	(72,072)	0	0	(72,072)
Total	0.00	(\$72,072)	\$0	\$0	(\$72,072)	0.00	(\$72,072)	\$0	\$0	(\$72,072)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Other Issues -

Proprietary Rates

Subsequent Injury Trust Fund – 06040

Proprietary Program Description

The Subsequent Injury Fund was established in 1973 to assist disabled persons in becoming employed by offering a financial incentive to the employers who hire them. The incentive has a limit of 104 weeks of benefits paid by their workers' compensation carrier in the event of an on-the-job injury to the certified employee, thus minimizing workers' compensation expenses. Beginning July 1, 1999, the fund is maintained by annual assessment of all Montana workers' compensation insurers, including self-insured employers, private insurers, and the State Fund. The 2019 Biennium Report on Internal Service and Enterprise Funds is presented below.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Employment Relations Division			
	Fund	Fund Name					
	06040	Subsequent Injury-Trust Fund					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Fee Revenue A		1,018,105	1,397,357	1,127,751	2,000,000	1,250,000	1,250,000
Revenue A		53	344	1,524	1,000	1,000	1,000
Revenue B		-	1	6	-	-	-
Revenue C		302	395	-	-	-	-
Total Operating Revenues		1,018,460	1,398,097	1,129,281	2,001,000	1,251,000	1,251,000
Expenses:							
Other Operating Expenses		689,262	817,818	1,333,320	1,503,328	1,503,328	1,503,328
Total Operating Expenses		689,262	817,818	1,333,320	1,503,328	1,503,328	1,503,328
Operating Income (Loss)		329,198	580,279	(204,039)	497,672	(252,328)	(252,328)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		329,198	580,279	(204,039)	497,672	(252,328)	(252,328)
Transfers Out		(37,843)	(41,570)	(39,120)	(25,048)	(25,048)	(25,048)
Change in Net Position		291,355	538,709	(243,159)	472,624	(277,376)	(277,376)
Beginning Net Position - July 1		(3,484,168)	(3,192,813)	(2,654,104)	(2,896,415)	(2,423,791)	(2,701,167)
Prior Period Adjustments		-	-	848	-	-	-
Change in Net Position		291,355	538,709	(243,159)	472,624	(277,376)	(277,376)
Ending Net Position - June 30		(3,192,813)	(2,654,104)	(2,896,415)	(2,423,791)	(2,701,167)	(2,978,543)
Net Position (Fund Balance) Analysis							

It should be noted that the negative fund balance is related to liabilities established for long-term claims payable of \$2.0 million. By statute, insurers are assessed the costs of the benefits, claims, and administration from the preceding year. So in FY 2017, insurers would be expected to pay \$1.3 million.

Proprietary Rates

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

Figure 10

Requested Rates for Internal Service or Enterprise Funds				
Fee/Rate Information				
	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Admin Assessment and Surcharge				
Plan I - Insureds (Admin costs and benefits paid to certified claimants)	\$319,065	\$345,000	\$345,000	\$345,000
Plan III - Old Insured (Admin costs and benefits paid to certified claimants)	\$45,035	\$45,000	\$45,000	\$45,000
Plan II & III - (surcharge) (Admin costs and benefits paid to certified claimants)	\$763,651	\$1,610,000	\$860,000	\$860,000
The rates are based on the four Workers' Compensation (WC) insurance plans' share of the WC market as compared to the net outlay of the Subsequent Injury Fund (SIF) in a calendar year. Please see 39-71-915, MCA, for particular details.				

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	20,025,875	19,587,409	(438,466)	(2.19)%
Operating Expenses	17,355,283	16,157,037	(1,198,246)	(6.90)%
Equipment & Intangible Assets	561,860	638,925	77,065	13.72 %
Grants	10,000	10,000	0	0.00 %
Transfers	96,988	69,738	(27,250)	(28.10)%
Debt Service	78,356	81,374	3,018	3.85 %
Total Expenditures	\$38,128,362	\$36,544,483	(\$1,583,879)	(4.15)%
State/Other Special Rev. Funds	38,127,834	36,543,717	(1,584,117)	(4.15)%
Federal Spec. Rev. Funds	528	766	238	45.08 %
Total Funds	\$38,128,362	\$36,544,483	(\$1,583,879)	(4.15)%
Total Ongoing	\$37,347,694	\$36,544,483	(\$803,211)	(2.15)%
Total OTO	\$780,668	\$0	(\$780,668)	(100.00)%

Program Description

The Business Standards Division consists of four bureaus: Building Codes Bureau, Weights & Measures Bureau, Board Management Bureau, and Licensing Bureau. The Building Codes Bureau establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator, and boiler codes. The bureau also provides support for five licensing programs. The Weights & Measures Bureau is responsible for licensing, inspecting, testing, and certifying all weighing and measuring devices used in making commercial transactions in Montana and enforces laws and regulations pertaining to the quantity control of prepackaged goods, petroleum products, and is responsible for operating the State Metrology Laboratory. The Licensing Bureau and Board Management Bureau provide support for 33 licensing boards, two programs, and the Prescription Drug Registry. The Licensing and Board Management Bureaus include 208 board members and eight advisory council members appointed by the Governor. There are two units within the Administration of Business Standards Division that provide support to the other bureaus within the division. These are the Compliance Unit, which consists of compliance, investigation, and inspection services, and the Fiscal Unit.

Program Highlights

**Business Standards Division
Major Budget Highlights**

- The Business Standards Division 2019 biennium budget request is approximately \$1.6 million or 4.2% lower than the 2017 biennium. Significant changes include:
 - Proposed decreases due to statewide present law changes for personal services, fixed costs, and inflation/deflation.
 - Proposed decreases to eliminate state special revenues for Board of Public Accountants because the funding switched to proprietary funding after the 2015 Legislature.
 - Proposed increases due to requests for vehicles, contract changes, and real estate appraiser compliance.
 - One-time-only funding for overtime and legal costs in the 2017 biennium is not requested in the 2019 biennium.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	139.88	139.88	139.88	138.88	138.88
Personal Services	8,872,934	9,817,169	10,208,706	9,777,624	9,809,785
Operating Expenses	7,126,518	8,640,894	8,714,389	8,075,876	8,081,161
Equipment & Intangible Assets	191,179	273,135	288,725	353,250	285,675
Grants	0	5,000	5,000	5,000	5,000
Transfers	54,515	62,119	34,869	34,869	34,869
Debt Service	33,378	36,275	42,081	40,687	40,687
Total Expenditures	\$16,278,524	\$18,834,592	\$19,293,770	\$18,287,306	\$18,257,177
State/Other Special Rev. Funds	16,278,524	18,834,447	19,293,387	18,286,923	18,256,794
Federal Spec. Rev. Funds	0	145	383	383	383
Total Funds	\$16,278,524	\$18,834,592	\$19,293,770	\$18,287,306	\$18,257,177
Total Ongoing	\$16,276,771	\$18,444,258	\$18,903,436	\$18,287,306	\$18,257,177
Total OTO	\$1,753	\$390,334	\$390,334	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Business Standards Division expended 86.4% of its FY 2016 budget. Personal services were 90.4% expended. This lower percentage expended was due to turnover in FY 2016. Operating expenses were 82.5% expended. This lower percentage expended was because of a change in funding for the Board of Accountants during the 2015 legislative session. The board moved to proprietary funding which left state special revenue appropriations unspent.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is mainly in personal services. The pay plan is primarily contributing to this difference.

Executive Request

Statewide present law changes for personal services, fixed costs and inflation/deflation are causing the decrease in the requested appropriations for FY 2018 and FY 2019. Additionally, a requested present law change for the Board of Accountants is causing a decrease in personal services, operating expenses, and transfers. Present law adjustments causing increases are due to requests for vehicles, contract changes, and real estate appraiser compliance. The present law adjustments will be discussed in further detail in the Present Law Adjustments section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 11

Department Of Labor And Industry: 05 Business Standards Division				
Personal Services Present Law Calculations				
PS Base:	\$10,158,872			
		FY 2018	FY 2019	
Executive	DP 1: SWPL Personal Services	(\$182,482)	(\$150,321)	
Legislative	Statutory Personal Service Change	97,845	131,542	
	Difference	(280,327)	(281,863)	
Management Choices Explaining the Difference				
	Additional 2% Vacancy Savings	(205,525)	(206,193)	
	Broadband Pay Adjustments	42,896	42,896	
	Benefits and Taxes on Pay Adjustment	8,979	8,979	
	Other	(126,678)	(127,546)	
	Total	(\$280,327)	(\$281,863)	

Personal services were \$10.2 million or 52.9% of total FY 2017 appropriations. The executive is requesting reductions of \$182,482 in FY 2018 and \$150,321 in FY 2019. This request is approximately \$281,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. The primary reasons for the difference are the additional 2% vacancy savings rate proposed by the executive and employee turnover. Turnover generally lowers salaries because senior employees are typically paid at a higher rate and are replaced by lower paid employees. While overall personal services decreased, there were some pay adjustments that increased employee salaries in FY 2016. These performance adjustments totaled \$42,000.

Funding

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

Department of Labor and Industry, 05-Business Standards Division						
Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
02024 Blasters Program	30,622	0	0	0	30,622	0.08 %
02078 Occupational Therapists	143,623	0	0	0	143,623	0.39 %
02079 Fire Protection & Permitting	177,895	0	0	0	177,895	0.49 %
02080 Prescription Drug Registry	324,273	0	0	0	324,273	0.89 %
02082 Real Estate Recovery Account	0	0	0	1,340	1,340	0.00 %
02103 BSD Capital Assets	0	0	0	0	0	0.00 %
02109 Board Of Outfitters	1,310,060	0	0	0	1,310,060	3.58 %
02155 Boilers Program	1,113,934	0	0	0	1,113,934	3.05 %
02160 BSD Contingency Fund	1,253,148	0	0	0	1,253,148	3.43 %
02207 Cranes Program	185,906	0	0	0	185,906	0.51 %
02359 Chemical Dependency Counselors	0	0	0	0	0	0.00 %
02446 Board Of Psychologist Exam	296,840	0	0	0	296,840	0.81 %
02448 Building Codes State Spec Rev	7,365,885	0	0	0	7,365,885	20.16 %
02580 Board of Athletic Trainers	56,449	0	0	0	56,449	0.15 %
02679 Massage Therapists	397,068	0	0	0	397,068	1.09 %
02764 Private Alt. Adol Programs	84,455	0	0	0	84,455	0.23 %
02767 Elevator Licensing Program	905,678	0	0	0	905,678	2.48 %
02805 Weights & Measures Bureau	2,464,516	0	0	0	2,464,516	6.74 %
02808 Board Of Landscape Architects	80,702	0	0	0	80,702	0.22 %
02809 Board Of Speech Pathologists	156,479	0	0	0	156,479	0.43 %
02810 Bd Of Radiologic Technologists	253,638	0	0	0	253,638	0.69 %
02811 Clinical Lab Science Pract.	173,795	0	0	0	173,795	0.48 %
02812 Physical Therapists	273,669	0	0	0	273,669	0.75 %
02813 Bd Of Nursing Home Admin	163,451	0	0	0	163,451	0.45 %
02814 Bd Of Hearing Aid Dispensers	99,417	0	0	0	99,417	0.27 %
02815 Board Of Public Accountants	(6,060)	0	0	0	(6,060)	(0.02)%
02816 Board Of Sanitarians	103,326	0	0	0	103,326	0.28 %
02818 Electrical Board	945,161	0	0	0	945,161	2.59 %
02819 Board of Realty Regulations	2,121,560	0	0	0	2,121,560	5.81 %
02820 Board Of Architects	239,432	0	0	0	239,432	0.66 %
02821 Board Of Funeral Service	368,859	0	0	0	368,859	1.01 %
02822 Board Of Chiropractors	302,443	0	0	0	302,443	0.83 %
02823 Professional Engineers	912,055	0	0	0	912,055	2.50 %
02824 Board Of Medical Examiners	2,956,137	0	0	0	2,956,137	8.09 %
02826 Cosmetology Board	1,295,674	0	0	0	1,295,674	3.55 %
02828 Board Of Plumbers	690,547	0	0	0	690,547	1.89 %
02829 Private Investigator	481,374	0	0	0	481,374	1.32 %
02830 Board Of Dentistry	642,367	0	0	0	642,367	1.76 %
02831 Board Of Optometrists	111,681	0	0	0	111,681	0.31 %
02832 Board Of Pharmacy	2,028,066	0	0	0	2,028,066	5.55 %
02833 Board Of Nursing	3,293,433	0	0	0	3,293,433	9.01 %
02834 Board Of Veterinarians	353,482	0	0	0	353,482	0.97 %
02840 Board Of Behavioral Health	916,012	0	0	0	916,012	2.51 %
02841 Athletic Licensing Program	32,993	0	0	0	32,993	0.09 %
02852 Bd. Of Alternative Health Care	163,755	0	0	0	163,755	0.45 %
02854 Bd. Of Real Estate Appraisers	1,071,539	0	0	0	1,071,539	2.93 %
02855 Bd Of Respiratory Care	138,378	0	0	0	138,378	0.38 %
02599 DLI Lease Activity	70,000	0	0	0	70,000	0.19 %
State Special Total	\$36,543,717	\$0	\$0	\$1,340	\$36,545,057	98.28 %
03293 Country of Origin Labeling	766	0	0	0	766	100.00 %
03509 Prescrip Drug Registry Grant	0	0	0	0	0	0.00 %
Federal Special Total	\$766	\$0	\$0	\$0	\$766	0.00 %
06552 Admin Services	0	0	0	0	0	0.00 %
06086 Board of Public Accountants	0	0	0	639,234	639,234	100.00 %
Proprietary Total	\$0	\$0	\$0	\$639,234	\$639,234	1.72 %
Total All Funds	\$36,544,483	\$0	\$0	\$640,574	\$37,185,057	

HB 2

State special revenue accounts are maintained for each type of license and professional board. Charges and fees paid by licensees are deposited to the accounts and administrative and operational expenses of the division are charged directly to the funds.

**LFD
ISSUE**
License Fees Not Commensurate with Cost of Operating the Program

State statute outlines several responsibilities for the Department of Labor and Industry regarding professional boards. Fees for administrative services are required to be commensurate with services provided. Additionally, the cash balance in each board's fund is not allowed to exceed twice the board's annual appropriation. There are six funds listed in the table below that had cash balances in excess of statutory limits at the end of FY 2016.

Figure 12

Department of Labor and Industry Business Standards Division Fund Balance Above Statutory Limit			
Fund	Statutorily Allowed Cash Balance	Current Cash Balance	Excess Cash Balance
Fire Protection and Permitting	\$180,065	\$191,284	\$11,219
Crane Licensing	217,074	223,670	6,596
Board of Athletic Trainers	57,076	70,373	13,297
Board of Pharmacy	1,994,771	2,235,761	240,990
Board of Hearing Aid Dispensers	99,497	175,844	76,347
Board of Adolescent Residential or Outdoor Programs	<u>93,347</u>	<u>173,393</u>	<u>80,046</u>
Total	<u>\$2,641,830</u>	<u>\$3,070,325</u>	<u>\$428,495</u>

Additional information on how the department is going to address the issue of excess cash are included below.

- **Fire Protection and Permitting** – A position that was vacant for most of the fiscal year contributed to the excess cash balance. This position has been filled and as a result the cash balance of the fund should return to an appropriated level in FY 2017.
- **Crane Licensing** – The program is experiencing an increase in permit processing which will result in an increase in expenses. In addition, the program had a vacant inspector position that has been recently filled. The department anticipates these changes will result in cash returning to appropriate levels.
- **Board of Athletic Trainers** – The board has authorized a 100% abatement of renewal fees during the renewal period. The reduced revenue is expected to return the cash to an appropriate level.
- **Board of Pharmacy** - The Board will continue with a 50% fee abatement on license renewals. The Board also has a proposed fee decrease rule change and will move forward with the noticing process depending on the passage of legislation related to the Montana Prescription Drug Registry.
- **Board of Hearing Aid Dispensers** – The Board is currently looking at a fee abatement for the next renewal period which will take place at the end of the fiscal year. The abatement is expected to bring cash balances back to an appropriate level.
- **Board of Adolescent Residential or Outdoor Programs** – The Board is currently looking at a fee abatement for the next renewal period which will take place at the end of the fiscal year. The abatement is anticipated to bring the cash balance back to an appropriate level.

Legislative Option

The Legislature may wish to review the fund balances when it convenes in January to determine if the planned uses of these excess funds are reducing the balances sufficiently to meet statutory requirements.

Statutory Appropriations

The Board of Public Accountants is statutorily appropriated. The enterprise fund receives licensing fees, money collected by the department on behalf of the board and interest or earnings on money deposited. This fund was established by the 2015 Legislature and sunsets September 30, 2019.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	18,903,436	18,903,436	37,806,872	103.45 %	
SWPL Adjustments	0	0	0	0.00 %	(256,133)	(208,687)	(464,820)	(1.27)%	
PL Adjustments	0	0	0	0.00 %	(359,997)	(437,572)	(797,569)	(2.18)%	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$18,287,306	\$18,257,177	\$36,544,483		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	(182,482)	0	(182,482)	0.00	0	(150,321)	0	(150,321)
DP 2 - Fixed Costs	0.00	0	(11,784)	0	(11,784)	0.00	0	(12,499)	0	(12,499)
DP 3 - Inflation Deflation	0.00	0	(61,867)	0	(61,867)	0.00	0	(45,867)	0	(45,867)
DP 5001 - BSD BCB Vehicles	0.00	0	64,525	0	64,525	0.00	0	(3,050)	0	(3,050)
DP 5002 - BSD Contract Changes	0.00	0	62,860	0	62,860	0.00	0	52,860	0	52,860
DP 5003 - Real Estate Appraiser Compliance (RST)	0.00	0	42,000	0	42,000	0.00	0	42,000	0	42,000
DP 5004 - BSD Public Accountant Appropriation Reduction	(1.00)	0	(529,382)	0	(529,382)	(1.00)	0	(529,382)	0	(529,382)
Grand Total All Present Law Adjustments	(1.00)	\$0	(\$616,130)	\$0	(\$616,130)	(1.00)	\$0	(\$646,259)	\$0	(\$646,259)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 5001 - BSD BCB Vehicles -

The executive requests state special revenue funds to replace vehicles used by Buildings Codes, Crane, and Elevator Inspectors. The request will allow for the replacement of 11 vehicles in FY 2018 and 8 vehicles in FY 2019.

DP 5002 - BSD Contract Changes -

The executive requests state special revenue for anticipated changes to contracts for various programs in the Licensing and Board Management Bureaus.

DP 5003 - Real Estate Appraiser Compliance (RST) -

The executive requests state special revenue in order to comply with a federal mandate that requires the Board of Real Estate Appraisers to collect fees for the National Registry. The Board forwards the fees to the federal agency responsible for oversight of the National Registry.

DP 5004 - BSD Public Accountant Appropriation Reduction -

The executive requests a decrease in state special revenue and 1.00 FTE for the Board of Public Accountants. During the 2015 session, HB 560 created a statutorily appropriated enterprise fund for the board, allowing authority to be removed from the state special revenue fund in HB 2. This reduction will eliminate the state special revenue fund in the 2019 biennium.

Other Issues -

Proprietary Rates

Public Accountants – 06586

Proprietary Program Description

The Legislature, during the 2015 session, revised the funding structure for the Board of Public Accountants. The Board moved from funding through state special revenue to an enterprise fund. The enterprise fund sunsets September 30, 2019.

Proprietary Program Narrative

Expenses

The figure below shows the actual expenses for FY 2016 and proposed expenses for FY 2018 and FY 2019. Personal service are proposed to decrease due to statewide present law adjustments.

2019 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name			
6086	Public Accountants	66020	Dept of Labor & Industry	Business Standards Division			

	Actual FY 14	Actual FY 15	Actual FY 16	Budgeted FY 17	Budgeted FY 18	Budgeted FY 19
Operating Revenues						
Fees and Charges						
Fee Revenue A Licenses & Permits			388,100	390,000	390,000	390,000
Fee Revenue B Charges for Service			28,417	23,800	23,800	23,800
Fee Revenue C Fines & Forfeits			25,910	15,000	15,000	15,000
Fee Revenue D Sale of Documents			1,420	1,500	1,500	1,500
Other Operating Revenues						
Revenue A BOLI Investment Earnings			2,099	-	-	-
Revenue B Grants Transfers & Misc			2,789	100	100	100
Total Operating Revenues	-	-	448,735	430,400	430,400	430,400
Expenses						
Personal Services			170,731	229,500	113,986	114,074
Other Operating Expense			180,627	203,390	203,390	203,390
Expense A Operating			1,178	1,397	1,397	1,397
Expense B Transfers-out			164	800	800	800
Expense C			12,240			
Total Operating Expense	-	-	364,940	435,087	319,573	319,661
Operating Income (Loss)	-	-	83,795	(4,687)	110,827	110,739
Nonoperating Revenues						
Nonoperating Expenses						
Total Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers	-	-	83,795	(4,687)	110,827	110,739
Capital Contributions						
Transfers In			485,341			
Change in Net Position	-	-	569,136	(4,687)	110,827	110,739
Beginning Net Position - July 1		-	-	569,370	564,683	675,510
Prior Period Adjustments			234			
Change in Net Position	-	-	569,136	(4,687)	110,827	110,739
Ending Net Position - June 30	-	-	569,370	564,683	675,510	786,249

Revenue

The Board of Public Accountants is statutorily appropriated. The enterprise fund receives licensing fees, money collected by the department on behalf of the board, and interest or earnings on money deposited.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	9,497,656	9,148,327	(349,329)	(3.68)%
Operating Expenses	12,077,513	12,060,886	(16,627)	(0.14)%
Debt Service	13,096	13,096	0	0.00 %
Total Expenditures	\$21,588,265	\$21,222,309	(\$365,956)	(1.70)%
Proprietary Funds	21,588,265	21,222,309	(365,956)	(1.70)%
Total Funds	\$21,588,265	\$21,222,309	(\$365,956)	(1.70)%

Program Description

The Technology Services Division (TSD) provides information technology services and support for the department including IT project management, application development, and network services.

Program Highlights

Technology Services Division Major Budget Highlights	
The Technology Services Division 2019 biennium budget request is approximately \$366,000 or 1.7% lower than the 2017 biennium. Decreases are due to statewide present law adjustments for personal services, fixed costs, and inflation/deflation.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	55.00	55.00	55.00	55.00	55.00
Personal Services	3,783,652	4,685,965	4,811,691	4,566,526	4,581,801
Operating Expenses	6,110,532	6,017,968	6,059,545	6,030,499	6,030,387
Debt Service	38,892	6,548	6,548	6,548	6,548
Total Expenditures	\$9,933,076	\$10,710,481	\$10,877,784	\$10,603,573	\$10,618,736
Proprietary Funds	9,933,076	10,710,481	10,877,784	10,603,573	10,618,736
Total Funds	\$9,933,076	\$10,710,481	\$10,877,784	\$10,603,573	\$10,618,736

Program Discussion -*FY 2016 Appropriation Compared to FY 2016 Actual Expenditures*

The Technology Services Division expended 92.7% of its FY 2016 budget. Personal services were 80.7% expended which is lower than anticipated due to large turnover after a reorganization of the division. Hiring was delayed initially to complete projects that needed knowledgeable staff and later due to recruitment difficulties related to information technology applicants.

Executive Request

The Technology Services is requesting a decrease in its FY 2018 and FY 2019 budget. The requested decrease is due to statewide present law decreases in personal services, fixed costs, and inflation/deflation. The requested decreases will be discussed in further detail in the Present Law Adjustments section below.

Funding

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

Department of Labor and Industry, 06-Technology Services Division Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
03124 Employment Trng Grants	0	0	0	0	0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
06546 Commissioner's Office/CSD	0	0	0	0	0	0.00 %	
06552 Admin Services	0	0	0	0	0	0.00 %	
06568 Technical Services	0	0	11,070,313	0	11,070,313	52.16 %	
06578 Technical Services Direct	0	0	10,151,996	0	10,151,996	47.84 %	
Proprietary Total	\$0	\$0	\$21,222,309	\$0	\$21,222,309	100.00 %	
Total All Funds	\$0	\$0	\$21,222,309	\$0	\$21,222,309		

The Technology Services Division is funded entirely with proprietary rates.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	10,877,784	10,877,784	21,755,568	102.51 %
SWPL Adjustments	0	0	0	0.00 %	(274,211)	(259,048)	(533,259)	(2.51)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$10,603,573	\$10,618,736	\$21,222,309	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	(245,165)	0.00	0	0	0	(229,890)
DP 2 - Fixed Costs	0.00	0	0	0	(29,048)	0.00	0	0	0	(29,152)
DP 3 - Inflation Deflation	0.00	0	0	0	2	0.00	0	0	0	(6)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	(\$274,211)	0.00	\$0	\$0	\$0	(\$259,048)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

Other Issues -

Proprietary Rates

Technical Services – 06568

Proprietary Program Description

The Technology Services Division (TSD) provides information technology services and support for the department including technical services, network services, help desk, project management, and application services including computer programming and database management. There are two funds, the Technology Services fund and the Technical Services Direct fund. These funds are discussed in further detail below.

Expenses

The figure below shows the actual expenditures for FY 2016 and proposed expenditures for FY 2018 and FY 2019. The Technical Services fund includes expenses for the Technical Services Section and Application Section. The Technical Services Section has expenses for information technology infrastructure such as the network, servers, and the help desk.

The Application Section has expenses related to staff that are programming, testing, and analyzing the department's applications. Overall, the executive is proposing a decrease in personal services and other operating expenditures in the Technical Services fund.

2019 Biennium Report on Internal Service and Enterprise Funds						
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Technology Services Division		
	Fund 06568	Fund Name Technical Services				
	Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:						
Fee and Charges						
Other Operating Revenue	2,070,990	2,070,904	5,634,664	5,551,640	5,742,839	5,742,839
Total Operating Revenues	2,070,990	2,070,904	5,634,664	5,551,640	5,742,839	5,742,839
Expenses:						
Personal Services	1,560,023	1,518,421	3,999,859	4,811,691	4,566,526	4,581,801
Other Operating Expenses	590,656	693,708	892,373	990,095	961,049	960,937
Total Operating Expenses	2,150,679	2,212,129	4,892,232	5,801,786	5,527,575	5,542,738
Operating Income (Loss)	(79,689)	(141,225)	742,432	(250,146)	215,264	200,101
Nonoperating Revenues:						
Nonoperating Expenses:						
Total Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers	(79,689)	(141,225)	742,432	(250,146)	215,264	200,101
Transfers Out						
Change in Net Position	-	-	(2,771)	-	-	-
	(79,689)	(141,225)	739,661	(250,146)	215,264	200,101
Beginning Net Position - July 1	189,355	106,339	(34,886)	704,775	454,629	669,893
Prior Period Adjustments	(3,327)	-	-	-	-	-
Change in Net Position	(79,689)	(141,225)	739,661	(250,146)	215,264	200,101
Ending Net Position - June 30	106,339	(34,886)	704,775	454,629	669,893	869,994
Net Position (Fund Balance) Analysis						
Unrestricted Net Position	106,338	(34,887)	707,545	457,399	672,664	872,765

Revenue

Revenues for the Technical Services Section are billed to divisions and based on a monthly rate approved by both the Legislature and the U.S. Department of Labor. Revenues for the Application Section are billed to divisions based on an hourly rate approved by the Legislature and the U.S. Department of Labor. The table below shows the rates proposed by the executive for the 2019 biennium.

Figure 13

Requested Rates for Internal Service Fund Fee/Rate Information				
	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Fee Description:				
Application Hourly Rate	\$84	\$84	\$84	\$84
Technical Services Rate	\$256	\$256	\$256	\$256

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

Technical Services – 06578

Expenses

The figure below shows the actual expenditures for FY 2016 and proposed costs for FY 2018 and FY 2019. The Technical Services Direct fund includes expenses for pass through information technology expenditures that could be directly related to a division. These include ITSD charges, software purchases, and contract payments.

2019 Biennium Report on Internal Service and Enterprise Funds							
Agency # 66020	Agency Name: Department of Labor and Industry			Program Name: Technology Services Division			
	Fund 06578	Fund Name Technical Services Direct					
		Actual FY14	Actual FY15	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Operating Revenues:							
Fee and Charges							
Revenue A		-	-	4,937,977	5,075,998	5,075,998	5,075,998
Total Operating Revenues		-	-	4,937,977	5,075,998	5,075,998	5,075,998
Expenses:							
Other Operating Expenses							
Total Operating Expenses		-	-	4,937,977	5,075,998	5,075,998	5,075,998
Operating Income (Loss)		-	-	-	-	-	-
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		-	-	-	-	-	-
Change in Net Position		-	-	-	-	-	-
Change in Net Position		-	-	-	-	-	-
Ending Net Position - June 30		-	-	-	-	-	-
Net Position (Fund Balance) Analysis							

Revenue

Revenues for the Technical Services Direct fund are paid through the Technology Services Division and are then billed to divisions monthly for the actual costs. The table below shows the rates proposed by the executive for the 2019 biennium.

Figure 14

Requested Rates for Internal Service Fund Fee/Rate Information				
	Actual FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Fee Description:				
Enterprise Rate	\$876,310	\$968,791	\$819,755	\$819,755
Direct Actuals Rate	Actuals + 0%	Actuals + 0%	Actuals + 0%	Actuals + 0%

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	634,534	685,101	50,567	7.97 %
Operating Expenses	330,787	434,739	103,952	31.43 %
Grants	5,309,035	6,130,044	821,009	15.46 %
Transfers	464,000	464,000	0	0.00 %
Debt Service	1,992	1,904	(88)	(4.42)%
Total Expenditures	\$6,740,348	\$7,715,788	\$975,440	14.47 %
General Fund	305,366	295,599	(9,767)	(3.20)%
State/Other Special Rev. Funds	26,080	26,080	0	0.00 %
Federal Spec. Rev. Funds	6,408,902	7,394,109	985,207	15.37 %
Total Funds	\$6,740,348	\$7,715,788	\$975,440	14.47 %
Total Ongoing	\$6,740,348	\$7,715,788	\$975,440	14.47 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Governor's Office of Community Service (OCS) was created by the 1993 Legislature, at the request of the Governor, with the mission to renew the ethic of civic responsibility in the state, to engage citizens in service, and support volunteer opportunities focused on critical community needs. The OCS provides administration for the Corporation for National and Community Service' AmeriCorps state programs, creates opportunities for individuals to engage in their community, and recognizes the power of individuals who make a difference through service. OCS also administers the ReadyMontana initiative, a statewide effort to encourage individual disaster preparedness.

Program Highlights

Office of Community Services Major Budget Highlights
The Office of Community Services 2019 biennium budget request is approximately \$975,000 or 14.5% higher than the 2017 biennium. Significant changes include proposed increases due to additional federal grant funding.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	4.00	4.00	4.00	4.00	4.00
Personal Services	312,557	322,946	311,588	341,100	344,001
Operating Expenses	100,164	154,448	176,339	217,155	217,584
Grants	2,035,262	2,654,516	2,654,519	3,065,022	3,065,022
Transfers	222,116	232,000	232,000	232,000	232,000
Debt Service	1,039	1,040	952	952	952
Total Expenditures	\$2,671,138	\$3,364,950	\$3,375,398	\$3,856,229	\$3,859,559
General Fund	150,373	150,374	154,992	147,574	148,025
State/Other Special Rev. Funds	0	13,040	13,040	13,040	13,040
Federal Spec. Rev. Funds	2,520,765	3,201,536	3,207,366	3,695,615	3,698,494
Total Funds	\$2,671,138	\$3,364,950	\$3,375,398	\$3,856,229	\$3,859,559
Total Ongoing	\$2,671,138	\$3,364,950	\$3,375,398	\$3,856,229	\$3,859,559
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Office of Community Services expended 79.4% of its FY 2016 budget. Personal services were 96.8% expended, operating expenses were 64.9% expended, and grants were 76.7% expended. The lower percentages expended were due to the division not receiving the level of federal awards anticipated.

Executive Request

The Office of Community Services is requesting an increase in FY 2018 and FY 2019 for personal services and operating expenses. Proposed increases are primarily due to additional federal grant funding and will be discussed in further detail in the Present Law Adjustments section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 15

Department Of Labor And Industry: 07 Office Of Community Services Personal Services Present Law Calculations			
PS Base:	\$311,588		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$11,175)	(\$8,274)
Legislative	Statutory Personal Service Change	<u>2,280</u>	<u>5,380</u>
	Difference	(13,455)	(13,654)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(6,253)	(6,314)
	Broadband Pay Adjustments	3,035	3,035
	Benefits and Taxes on Pay Adjustment	555	555
	Other	(10,792)	(10,931)
	Total	(\$13,455)	(\$13,654)

Personal services were \$311,588 or 9.2% of total FY 2017 appropriations. The executive is requesting a decrease of \$11,175 in FY 2018 and \$8,274 in FY 2019. The executive proposal is approximately \$13,500 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is partly due to the additional 2% vacancy savings rate proposed by the executive and staff turnover.

Funding

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

Department of Labor and Industry, 07-Office of Community Services Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	295,599	0	0	0	295,599	3.83 %
02190 OCS - Training	26,080	0	0	0	26,080	100.00 %
State Special Total	\$26,080	\$0	\$0	\$0	\$26,080	0.34 %
03322 MT Community Service FSR	7,394,109	0	0	0	7,394,109	100.00 %
03339 Office of Community Svcs SSR	0	0	0	0	0	0.00 %
03661 OCS FEMA	0	0	0	0	0	0.00 %
Federal Special Total	\$7,394,109	\$0	\$0	\$0	\$7,394,109	95.83 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$7,715,788	\$0	\$0	\$0	\$7,715,788	

The majority of the funding for the program is provided through federal AmeriCorp grants. General fund and state special revenue combine provide approximately 4.0% of the program revenues and fund most of the administrative expenses for the program. Federal revenue provides the remainder of funding for administrative expenses including the funding for grant and special projects administered by the program.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	154,992	154,992	309,984	104.87 %	3,375,398	3,375,398	6,750,796	87.49 %
SWPL Adjustments	101	552	653	0.22 %	(12,243)	(8,913)	(21,156)	(0.27)%
PL Adjustments	0	0	0	0.00 %	500,593	500,593	1,001,186	12.98 %
New Proposals	(7,519)	(7,519)	(15,038)	(5.09)%	(7,519)	(7,519)	(15,038)	(0.19)%
Total Budget	\$147,574	\$148,025	\$295,599		\$3,856,229	\$3,859,559	\$7,715,788	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	(11,175)	(11,175)	0.00	0	0	(8,274)	(8,274)
DP 2 - Fixed Costs	0.00	56	0	(1,169)	(1,113)	0.00	476	0	(1,191)	(715)
DP 3 - Inflation Deflation	0.00	45	0	0	45	0.00	76	0	0	76
DP 7001 - OCS Federal Appropriation	0.00	0	0	500,593	500,593	0.00	0	0	500,593	500,593
Grand Total All Present Law Adjustments	0.00	\$101	\$0	\$488,249	\$488,350	0.00	\$552	\$0	\$491,128	\$491,680

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 7001 - OCS Federal Appropriation -

The executive requests federal special revenue for additional AmeriCorp federal grant funding. This request supports AmeriCorps program grants which provide funding opportunities for local communities in the areas of Environmental

Stewardship, Education, Disaster Services, Economic Opportunity, Veterans & Military Families and American Indian Affairs.

New Proposals -

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

New Proposals										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(7,519)	0	0	(7,519)	0.00	(7,519)	0	0	(7,519)
Total	0.00	(\$7,519)	\$0	\$0	(\$7,519)	0.00	(\$7,519)	\$0	\$0	(\$7,519)

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

DP 555 - Appropriation Rebase -

The Executive Budget includes targeted budget reductions across most agencies. The Executive proposes the Office of Community Services Appropriation Rebase totaling \$7,519 and was included in the agency reduction plan submitted in compliance with 17-7-111, MCA.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	1,203,821	1,220,671	16,850	1.40 %
Operating Expenses	303,269	299,332	(3,937)	(1.30)%
Debt Service	3,030	4,630	1,600	52.81 %
Total Expenditures	\$1,510,120	\$1,524,633	\$14,513	0.96 %
State/Other Special Rev. Funds	1,510,120	1,524,633	14,513	0.96 %
Total Funds	\$1,510,120	\$1,524,633	\$14,513	0.96 %
Total Ongoing	\$1,510,120	\$1,524,633	\$14,513	0.96 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Workers' Compensation Court, created on July 1, 1975, provides a forum for Montana employees, employers, and the insurance industry to resolve disputes arising from work-related injuries and occupational diseases. The court is attached to the department for administrative purposes only.

Program Highlights

Workers' Compensation Court Major Budget Highlights
The Workers Compensation Court 2019 biennium budget request is approximately \$15,000 or 1.0% higher than the 2017 biennium.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	7.00	7.00	7.00	7.00	7.00
Personal Services	565,520	593,472	610,349	608,489	612,182
Operating Expenses	153,016	153,698	149,571	149,613	149,719
Debt Service	662	715	2,315	2,315	2,315
Total Expenditures	\$719,198	\$747,885	\$762,235	\$760,417	\$764,216
State/Other Special Rev. Funds	719,198	747,885	762,235	760,417	764,216
Total Funds	\$719,198	\$747,885	\$762,235	\$760,417	\$764,216
Total Ongoing	\$719,198	\$747,885	\$762,235	\$760,417	\$764,216
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Workers Compensation Court expended 96.2% of its FY 2016 budget. Personal services were 95.3% expended and operating expenses were 99.6% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is mainly in personal services. The pay plan is primarily contributing to this difference.

Executive Request

Statewide present law changes for personal services, fixed costs, and inflation/deflation are causing the slight changes in requested appropriations for FY 2018 and FY 2019. These requested adjustments will be discussed in further detail in the Present Law Adjustments section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 16

Department Of Labor And Industry: 09 Workers Compensation Court Personal Services Present Law Calculations			
PS Base:	\$610,349		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$1,860)	\$1,833
Legislative	Statutory Personal Service Change	6,044	9,940
	Difference	(7,904)	(8,107)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(12,676)	(12,752)
	Broadband Pay Adjustments	11,993	11,993
	Benefits and Taxes on Pay Adjustment	2,230	2,230
	Other	(9,451)	(9,578)
	Total	(\$7,904)	(\$8,107)

Personal services were \$610,349 or 80.1% of total FY 2017 appropriations. The executive is requesting a decrease of \$1,860 in FY 2018 and an increase \$1,833 in FY 2019. The executive proposal is approximately \$8,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is primarily due to the additional 2% vacancy savings rate proposed by the executive and employee turnover. Turnover generally lowers salaries because senior employees are typically paid at a higher rate and are replaced by lower paid employees. While overall personal services decreased, there were some pay adjustments that increase employee salaries in FY 2016. These adjustments were market and performance adjustments and totaled nearly \$12,000.

Funding

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

Department of Labor and Industry, 09-Workers Compensation Court Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	0	0	0	0	0	0.00 %
02455 Workers' Comp Regulation	1,524,633	0	0	0	1,524,633	100.00 %
State Special Total	\$1,524,633	\$0	\$0	\$0	\$1,524,633	100.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$1,524,633	\$0	\$0	\$0	\$1,524,633	

The court is entirely funded with state special revenue derived from a fee charged to workers compensation carriers in Montana. The fee is passed on to Montana businesses when their workers' compensation premiums are determined by the carriers.

Program Budget Summary by Category

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

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				Percent of Budget
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	
2017 Base Budget	0	0	0	0.00 %	762,235	762,235	1,524,470	99.99 %	
SWPL Adjustments	0	0	0	0.00 %	(1,818)	1,981	163	0.01 %	
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$760,417	\$764,216	\$1,524,633		

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services										
DP 1 - Personal Services	0.00	0	(1,860)	0	(1,860)	0.00	0	1,833	0	1,833
DP 2 - Fixed Costs										
DP 2 - Fixed Costs	0.00	0	(25)	0	(25)	0.00	0	(33)	0	(33)
DP 3 - Inflation Deflation										
DP 3 - Inflation Deflation	0.00	0	67	0	67	0.00	0	181	0	181
Grand Total All Present Law Adjustments	0.00	\$0	(\$1,818)	\$0	(\$1,818)	0.00	\$0	\$1,981	\$0	\$1,981

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

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

AGENCY CODE & NAME: 66020 Department of Labor & Industry

	Minimum Requirement	
	General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET	\$ 93,757	\$ 1,237,447
PRIORITY	General Fund Annual Savings	State Special Revenue Annual Savings
SERVICE(S) TO BE ELIMINATED OR REDUCED		
1 WSD Federal Match Reduction		\$ 4,753
2 CSD Reduction to services	\$ 14,166	\$ 2,734
3 ERD FTE Reduction HR/Eliminate Safety Services	\$ 72,072	\$ 379,443
4 BSD	\$ -	\$ 814,557
5 OSC	\$ 7,519	
6 WCC FTE reduction		\$ 35,960
TOTAL SAVINGS	\$ 93,757	\$ 1,237,447
DIFFERENCE	\$ -	\$ -

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 01

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

The R&A Bureau in WSD receives federal funding from the US DOL to fund studies done on occupational injuries and illnesses as well as fatal occupation injuries. This federal funding requires a 50% match from state special revenue. If the state revenue were reduced, the amount of federal funding we would be allowed to spend would be reduced by the same.

#2 THE SAVINGS THAT ARE EXPECTED:

\$4,753 in state special revenue and due to 50% match requirement, \$4,753 in federal revenue

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

Less informaton would be obtained in regards to occupational illnesses and injuries in the state of MT.

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

There is currently 1.5 FTE working on this program. Staff time would have to be reduced for this project and constituents would not have as timely information on occupational injuries and illnesses around the state.

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

In order to receive federal funding for this program, the state must have a 50% state funded match.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 03

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

Reduce Office of Administrative Hearings for the Human Rights

#2 THE SAVINGS THAT ARE EXPECTED:

The Office of Administrative Hearings Bureau would reduce \$14,166 through vacancy cy savings and operating reductions

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

The Office of Administrative Hearings would reduce the amount of Hearings Officers time spent on human rights cases , which would result in delays in hearings completions and result in loss of department jurisdiction in some cases. If the department loses jurisdiction, a person with a case that the Human Rights Bureau has found merit would have to re-file the case in court, rather than having the benefit of a prompt administrative hearing.

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

Unknown

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

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 03

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

Reduce Office of Administrative Hearings for Business Standards Division (BSD) funding

#2 THE SAVINGS THAT ARE EXPECTED:

The Office of Administrative Hearings would reduce \$2,734 through vacancy savings and operating reductions.

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

The Office of Administrative Hearings would reduce the amount of hearings offices time spent on BSD cases, which would result in delays in hearings completions and result in loss of department jurisdiction in some cases.

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

Unknown

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

Yes

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 04

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

The position for elimination is the Compliance Specialist position. There are currently 8 Compliance Specialists in the Human Rights Bureau and the bureau is fully staffed. The reduction of one Compliance Specialist would result in a heavier workload for the remaining 7 Specialists and a reduction in the number of cases handled each year. The bureau has a goal of completing case investigations within 120 days for

#2 THE SAVINGS THAT ARE EXPECTED:

1. Elimination of Compliance Specialist position = \$66,700
2. Reduction in operating costs will come from:
 - 62187 Records Storage = \$2,000
 - 62236 Ofc Supplies/E-Market = \$1,000
 - 62827T DLI Legal Expense = \$2,372

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

1. The position for elimination is the Compliance Specialist position. There are currently 8 Compliance Specialists in the Human Rights Bureau and the bureau is fully staffed. The reduction of one Compliance Specialist would result in a heavier workload for the remaining 7 Specialists and a reduction in the number of cases handled each year. The bureau has a goal of completing case investigations within 120 days for housing charges and 180 days for all other charges in accordance with state statutory time lines. With the reduced staff the bureau will reduce the quality of work and ability to achieve their goal. More cases may be filed in District Court
2. The HRB has capacity to store records in-house. Currently storage is at an off-site location. Reduction in office supplies and material could result in challenges to complete work effectively and reduce moral by not feeling employee needs are being taken into consideration. Reduction in legal fees would directly impact the bureaus ability to represent their cases.

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

Unable to fully quantify at this time; however, increased workload to other specialists which could result in increased turnover.

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

Yes - 49-2-504, MCA

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 04

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

Eliminate public entity safety compliance services.

#2 THE SAVINGS THAT ARE EXPECTED:

Safety Compliance Section = \$379,443

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

Requests for safety consultations with public entities will not be performed; public entity inspections will be not completed; Mine employees and contractors will have to travel to centralized pre-scheduled training. The Compliance Service cost \$516,798.53 in FY16 and is quickly growing the public entity audience it is attracting. This growth will match or exceed the expenses necessary to create a 5% reduction in the Agency.

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

Public entities could hire private safety professionals to conduct consultations. Number of compliance may decrease.

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

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 05

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

The Board Management, Licensing Bureau, and Building Codes Bureau, will reduce operating expenditures for education/training, supplies, program expenses, minor equipment, meeting rooms, association dues, and eliminate out of state travel and temporary services expenses. Non emergency upgrades or maintenance to the Division Licensing and Permitting database will be delayed or eliminated. Personal Services will be reduced by holding position vacancies open.

#2 THE SAVINGS THAT ARE EXPECTED:
\$814,557 State Special

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

Essential services provided to license applicants including licensing renewal, compliance, and investigation services can not be assured. Licensing regulation and practice may be affected due to the fact that we are not keeping up with national trends and practice standards. In Building Codes, essential services could be curtailed or eliminated, there could be a loss or reduction in public information or education on code topics, and reduction in permit and inspection services could occur. Lack of updates and enhancements to the database would likely result in delays to license and permit applicants in being able to smoothly upload data for applications and renewals, and possibly delay the availability of information to the public via the licensee lookup system.

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

Constituents will not receive their licenses in a timely manner and this will delay them finding or going to work. In Building Codes, staff may need additional training and certification to carry out some reduced or eliminated services. Building codes stakeholders and/or constituents could experience more out of pocket expense for services previously provided by the bureau. Division staff, based on experience would be kept on board as vacancies occur and the division could probably provide sufficient services for a year, but long term, the changes and reductions noted in #3 would result in a degradation of services to the public and licensees.

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

Yes, Title 37. Building Codes - MCA 50-60-103, 50-60-116, and 50-60-203 all have provisions where these services are required as part of administering, adopting, and interpreting building codes.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 DLI Program 07

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

Reduce one FTE by 8%

#2 THE SAVINGS THAT ARE EXPECTED:
7,519 General Fund

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

AmeriCorps Program impact, reduction in program oversight and training; which could result in findings and reduction in AmeriCorps funding. Increased workload to remaining staff. Reduction in service impact across the state.

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

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

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 66020 Program 9

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

I reduction in staff and operating costs for the Workers' Compensation Court

#2 THE SAVINGS THAT ARE EXPECTED:

The Workers' Compensation Court would reduce \$35,960 through vacancy savings and operating reductions

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

Reducing a full-time Court staff member, which would save the Court between \$50,000 and \$90,000 per year, at this juncture, would increase the delay in issuing decisions. This would put an undue hardship upon claimants as they need to receive benefits due or be apprised that they are not entitled to any benefits, and upon respondent insurers as they are entitled to know whether they are liable for payment of benefits. The Court is a small agency and a reduction in force would put undue burden on remaining staff to complete the duties of the Court as required by the statutes in the Workers' Compensation Act.

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

Unknown

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

Yes

Form B

FY 2017 Fund Appropriation Transactions - Department of Labor and Industry								
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	Other	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Workforce Services Division								
01100 General Fund	52,332	14,607		(66,939)		0	-100.0%	-100.0 %
02258 Employment Security Account	10,248,203	534,546	9,000	0	899,690	11,691,439	14.1%	14.1 %
02347 Safety Administration				117,896		117,896	100.0%	100.0 %
02455 Workers' Comp Regulation	113,737	4,159		(117,896)		0	-100.0%	-100.0 %
03124 Employment Trng Grants	8,787,158	178,425	(45,000)	(687,496)		8,233,087	-6.3%	-6.3 %
03128 L & I Federal Funding	451,665	12,402		0		464,067	2.7%	2.7 %
03131 OSHA Stat Prgm Fed.St Sdy	113,705	4,134		0		117,839	3.6%	3.6 %
03194 Research & Analysis BLS	748,416	28,249		(23,383)		753,282	0.7%	0.7 %
03297 Labor and Industry Veteran Gra	654,201	29,754		0		683,955	4.5%	4.5 %
03682 Wagner Peyser	6,144,739	393,248	(50,000)	0		6,487,987	5.6%	5.6 %
03692 Alien Labor Certification(ALC)	50,526	2,278		60,196		113,000	123.6%	123.6 %
03693 Wrk Opportunities Tx Crdt/WOTC	54,357	1,388				55,745	2.6%	2.6 %
03694 Trade Adjustment Assist/NAFTA	683,973	13,156		0		697,129	1.9%	1.9 %
03954 UI Administrative Grants	9,302	687		650,683		660,672	7002.5%	7002.5 %
Program Total	28,112,314	1,217,033	(86,000)	(66,939)	899,690	30,076,098	7.0%	7.0 %
02 Unemployment Insurance Div								
02258 Employment Security Account	4,269,904	1,027,170		14,207		5,311,281	24.4%	24.4 %
02315 DLI Info Exchange/Rental	84,207			(14,207)		70,000	-16.9%	-16.9 %
03278 UI Penalty & Interest	650,004	11,332		0		661,336	1.7%	1.7 %
03682 Wagner Peyser		0				0	100.0%	100.0 %
03954 UI Administrative Grants	10,286,726	370,501	41,726	0		10,698,953	4.0%	4.0 %
Program Total	15,290,841	1,409,003	41,726	0		16,741,570	9.5%	9.5 %
03 Commissioner'S Office/Csd								
01100 General Fund	236,779	8,723		66,939		312,441	32.0%	32.0 %
02233 BSD Hearings	40,181	2,115		24,000		66,296	65.0%	65.0 %
02258 Employment Security Account	344,124	9,398	(9,000)	(25,000)		319,522	-7.1%	-7.1 %
02315 DLI Info Exchange/Rental	1,071					1,071	0.0%	0.0 %
02455 Workers' Comp Regulation	6,724	303		(7,027)		0	-100.0%	-100.0 %
02941 Uninsured Employer Fund				8,027		8,027	100.0%	100.0 %
03122 EEOC	32,526					32,526	0.0%	0.0 %
03124 Employment Trng Grants	9,599			(9,599)		0	-100.0%	-100.0 %
03954 UI Administrative Grants	384,313	52,126	53,274	9,599		499,312	29.9%	29.9 %
Program Total	1,055,317	72,665	44,274	66,939		1,239,195	17.4%	17.4 %
04 Employment Relations Division								
01100 General Fund	1,426,267	47,076		0		1,473,343	3.3%	3.3 %
02258 Employment Security Account	1,804,606	51,261		(197,207)		1,658,660	-8.1%	-8.1 %
02263 Subsequent Injury Admin	51,185	1,086		(14,961)		37,310	-27.1%	-27.1 %
02315 DLI Info Exchange/Rental	6,032					6,032	0.0%	0.0 %
02346 Contractor Registration	1,582,473	38,593		(211,772)		1,409,294	-10.9%	-10.9 %
02347 Safety Administration				2,332,840		2,332,840	100.0%	100.0 %
02455 Workers' Comp Regulation	6,674,902	385,404		(1,904,943)		5,155,363	-22.8%	-22.8 %
02941 Uninsured Employer Fund	1,630,778	45,321		(3,957)		1,672,142	2.5%	2.5 %
03122 EEOC	155,313	46,674		45,000		246,987	59.0%	59.0 %
03130 Coal Mine Safety	1,841	150,000				151,841	100.0%	8147.7 %
03195 On-Site Consultation	575,543	16,525		(45,000)		547,068	-4.9%	-4.9 %
Program Total	\$13,908,940	\$781,940		\$0		\$14,690,880	5.6%	5.6 %

FY 2017 Fund Appropriation Transactions - Department of Labor and Industry								
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	Other	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
05 Business Standards Division								
02024 Blasters Program	14,472	947		0		15,419	6.5%	0.0%
02078 Occupational Therapists	55,969	1,894		14,000		71,863	28.4%	24.2%
02079 Fire Protection & Permitting	88,328	1,420		0		89,748	1.6%	0.0%
02080 Prescription Drug Registry	287,765	947		(126,574)		162,138	-43.7%	-43.8%
02109 Board Of Outfitters	653,783	9,469		(4,600)		658,652	0.7%	-0.7%
02155 Boilers Program	528,230	28,406		0		556,636	100.0%	0.0%
02160 BSD Contingency Fund	500,000			126,574		626,574	25.3%	25.3%
02207 Cranes Program	104,894	3,314		0		108,208	3.2%	0.0%
02359 Chemical Dependency Counselors	135,641	11,841		(147,482)		0	-100.0%	-100.0%
02446 Board Of Psychologist Exam	147,365	2,841		0		150,206	1.9%	0.0%
02448 Building Codes State Spec Rev	3,614,548	172,333		0		3,786,881	4.8%	0.0%
02580 Board of Athletic Trainers	27,535	947		0		28,482	3.4%	0.0%
02599 DLI Lease Activity				35,000		35,000	100.0%	100.0%
02679 Massage Therapists	132,403	26,288		40,000		198,691	50.1%	25.2%
02764 Private Alt. Adol Programs	68,339	1,420		(23,500)		46,259	100.0%	-33.7%
02767 Elevator Licensing Program	459,094	20,358		0		479,452	4.4%	0.0%
02805 Weights & Measures Bureau	1,186,467	35,982		0		1,222,449	3.0%	0.0%
02808 Board Of Landscape Architects	34,425	5,947		0		40,372	17.3%	0.0%
02809 Board Of Speech Pathologists	73,655	7,894		0		81,549	10.7%	0.0%
02810 Bd Of Radiologic Technologists	126,835	1,894		0		128,729	1.5%	0.0%
02811 Clinical Lab Science Pract.	83,090	1,420		1,000		85,510	2.9%	1.2%
02812 Physical Therapists	134,563	2,367		0		136,930	1.8%	0.0%
02813 Bd Of Nursing Home Admin	34,819	4,947		42,000		81,766	134.8%	105.6%
02814 Bd Of Hearing Aid Dispensers	91,792	947		(43,000)		49,739	100.0%	-46.4%
02815 Board Of Public Accountants	526,352					526,352	0.0%	0.0%
02816 Board Of Sanitarians	38,750	6,947		6,000		51,697	33.4%	13.1%
02818 Electrical Board	479,663	15,075		(20,000)		474,738	-1.0%	-4.0%
02819 Board of Realty Regulations	1,124,377	16,570		(35,500)		1,105,447	-1.7%	-3.1%
02820 Board Of Architects	88,632	21,154		10,000		119,786	35.1%	9.1%
02821 Board Of Funeral Service	175,210	3,788		500		179,498	2.4%	0.3%
02822 Board Of Chiropractors	139,617	16,153		(4,500)		151,270	8.3%	-2.9%
02823 Professional Engineers	458,019	8,522		(3,500)		463,041	1.1%	-0.8%
02824 Board Of Medical Examiners	1,396,467	67,387		0		1,463,854	100.0%	0.0%
02826 Cosmetology Board	638,729	12,309		0		651,038	1.9%	0.0%
02828 Board Of Plumbers	341,460	6,155		0		347,615	1.8%	0.0%
02829 Private Investigator	240,573	3,788		(3,500)		240,861	0.1%	-1.4%
02830 Board Of Dentistry	291,931	4,261		100		296,292	1.5%	0.0%
02831 Board Of Optometrists	54,919	947		0		55,866	1.7%	0.0%
02832 Board Of Pharmacy	970,101	24,619		0		994,720	2.5%	0.0%
02833 Board Of Nursing	1,642,085	18,938		0		1,661,023	1.2%	0.0%
02834 Board Of Veterinarians	173,017	7,314		(3,500)		176,831	2.2%	-1.9%
02840 Board Of Behavioral Health	299,999	10,734		147,482		458,215	100.0%	47.5%
02841 Athletic Licensing Program	10,532	5,973				16,505	56.7%	0.0%
02852 Bd. Of Alternative Health Care	83,538	1,894		(3,500)		81,932	-1.9%	-4.1%
02854 Bd. Of Real Estate Appraisers	455,036	24,469		(3,500)		476,005	4.6%	-0.7%
02855 Bd Of Respiratory Care	53,267	15,947		0		69,214	29.9%	0.0%
03293 Country of Origin Labeling	28	355				383	1267.9%	0.0%
Program Total	18,266,314	637,122		0		18,903,436	3.5%	0.0%
07 Office Of Community Services								
01100 General Fund	150,847	4,145		0		154,992	2.7%	0.0%
02190 OCS - Training	13,040					13,040	0.0%	0.0%
03322 MT Community Service FSR	3,198,160	9,206		0		3,207,366	0.3%	0.0%
Program Total	3,362,047	13,351		0		3,375,398	0.4%	0.0%
09 Workers Compensation Court								
02455 Workers' Comp Regulation	712,708	49,527		0		762,235	6.9%	0.0%
Program Total	712,708	49,527		0		762,235	6.9%	0.0%
Grand Total	80,708,481	4,180,641	0	0	899,690	85,788,812	6.3%	1.1%

FY 2017 General Fund and State Special Fund Appropriation Transactions - Department of Labor and Industry								
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	Other	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01100 General Fund	\$1,866,225	\$74,551		\$0		\$1,940,776	4.0%	0.0%
02024 Blasters Program	14,472	947		-		15,419	6.5%	0.0%
02078 Occupational Therapists	55,969	1,894		14,000		71,863	28.4%	24.2%
02079 Fire Protection & Permitting	88,328	1,420		-		89,748	1.6%	0.0%
02080 Prescription Drug Registry	287,765	947		(126,574)		162,138	100.0%	-43.8%
02109 Board Of Outfitters	653,783	9,469		(4,600)		658,652	0.7%	-0.7%
02155 Boilers Program	528,230	28,406		-		556,636	5.4%	0.0%
02160 BSD Contingency Fund	500,000			126,574		626,574	25.3%	25.3%
02190 OCS - Training	13,040					13,040	0.0%	0.0%
02207 Cranes Program	104,894	3,314		-		108,208	3.2%	0.0%
02233 BSD Hearings	40,181	2,115		24,000		66,296	65.0%	56.7%
02258 Employment Security Account	16,666,837	1,622,375	-	(208,000)	899,690	18,980,902	100.0%	3.8%
02263 Subsequent Injury Admin	51,185	1,086		(14,961)		37,310	-27.1%	-28.6%
02315 DLI Info Exchange/Rental	91,310			(14,207)		77,103	100.0%	-15.6%
02346 Contractor Registration	1,582,473	38,593		(211,772)		1,409,294	-10.9%	-13.1%
02347 Safety Administration				2,450,736		2,450,736	100.0%	100.0%
02359 Chemical Dependency Counselors	135,641	11,841		(147,482)		-	-100.0%	-100.0%
02446 Board Of Psychologist Exam	147,365	2,841		-		150,206	1.9%	0.0%
02448 Building Codes State Spec Rev	3,614,548	172,333		-		3,786,881	4.8%	0.0%
02455 Workers' Comp Regulation	7,508,071	439,393		(2,029,866)		5,917,598	-21.2%	-25.5%
02580 Board of Athletic Trainers	27,535	947		-		28,482	3.4%	0.0%
02599 DLI Lease Activity				35,000		35,000	100.0%	100.0%
02679 Massage Therapists	132,403	26,288		40,000		198,691	100.0%	25.2%
02764 Private Alt. Adol Programs	68,339	1,420		(23,500)		46,259	-32.3%	-33.7%
02767 Elevator Licensing Program	459,094	20,358		-		479,452	4.4%	0.0%
02805 Weights & Measures Bureau	1,186,467	35,982		-		1,222,449	3.0%	0.0%
02808 Board Of Landscape Architects	34,425	5,947		-		40,372	17.3%	0.0%
02809 Board Of Speech Pathologists	73,655	7,894		-		81,549	10.7%	0.0%
02810 Bd Of Radiologic Technologists	126,835	1,894		-		128,729	1.5%	0.0%
02811 Clinical Lab Science Pract.	83,090	1,420		1,000		85,510	2.9%	1.2%
02812 Physical Therapists	134,563	2,367		-		136,930	1.8%	0.0%
02813 Bd Of Nursing Home Admin	34,819	4,947		42,000		81,766	100.0%	105.6%
02814 Bd Of Hearing Aid Dispensers	91,792	947		(43,000)		49,739	-45.8%	-46.4%
02815 Board Of Public Accountants	526,352					526,352	0.0%	0.0%
02816 Board Of Sanitarians	38,750	6,947		6,000		51,697	33.4%	13.1%
02818 Electrical Board	479,663	15,075		(20,000)		474,738	-1.0%	-4.0%
02819 Board of Realty Regulations	1,124,377	16,570		(35,500)		1,105,447	-1.7%	-3.1%
02820 Board Of Architects	88,632	21,154		10,000		119,786	35.1%	9.1%
02821 Board Of Funeral Service	175,210	3,788		500		179,498	2.4%	0.3%
02822 Board Of Chiropractors	139,617	16,153		(4,500)		151,270	8.3%	-2.9%
02823 Professional Engineers	458,019	8,522		(3,500)		463,041	1.1%	-0.8%
02824 Board Of Medical Examiners	1,396,467	67,387		-		1,463,854	4.8%	0.0%
02826 Cosmetology Board	638,729	12,309		-		651,038	1.9%	0.0%
02828 Board Of Plumbers	341,460	6,155		-		347,615	100.0%	0.0%
02829 Private Investigator	240,573	3,788		(3,500)		240,861	0.1%	-1.4%
02830 Board Of Dentistry	291,931	4,261		100		296,292	1.5%	0.0%
02831 Board Of Optometrists	54,919	947		-		55,866	1.7%	0.0%
02832 Board Of Pharmacy	970,101	24,619		-		994,720	2.5%	0.0%
02833 Board Of Nursing	1,642,085	18,938		-		1,661,023	1.2%	0.0%
02834 Board Of Veterinarians	173,017	7,314		(3,500)		176,831	2.2%	-1.9%
02840 Board Of Behavioral Health	299,999	10,734		147,482		458,215	52.7%	47.5%
02841 Athletic Licensing Program	10,532	5,973				16,505	56.7%	0.0%
02852 Bd. Of Alternative Health Care	83,538	1,894		(3,500)		81,932	100.0%	-4.1%
02854 Bd. Of Real Estate Appraisers	455,036	24,469		(3,500)		476,005	4.6%	-0.7%
02855 Bd Of Respiratory Care	53,267	15,947		-		69,214	29.9%	0.0%
02941 Uninsured Employer Fund	1,630,778	45,321		4,070		1,680,169	3.0%	0.2%
Grand Total	\$47,716,386	\$2,860,201	\$0	\$0	\$899,690	\$51,476,277	7.9%	1.8%

FY 2017 Federal Fund Appropriation Transactions - Department of Labor and Industry								
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	Other	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
03122 EEOC	187,839	46,674		45,000		279,513	48.8%	19.2 %
03124 Employment Trng Grants	8,796,757	178,425	(45,000)	(697,095)		8,233,087	-6.4%	-8.3 %
03128 L & I Federal Funding	451,665	12,402		-		464,067	2.7%	0.0 %
03130 Coal Mine Safety	1,841	150,000				151,841	8147.7%	0.0 %
03131 OSHA Stat Prgm Fed.St Sdy	113,705	4,134		-		117,839	3.6%	0.0 %
03194 Research & Analysis BLS	748,416	28,249		(23,383)		753,282	0.7%	-3.0 %
03195 On-Site Consultation	575,543	16,525		(45,000)		547,068	-4.9%	-7.6 %
03278 UI Penalty & Interest	650,004	11,332		-		661,336	1.7%	0.0 %
03293 Country of Origin Labeling	28	355				383	1267.9%	0.0 %
03297 Labor and Industry Veteran Gra	654,201	29,754		-		683,955	4.5%	0.0 %
03322 MT Community Service FSR	3,198,160	9,206		-		3,207,366	0.3%	0.0 %
03682 Wagner Peyser	6,144,739	393,248	(50,000)	-		6,487,987	5.6%	-0.8 %
03692 Alien Labor Certification(ALC)	50,526	2,278		60,196		113,000	100.0%	114.0 %
03693 Wrk Opportunities Tx Crdt/WOTC	54,357	1,388				55,745	2.6%	0.0 %
03694 Trade Adjustment Assist/NAFTA	683,973	13,156		-		697,129	1.9%	0.0 %
03954 UI Administrative Grants	10,680,341	423,314	95,000	660,282		11,858,937	11.0%	6.8 %
Grand Total	\$32,992,095	\$1,320,440	\$0	\$0	\$0	\$34,312,535	4.0%	0.0%

2019 BIENNIUM BASE BUDGET

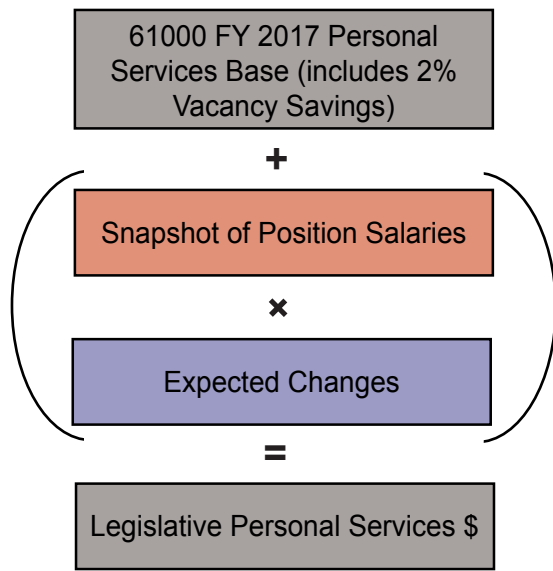
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

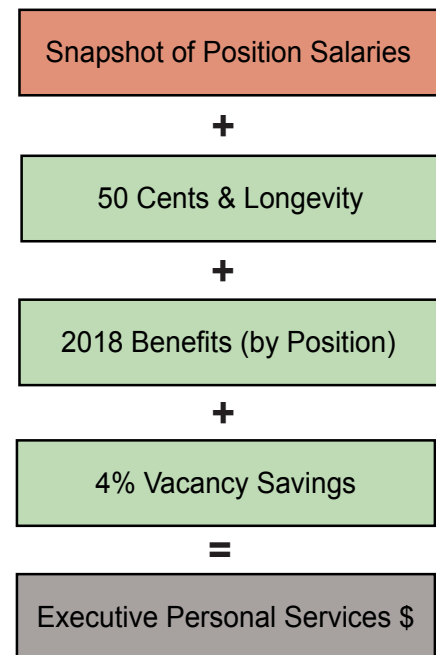
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

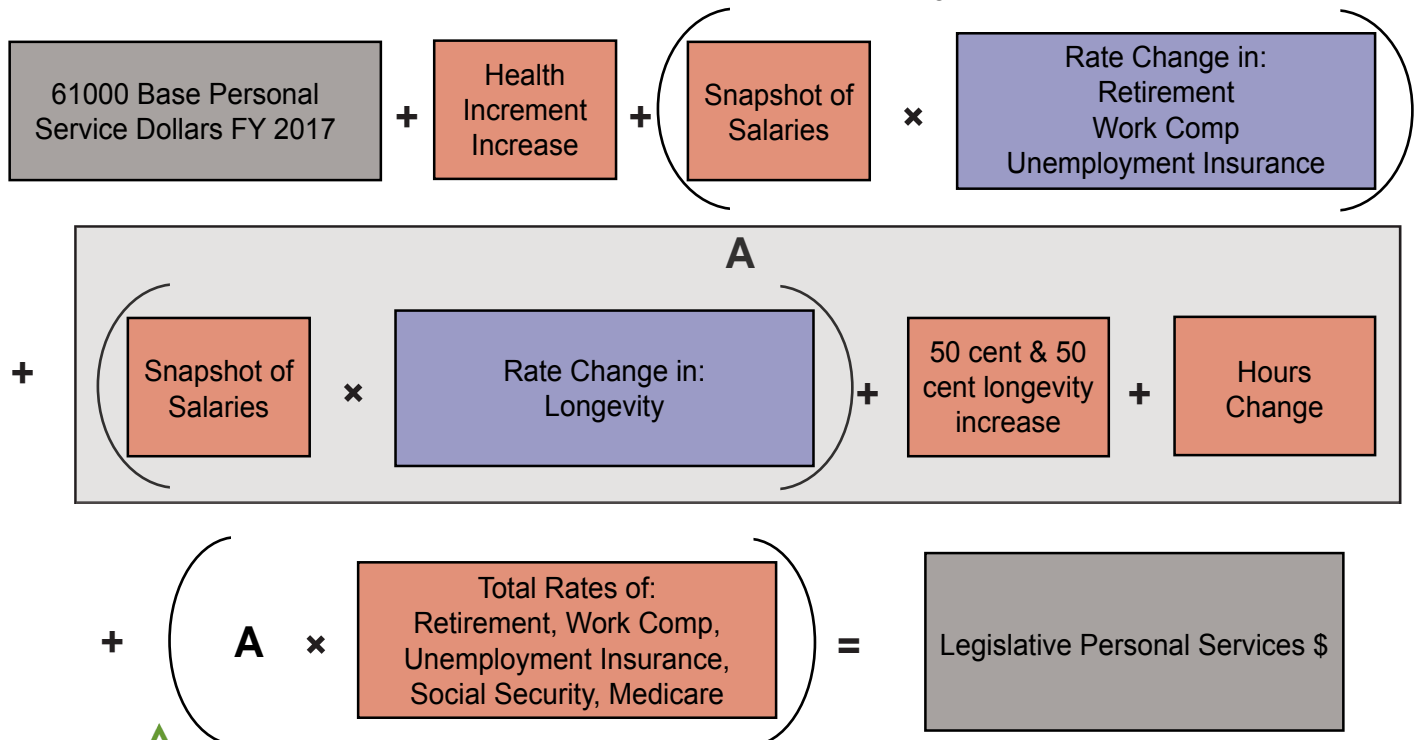
Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)



DEPARTMENT OF MILITARY AFFAIRS

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016



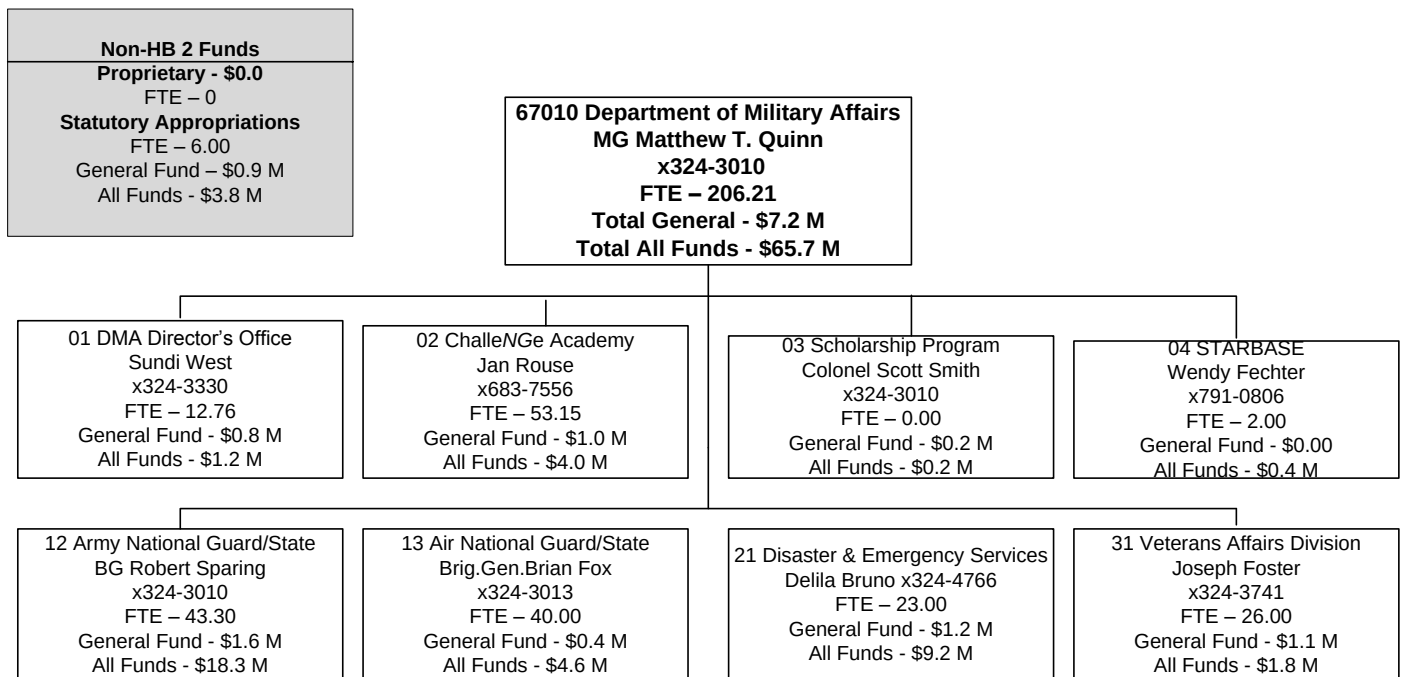
INTRODUCTION

The Department of Military Affairs (DMA) has three primary components to its mission:

- Federal - Serve as the primary federal reserve force in support of the national security objectives when called upon by the President of the United States
- State – Protect life, property, preserve peace, order, and public safety for Montana’s citizens, when called upon by the Governor
- Community – Participate in local, state, and national programs that add value to America

DMA, administered by the Adjutant General, oversees activities of the Air and Army National Guard, Disaster and Emergency Services, and the National Guard Youth ChalleNGe program. The Montana Board of Veterans' Affairs is administratively attached to the department. Below is an organizational chart of DMA, including full-time employee (FTE) numbers and the HB 2 general fund expenditures and total expenditures from all funds.

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



HOW SERVICES ARE PROVIDED

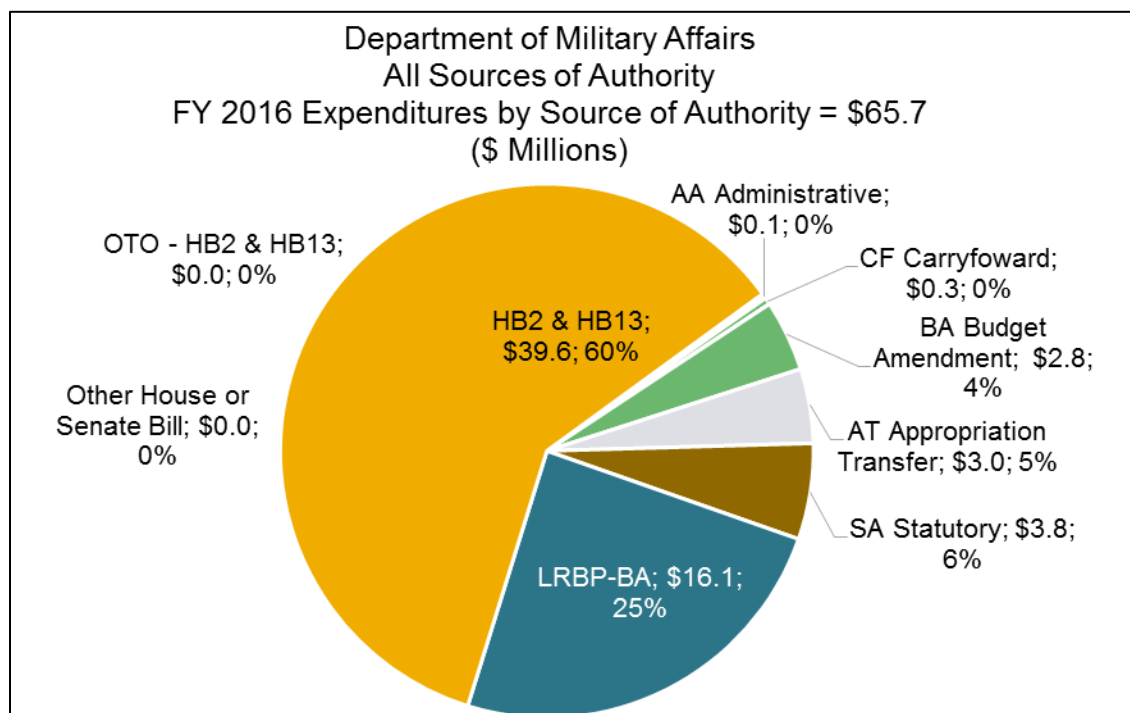
The Department of Military Affairs provides services through a structure consisting of eight divisions/programs. Services provided within DMA include:

- Providing trained and equipped military units for use in the event of state or federal mobilization.
- Maintaining numerous military facilities in Montana and planning and contracting for construction of military facilities and training areas.
- Providing statewide communication services, security contracts, and leases for buildings and land used by Army National Guard.
- Providing trained and equipped military air units for use in event of state or federal mobilization, including wildfire support.

- Operating an education program for “at risk” youth between the ages 16 to 18 who have dropped out of high school. The Youth Challenge Program teaches both life skills and academics (leading to GED completion) in a military-modeled training program.
- Utilizing curriculum from the Department of Defense’s STARBASE Program to provide inquiry based instruction in Science, Technology, Engineering, and Math (STEM) and STEM career fields for 5th grade students at Fort Harrison and Gore Hill (Great Falls), middle school after school programs in Helena and Great Falls, and through outreach summer programs in tribal communities.
- Providing statewide disaster planning and preparedness activities and coordination of federal, state, and volunteer assistance to communities, local and tribal governments in the event of an incident, emergency, or disaster.
- Assisting discharged veterans and their families regarding veteran benefits and administering three veteran cemeteries located in Montana. The Board of Veterans’ Affairs is administratively attached to the Department of Military Affairs.
- Providing scholarship awards to enlisted Montana National Guard troops enrolled as full-time undergraduate students in colleges, universities, or training programs.

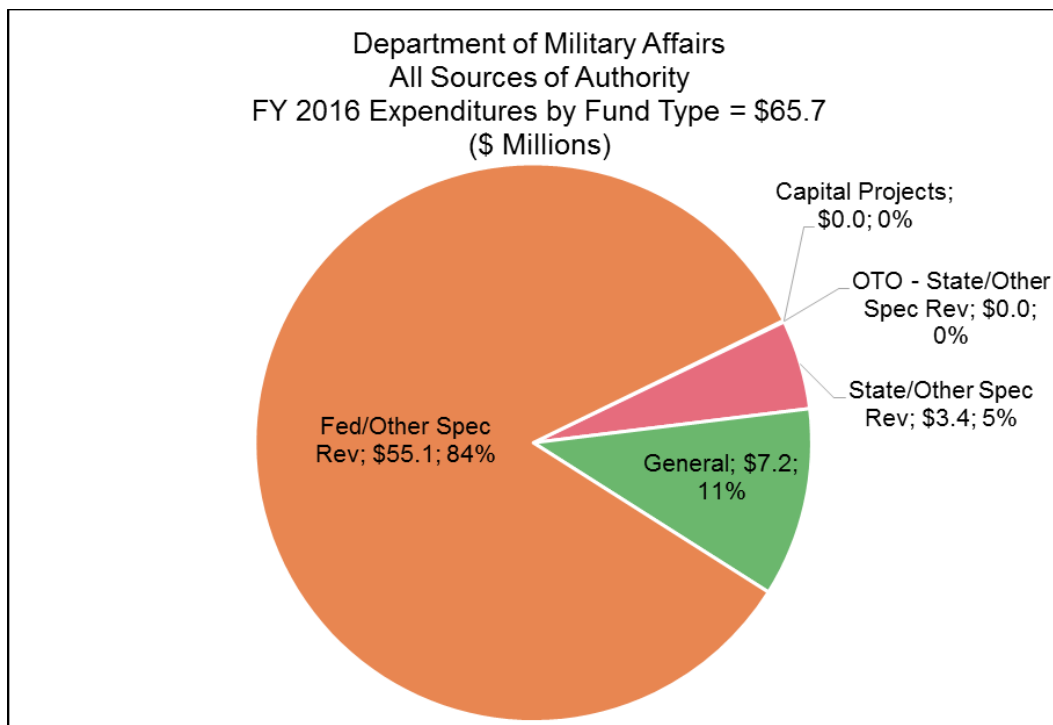
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the Department of Military Affairs that were expended in FY 2016. DMA receives the majority of its spending authority from HB 2 and the pay plan.

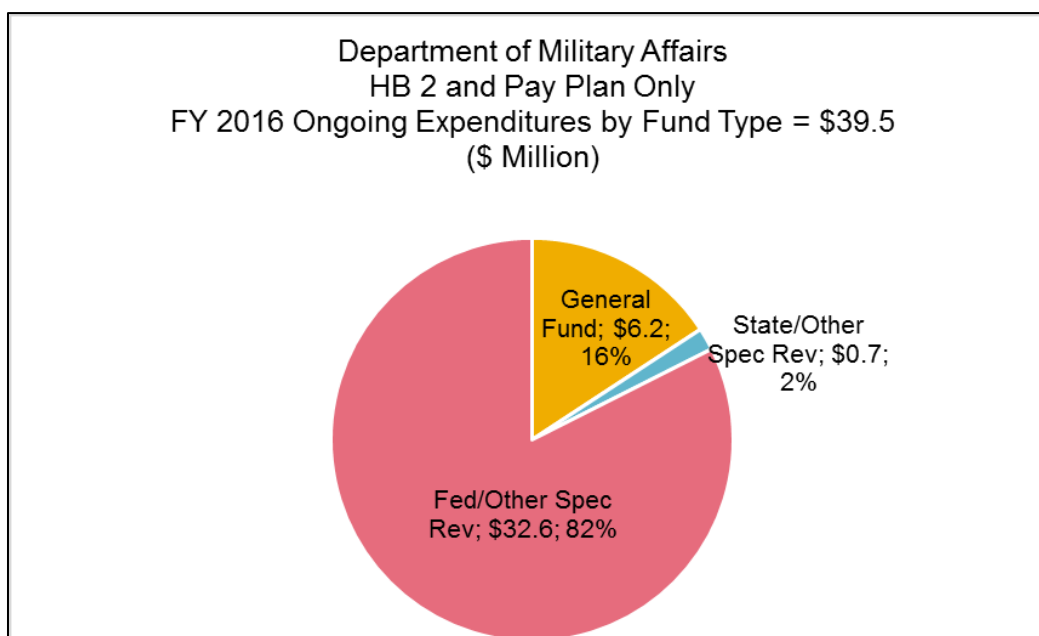


FUNDING

The Department of Military Affairs is predominately funded with federal special revenue funds. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

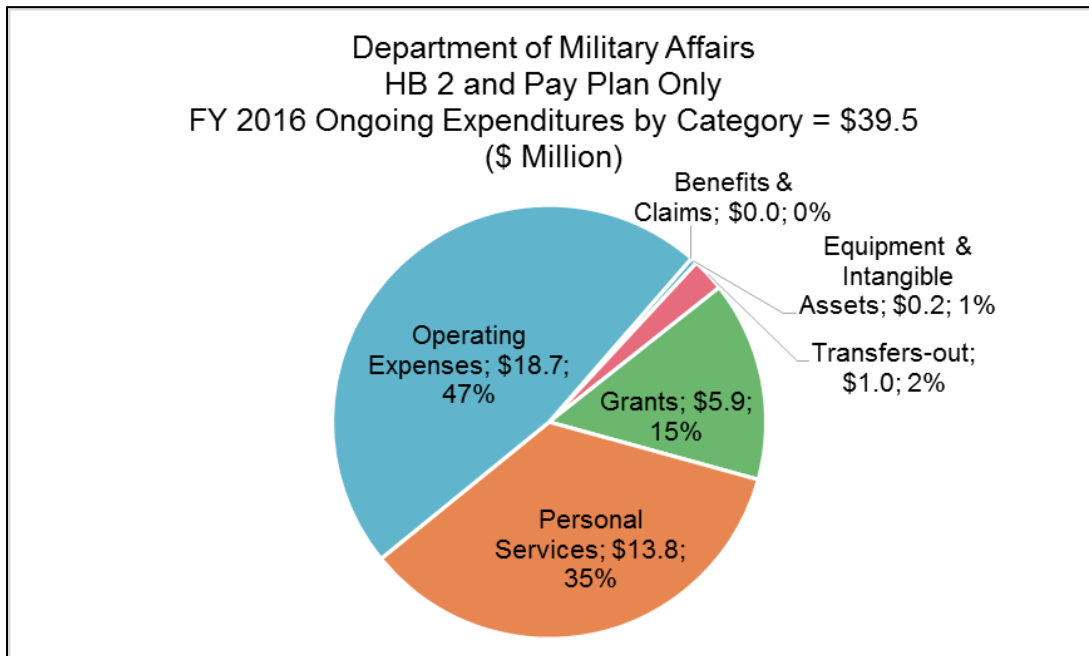


The chart below shows the Department of Military Affairs HB 2 and pay plan expenditures by fund type. DMA is primarily funded in HB 2 with federal special revenue. Most federal programs require a state match, which is the majority of the general fund shown is used. General fund match is used in the Youth Challenge Program, Disaster and Emergency Services, and Air National Guard Program. It is also used in the operations formula for military facilities operations costs that are a federal/state split based upon facility ownership under the Army National Guard Program.



EXPENDITURES

The chart below explains how HB2 and pay plan authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

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

- Number of military facilities in Montana – each military facility located in Montana creates ongoing and future costs for operations and maintenance. While the federal government typically pays 100% of the capital construction costs, operations and maintenance are split using a federal/state expenditure formula. Therefore, addressing the number of military facilities located in the state may change expenditure and activity levels of the department.
- Level of disaster and emergency preparedness – Montana's disaster and emergency preparedness is directly dependent on general fund support. Emergency management, response, and recovery costs are shared 50/50 with the Department of Homeland Security's Federal Emergency Management Agency (FEMA). Department of Military Affairs identifies when state funding is not adequate, sufficient resource are not available to plan, organize, equip, train, and conduct a robust emergency management program.
- Participation in Youth ChalleNGe Program – The ChalleNGe Program is funded with general fund and federal special revenues at a 25/75 state to federal funding ratio for most costs. Department activity can be changed by determining if and at what level Montana will participate in this optional program.
- Participation in STARBASE – STARBASE Program is funded entirely with federal special revenues. Department activity can be changed by determining if and at what level Montana will participate in this optional program.

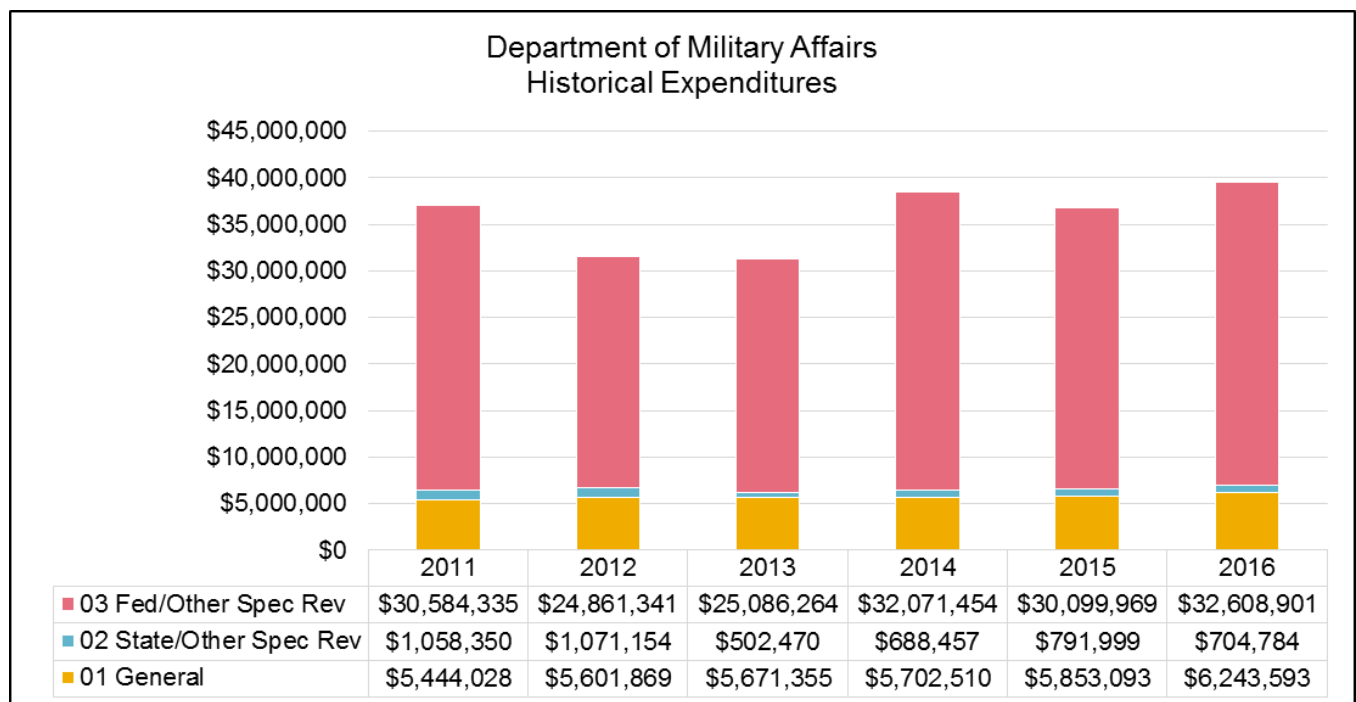
MAJOR COST DRIVERS

Element	2012	2014	2016	Significance of Data
Number of military facilities in Montana	270	281	246	Indicates operations costs
Number of disaster declarations	12	14	14	Reflects demand for Disaster and Emergency Services
Number of scholarship awards	175	216	169	Reflects demand for scholarship funds
Number of Youth Challenge enrollees	190	250	202	Reflects demand for youth who require non-traditional setting for education
Number of Youth Challenge graduates	131	200	160	Measures, in part, short and long-term success of the program
Veterans benefits acquired for Montana veterans	\$160 million	\$163 million	\$177 million	Receipt of VA monetary benefits resulting from agency services
Number of veterans assisted with benefit claims	3,354	2,317	3,122	Reflects need for services
STARBASE Helena participants - cumulative	4,503	6,081	7,299	Indicates number served by the educational program
STARBASE Great Falls participants - cumulative	1,062	2,656	4,192	Indicates number served by the educational program

FUNDING/EXPENDITURE HISTORY

The following table shows historical changes in the agency's funding and expenditures. Major reasons for change are:

- HB 13 pay increases for 32 FTE, including 22 exempt FTE in FY 2014
- Operating expenses declined in FY 2012
- Legislative approval of office's 5% reduction plan in FY 2012
- Vacancy saving increased to 7%, reducing the personal services funding in the 2011 biennium



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2013 Legislature
 - The Legislature increased the percentage of vehicle license fees allocated to the Veteran's Affairs Division. The increases are allocated to the State Veterans' Cemetery Account, which is statutorily appropriated, and the Veterans' Service Account, which is included in HB 2.
- 2009 Legislature
 - The Legislature increased the maximum amount available for transfer to local sheriff's offices for search and rescue operations from \$3,000 to \$6,000 per rescue operation and increased the maximum amount available to match local funds for the purchase of search and rescue equipment from \$2,000 to \$6,000.
 - The Legislature provided \$1.3 million in federal special revenue for National Guard Bureau approved projects to improve, repair and modernize facilities through the American Recovery and Reinvestment Act. In addition, the legislature provided general fund appropriations of \$250,000 for a military museum and \$750,000 for Improvised Explosive Device (IED) training.
 - The Legislature created a Montana National Guard land purchase account in the state special revenue fund and required that if the state sells an armory, the money from the sale must be deposited in the account. It also created a statutory appropriation from the account for the preparations to purchase or for the purchase of land necessary for the Montana National Guard's mission upon the authorization of the Governor.
- 2007 Legislature
 - The Legislature authorized counties to construct and maintain a veterans' cemetery, and allowed the county to fund the cemetery via imposition of a property tax levy and acceptance of gifts, grants, or donations.
 - The Legislature made the money in the Fish, Wildlife, and Parks (FWP) special revenue account for search and rescue remain available for reimbursement of search and rescue missions and provided matching funds to reimburse counties for search and rescue training and equipment costs.
 - The Legislature transferred \$1.0 million of general fund to a state special revenue fund, established for the purpose of creating a Montana military family relief fund. All money transferred to the fund by the legislature, all monetary contributions, gifts, grants, etc., must be deposited to the state special revenue account and is statutorily appropriated to the Department of Military Affairs for relief grants to National Guard and Reserve members or family members.
 - The Legislature provided the state statutory authorization for the Montana National Guard Youth Challenge Program.

For more information on the agency, please visit their website, here: <http://dma.mt.gov/>.

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	29,148,826	29,678,226	529,400	1.82 %
Operating Expenses	40,754,516	40,361,586	(392,930)	(0.96)%
Equipment & Intangible Assets	355,794	301,072	(54,722)	(15.38)%
Grants	23,457,156	23,345,906	(111,250)	(0.47)%
Benefits & Claims	1,521	0	(1,521)	(100.00)%
Transfers	5,167,698	5,219,028	51,330	0.99 %
Total Expenditures	\$98,885,511	\$98,905,818	\$20,307	0.02 %
General Fund	13,113,893	13,151,516	37,623	0.29 %
State/Other Special Rev. Funds	1,562,956	1,732,122	169,166	10.82 %
Federal Spec. Rev. Funds	84,208,662	84,022,180	(186,482)	(0.22)%
Total Funds	\$98,885,511	\$98,905,818	\$20,307	0.02 %
Total Ongoing	\$98,785,511	\$98,905,818	\$120,307	0.12 %
Total OTO	\$100,000	\$0	(\$100,000)	(100.00)%

Mission Statement

The mission of the Department of Military Affairs (DMA) has three components:

- Federal - To serve as the primary federal reserve force in support of the national security objectives when called upon by the President of the United States;
- State - Protection of life, property, preservation of peace, order, and public safety for Montana's citizens, when called upon by the Governor;
- Community - Participate in local, state, and national programs that add value to America.

For additional information, please refer to the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_a/6701-00agency-profile.pdf.

Agency Highlights

**Department of Military Affairs
Major Budget Highlights**

- The Department of Military Affairs 2019 biennium budget request is approximately \$20,000 or 0.02% higher than the 2017 biennium.
- Proposed increases for 4.00 FTE throughout the agency, which include:
 - 2.00 FTE in the Army National Guard for Electronic Security Systems and Antiterrorism Coordinator positions
 - 1.00 FTE in the Air National Guard for a Real Property Specialist
 - 1.00 FTE in the Veteran's Affairs Program for a Veteran's Service Officer
- Proposed decreases in the Army National Guard, Air National Guard, and Disaster and Emergency Services due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	200.21	200.21	200.21	204.21	204.21
Personal Services	13,786,657	14,379,955	14,768,871	14,816,562	14,861,664
Operating Expenses	18,741,666	20,354,540	20,399,976	20,181,542	20,180,044
Equipment & Intangible Assets	194,035	205,258	150,536	150,536	150,536
Grants	5,908,524	11,723,213	11,733,943	11,672,953	11,672,953
Benefits & Claims	1,520	1,521	0	0	0
Transfers	974,375	2,571,144	2,596,554	2,609,514	2,609,514
Total Expenditures	\$39,606,777	\$49,235,631	\$49,649,880	\$49,431,107	\$49,474,711
General Fund	6,243,623	6,481,572	6,632,321	6,570,636	6,580,880
State/Other Special Rev. Funds	754,211	783,395	779,561	864,949	867,173
Federal Spec. Rev. Funds	32,608,943	41,970,664	42,237,998	41,995,522	42,026,658
Total Funds	\$39,606,777	\$49,235,631	\$49,649,880	\$49,431,107	\$49,474,711
Total Ongoing	\$39,557,358	\$49,185,631	\$49,599,880	\$49,431,107	\$49,474,711
Total OTO	\$49,419	\$50,000	\$50,000	\$0	\$0

Agency Discussion

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The FY 2016 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 the fiscal year. Operating expenses in the Air National Guard Program were lower than anticipated due to overestimating the amount of federal funds that would be used in state FY 2016 versus federal FY 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.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are slight differences between FY 2016 and FY 2017 appropriations, which are primarily attributable to personal services. This difference is mainly due to the allocation of the pay plan.

Executive Request

Overall, the executive budget proposal maintains funding at the same level as the 2017 biennium. The executive requests slight increases to personal services and decreases to operating expenses due to present law adjustments and new proposals. These adjustment will be discussed in further detail at the program level.

5% Plans

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Department of Military Affairs has provided a plan for \$311,156 in general fund reductions and \$35,240 in state special revenue reductions. Proposed reductions partly effect maintenance and repair projects, training, and scholarships. A summary of the entire 2019 biennium 5% Plan submitted for this agency is in the appendix.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Department of Military Affairs							
	Leg Approp	Allocations	Program Transfers	OP Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Director'S Office							
Personal Services	\$953,854	\$111,177	\$50,000		\$1,115,031	16.9%	4.7%
Operating Expenses	104,439		42,000	(36,600)	109,839	5.2%	5.2%
Benefits & Claims	2,280			(2,280)	0	-100.0%	-100.0%
Transfers-out				38,880	38,880	100.0%	100.0%
Program Total	1,060,573	111,177	92,000	0	1,263,750	19.2%	7.9%
02 Challenge Program							
Personal Services	2,905,971	177,141			3,083,112	6.1%	0.0%
Operating Expenses	1,175,780				1,175,780	0.0%	0.0%
Program Total	4,081,751	177,141			4,258,892	4.3%	0.0%
03 Scholarship Program							
Operating Expenses	209,409				209,409	0.0%	0.0%
Program Total	209,409				209,409	0.0%	0.0%
04 Starbase							
Personal Services	149,759	108,203			257,962	72.3%	0.0%
Operating Expenses	145,814	30,000			175,814	20.6%	0.0%
Program Total	295,573	138,203			433,776	46.8%	0.0%
12 Army National Guard Pgm							
Personal Services	3,219,822	248,871	(50,000)		3,418,693	6.2%	-1.4%
Operating Expenses	15,432,550		(22,000)	(25,000)	15,385,550	-0.3%	-0.3%
Equipment & Intangible Assets	150,536				150,536	0.0%	0.0%
Transfers-out				25,000	25,000	100.0%	100.0%
Program Total	18,802,908	248,871	(72,000)	0	18,979,779	0.9%	-0.4%
13 Air National Guard Pgm							
Personal Services	2,987,429	364,970			3,352,399	12.2%	0.0%
Operating Expenses	1,944,876	50,000	(5,000)		1,989,876	2.3%	-0.3%
Program Total	4,932,305	414,970	(5,000)		5,342,275	8.3%	-0.1%
21 Disaster & Emergency Services							
Personal Services	1,777,532	78,329		0	1,855,861	4.4%	0.0%
Operating Expenses	1,208,797		(5,000)	1,500	1,205,297	-0.3%	-0.3%
Grants	11,735,443			(1,500)	11,733,943	0.0%	0.0%
Transfers-out	2,532,674			0	2,532,674	0.0%	0.0%
Program Total	17,254,446	78,329	(5,000)	0	17,327,775	0.4%	0.0%
31 Veterans Affairs Program							
Personal Services	1,573,920	86,893			1,660,813	5.5%	0.0%
Operating Expenses	133,411		(10,000)		123,411	-7.5%	-7.5%
Program Total	1,707,331	86,893	(10,000)		1,784,224	4.5%	-0.6%
Grand Total	\$48,344,296	\$1,255,584	\$0		\$49,599,880	2.6%	0.0%
Leg Approp = Legislative Appropriation							
Allocations = include Contingency Base & Pay Plan							
OP = Operating Plan Changes							

Significant budget changes adopted by the executive include:

- The department received \$675,584 for the legislative pay plan, \$230,000 personal services base contingency funding, and \$350,000 base contingency funding.
- The department transferred \$92,000 for personal services and operating expenses to the Director's Office for legal costs, the Employee Assistance Program, and 1.00 FTE and funding for the Assistant TAG position.

Funding

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

Total Department of Military Affairs Funding by Source of Authority 2019 Biennium Budget Request - Department of Military Affairs						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	13,151,516	0	0	0	13,151,516	13.16 %
State Special Total	1,732,122	0	0	1,042,152	2,774,274	2.78 %
Federal Special Total	84,022,180	0	0	0	84,022,180	84.07 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$98,905,818	\$0	\$0	\$1,042,152	\$99,947,970	
Percent - Total All Sources	98.96 %	0.00 %	0.00 %	1.04 %		

HB 2

The Department of Military Affairs is dominated by federal government initiatives, programs, and objectives. As such DMA's primary funding source is federal funds. General fund supports a portion of most of the programs in the department and 100% of the cost of the National Guard Scholarship program.

State special revenue predominately funds the Disaster and Emergency Services Division and Veterans Affairs Program. The Veterans Affairs Division accounts for 92.7% of the state special revenue funding with revenues generated through vehicle registrations, specialty license plates, and donations.

Statutory Appropriations

The Montana Military Family Relief Fund (MMFRF) Program receives statutory appropriation to provide monetary grants to families of Montana National Guard and Reserve Component members who on or after April 28, 2007 are on active duty for federal service in a contingency operation. MMFRF grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses that become difficult to afford when a wage-earner has temporarily left civilian employment to be placed on active military duty. Costs for the program in FY 2016 were \$30,500. The program was originally funded by a transfer of \$1.0 million in general fund. Ongoing revenues include interest and donations of about \$40,000 a year.

The Veterans' Affairs Division has a statutory appropriation for the operation of the Montana Veterans' Cemetery Program. The state special revenue funds are generated from cemetery plot allowances and donations.

The Governor is also provided a number of statutory appropriations in the event of a declared emergency or disaster. The most notable of these is the authority to authorize up to \$16.0 million for disaster relief. These expenditures are authorized through executive orders.

Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	6,632,321	6,632,321	13,264,642	100.86 %	49,599,880	49,599,880	99,199,760	100.30 %
SWPL Adjustments	21,422	31,634	53,056	0.40 %	(693,208)	(657,463)	(1,350,671)	(1.37)%
PL Adjustments	16,946	16,946	33,892	0.26 %	506,285	514,073	1,020,358	1.03 %
New Proposals	(100,053)	(100,021)	(200,074)	(1.52)%	18,150	18,221	36,371	0.04 %
Total Budget	\$6,570,636	\$6,580,880	\$13,151,516		\$49,431,107	\$49,474,711	\$98,905,818	

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	2,200,729	2,262,410	61,681	2.80 %
Operating Expenses	302,496	233,230	(69,266)	(22.90)%
Benefits & Claims	1,521	0	(1,521)	(100.00)%
Transfers	42,120	103,680	61,560	146.15 %
Total Expenditures	\$2,546,866	\$2,599,320	\$52,454	2.06 %
General Fund	1,566,909	1,609,282	42,373	2.70 %
Federal Spec. Rev. Funds	979,957	990,038	10,081	1.03 %
Total Funds	\$2,546,866	\$2,599,320	\$52,454	2.06 %
Total Ongoing	\$2,546,866	\$2,599,320	\$52,454	2.06 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Director's Office provides departmental administration through the Office of the Adjutant General and department-wide support for accounting, fiscal management, personnel, labor relations, and purchasing and property management oversight. The program operates in accordance with Title 2, Chapter 15, part 12 and Title 10, MCA.

Program Highlights

Director's Office Major Budget Highlights
- The Director's Office 2019 biennium budget request is approximately \$52,000 or 2.0% higher than the 2017 biennium. Significant changes include: - Proposed increases due to statewide present law adjustments for personal services and fixed costs. - Proposed increases for extending the Employee Assistance Program to Montana veterans.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	12.76	12.76	12.76	12.76	12.76
Personal Services	1,002,134	1,085,698	1,115,031	1,129,710	1,132,700
Operating Expenses	181,846	192,657	109,839	117,762	115,468
Benefits & Claims	1,520	1,521	0	0	0
Transfers	6,480	3,240	38,880	51,840	51,840
Total Expenditures	\$1,191,980	\$1,283,116	\$1,263,750	\$1,299,312	\$1,300,008
General Fund	777,246	796,518	770,391	804,483	804,799
Federal Spec. Rev. Funds	414,734	486,598	493,359	494,829	495,209
Total Funds	\$1,191,980	\$1,283,116	\$1,263,750	\$1,299,312	\$1,300,008
Total Ongoing	\$1,191,980	\$1,283,116	\$1,263,750	\$1,299,312	\$1,300,008
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Director's Office expended 92.9% of its FY 2016 budget. Personal Services were 92.3% expended and operating expenses were 94.4% expended. The Director's Office had previously unbudgeted expenses like the Employee Assistance Program and reclassifications of positions. Due to these additional expenses, the office adjusted expenditures to ensure it was able to pay for these items. This resulted in reduced overall expenditures and a small unexpended balance.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The differences between FY 2016 and FY 2017 appropriations are primarily in personal services, operating expenses, and transfers. These differences are mainly due to the allocation of the pay plan, transfer of funds for legal costs to the Director's Office because these costs are centrally paid by the Office, and the transfer of funds to the Director's Office to pay for costs related to the Employee Assistance Program.

Executive Request

The Director's Office is requesting an increase in personal services, operating expenses, and transfers in FY 2018 and FY 2019. The requested increase in personal services will be discussed in further detail in the Personal Services section below. There are slight increases in operating expenses due to a request for fixed costs. Transfers are increasing due to a request for funds to extend the Employee Assistance Program to Montana veterans and will be discussed in further detail in the New Proposals section of the analysis.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 2

Department Of Military Affairs: 01 Director's Office Personal Services Present Law Calculations			
PS Base: \$1,115,031			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$14,679	\$17,669
Legislative	Statutory Personal Service Change	<u>12,846</u>	<u>15,916</u>
	Difference	1,833	1,753
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(23,532)	(23,593)
	Broadband Pay Adjustments	7,431	7,431
	Benefits and Taxes on Pay Adjustment	1,427	1,427
	Other	16,506	16,487
Total		\$1,833	\$1,753

Personal services were \$1.1 million or 88.2% of total FY 2017 appropriations. The executive proposes an increase of nearly \$15,000 in FY 2018 and \$18,000 in FY 2019. This request is approximately \$1,800 more than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. Broadband pay adjustments and reclassifications of positions are contributing, in part, to the difference. DMA changed its pay plan to increase salaries from 80% of the 2012 market to 85% of the 2012 market. These increases are partly offset by the additional 2% vacancy rate proposed by the executive.

Funding

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

Department of Military Affairs, 01-Director's Office Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,609,282	0	0	0	1,609,282	61.91 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03132 National Guard	637,548	0	0	0	637,548	64.40 %
03134 DES Emergency Mgmt Perf 97.042	149,910	0	0	0	149,910	15.14 %
03453 Air National Guard	202,410	0	0	0	202,410	20.44 %
03143 DES Homeland Security 97.067	170	0	0	0	170	0.02 %
Federal Special Total	\$990,038	\$0	\$0	\$0	\$990,038	38.09 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$2,599,320	\$0	\$0	\$0	\$2,599,320	

Federal support is provided by federal-state agreements. Costs of positions and activities that provide support to federally funded operations are applicable for federal funding. General fund supports the majority of the program in accordance with federal-state agreements.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	770,391	770,391	1,540,782	95.74 %	1,263,750	1,263,750	2,527,500	97.24 %
SWPL Adjustments	21,132	21,448	42,580	2.65 %	22,602	23,298	45,900	1.77 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	12,960	12,960	25,920	1.61 %	12,960	12,960	25,920	1.00 %
Total Budget	\$804,483	\$804,799	\$1,609,282		\$1,299,312	\$1,300,008	\$2,599,320	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	13,209	0	1,470	14,679	0.00	15,819	0	1,850	17,669
DP 2 - Fixed Costs	0.00	8,008	0	0	8,008	0.00	5,709	0	0	5,709
DP 3 - Inflation Deflation	0.00	(85)	0	0	(85)	0.00	(80)	0	0	(80)
Grand Total All Present Law Adjustments	0.00	\$21,132	\$0	\$1,470	\$22,602	0.00	\$21,448	\$0	\$1,850	\$23,298

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 104 - EAP for MT Veterans	0.00	12,960	0	0	12,960	0.00	12,960	0	0	12,960
Total	0.00	\$12,960	\$0	\$0	\$12,960	0.00	\$12,960	\$0	\$0	\$12,960

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

DP 104 - EAP for MT Veterans -

The executive is requesting a general fund increase for extending the Employee Assistance Program in order to address suicide rates among Montana veterans.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	6,049,018	6,478,204	429,186	7.10 %
Operating Expenses	2,365,328	2,411,981	46,653	1.97 %
Total Expenditures	\$8,414,346	\$8,890,185	\$475,839	5.66 %
General Fund	2,122,809	2,242,620	119,811	5.64 %
Federal Spec. Rev. Funds	6,291,537	6,647,565	356,028	5.66 %
Total Funds	\$8,414,346	\$8,890,185	\$475,839	5.66 %
Total Ongoing	\$8,414,346	\$8,890,185	\$475,839	5.66 %
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Montana National Guard Youth ChalleNGe Program is a volunteer program for youth ages 16 to 18 who have stopped attending secondary school before graduating. ChalleNGe is a 17-month, voluntary, two-phased military modeled training program targeting unemployed, drug-free, and crime-free high school dropouts. The program provides an opportunity for high school "at risk" youth to enhance their life skills, and increase their educational levels and employment potential. Phase I of the program is a 22 week residential stay on the campus of the University of Montana Western in Dillon focusing on physical training, classroom instruction, personal development, and life skills. Phase II is a year-long mentoring relationship with a specially-trained member of the community where the youth resides to provide a positive role model and to assist the student in gaining employment or enrolling in postsecondary schooling.

Program Highlights

ChalleNGe Program Major Budget Highlights
The ChalleNGe Academy 2019 biennium budget request is \$476,000 or 5.7% higher than the 2017 biennium budget. Reasons for this increase are primarily due to statewide present law adjustments for personal services and operating expenses.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	53.15	53.15	53.15	53.15	53.15
Personal Services	2,920,345	2,965,906	3,083,112	3,234,952	3,243,252
Operating Expenses	1,070,518	1,189,548	1,175,780	1,211,258	1,200,723
Total Expenditures	\$3,990,863	\$4,155,454	\$4,258,892	\$4,446,210	\$4,443,975
General Fund	952,248	1,048,049	1,074,760	1,121,589	1,121,031
Federal Spec. Rev. Funds	3,038,615	3,107,405	3,184,132	3,324,621	3,322,944
Total Funds	\$3,990,863	\$4,155,454	\$4,258,892	\$4,446,210	\$4,443,975
Total Ongoing	\$3,990,863	\$4,155,454	\$4,258,892	\$4,446,210	\$4,443,975
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The ChalleNGe Program expended 96.0% of its FY 2016 budget. Personal services were 98.5% expended and operating expenses were 90.0% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The difference between FY 2016 and FY 2017 appropriations is primarily in personal services. This difference is due the allocation of the pay plan.

Executive Request

Statewide present law changes contribute to the requested increase in personal services and operating expenses in the ChalleNGe program. Requested changes to personal services will be discussed in further detail in the Personal Services section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 3

Department Of Military Affairs: 02 Challenge Program Personal Services Present Law Calculations			
PS Base: \$3,083,112			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$151,840	\$160,140
Legislative	Statutory Personal Service Change	<u>51,196</u>	<u>59,684</u>
	Difference	100,644	100,456
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(65,553)	(65,728)
	Broadband Pay Adjustments	154,118	154,118
	Benefits and Taxes on Pay Adjustment	34,220	34,220
	Other	(22,141)	(22,154)
	Total	\$100,644	\$100,456

Personal services were nearly \$3.1 million or 72.4% of total FY 2017 appropriations. The executive proposes a \$152,000 increase in FY 2018 and \$160,000 increase in FY 2019. The executive proposal is approximately \$100,000 higher than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This increase is due to, in part, an increase in salaries because of a negotiated labor agreement in 2015 as well as DMA changing its pay plan to increase salaries from 80% of the 2012 market to 85% of the 2012 market. These increases are partially offset by employee turnover in the program and the additional 2% vacancy savings rate proposed by the executive.

Funding

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

Department of Military Affairs, 02-Challenge Academy Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	2,242,620	0	0	0	2,242,620	25.23 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03132 National Guard	6,647,565	0	0	0	6,647,565	100.00 %
Federal Special Total	\$6,647,565	\$0	\$0	\$0	\$6,647,565	74.77 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$8,890,185	\$0	\$0	\$0	\$8,890,185	

The Youth Challenge Academy Program is funded with general fund and federal special revenue at a 25/75 state to federal funding ratio for most costs. Some travel and special projects required by the federal/state cooperative agreement are funded 100 percent from federal funds.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,074,760	1,074,760	2,149,520	95.85 %	4,258,892	4,258,892	8,517,784	95.81 %
SWPL Adjustments	46,829	46,271	93,100	4.15 %	187,318	185,083	372,401	4.19 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,121,589	\$1,121,031	\$2,242,620		\$4,446,210	\$4,443,975	\$8,890,185	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	37,960	0	113,880	151,840	0.00	40,035	0	120,105	160,140
DP 2 - Fixed Costs	0.00	8,642	0	25,928	34,570	0.00	5,849	0	17,548	23,397
DP 3 - Inflation Deflation	0.00	227	0	681	908	0.00	387	0	1,159	1,546
Grand Total All Present Law Adjustments	0.00	\$46,829	\$0	\$140,489	\$187,318	0.00	\$46,271	\$0	\$138,812	\$185,083

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison					
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change	
Operating Expenses	418,818	418,818	0	0.00 %	
Total Expenditures	\$418,818	\$418,818	\$0	0.00 %	
General Fund	418,818	418,818	0	0.00 %	
Total Funds	\$418,818	\$418,818	\$0	0.00 %	
Total Ongoing	\$418,818	\$418,818	\$0	0.00 %	
Total OTO	\$0	\$0	\$0	0.00 %	

Program Description

The Montana National Guard Scholarship Program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students in Montana colleges, universities, or training programs. The program assists Montana in recruiting and retaining personnel in both the Army and Air National Guard and in enhancing its operational readiness to assume both state and federal active duty missions. Scholarships also reward guard members for their service to the state by helping defray their educational costs at Montana postsecondary institutions.

Program Highlights

Scholarship Program Major Budget Highlights
The Scholarship Program 2019 biennium budget request has no changes from the 2017 biennium budget.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
Operating Expenses	178,400	209,409	209,409	209,409	209,409
Total Expenditures	\$178,400	\$209,409	\$209,409	\$209,409	\$209,409
General Fund	178,400	209,409	209,409	209,409	209,409
Total Funds	\$178,400	\$209,409	\$209,409	\$209,409	\$209,409
Total Ongoing	\$178,400	\$209,409	\$209,409	\$209,409	\$209,409
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

The 1999 Legislature first provided \$250,000 in general fund to fund scholarships of up to \$500 per semester to enlisted Montana National Guard personnel enrolled as full-time undergraduate students in colleges, universities, or training programs. The funding was to provide \$500 scholarships for 500 student-semesters; which is equivalent to 125 students attending two semesters in each of the two years of the biennium.

In FY 2016, 169 students were awarded scholarships ranging from \$300 to \$2,400 for college, universities, or other training programs. It is proposed that funding for the program remains static for the 2019 biennium.

FY 2016 Appropriation Compared to FY 2016

The Scholarship Program expended 85.2% of its FY 2016 budget. This is a biennial appropriation so \$31,000 remaining in FY 2016 rolls forward into FY 2017.

Executive Request

The program is not proposing any changes to their budget in the 2019 biennium.

Personal Services

The Scholarship Program does not have personal services expenditures associated with the program.

Funding

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

Department of Military Affairs, 03-Scholarship Program Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	418,818	0	0	0	418,818	100.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$418,818	\$0	\$0	\$0	\$418,818	

This program is funded entirely from general fund.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	209,409	209,409	418,818	100.00 %	209,409	209,409	418,818	100.00 %
SWPL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$209,409	\$209,409	\$418,818		\$209,409	\$209,409	\$418,818	

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	473,320	332,811	(140,509)	(29.69)%
Operating Expenses	392,011	353,701	(38,310)	(9.77)%
Total Expenditures	\$865,331	\$686,512	(\$178,819)	(20.66)%
Federal Spec. Rev. Funds	865,331	686,512	(178,819)	(20.66)%
Total Funds	\$865,331	\$686,512	(\$178,819)	(20.66)%
Total Ongoing	\$865,331	\$686,512	(\$178,819)	(20.66)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Montana STARBASE "Big Sky" Program is a program for elementary school aged children to raise the interest and improve the knowledge and skills of at-risk youth in math, science, and technology. It does this by exposing them and their teachers to real world applications of math and science through experimental learning, simulations, experiments in aviation and space-related fields as it deals with a technological environment, and by utilizing the positive role models found on military bases and installations. The program also addresses drug use prevention, health, self-esteem, and life skills with a math and science based program.

Program Highlights

STARBASE Program Major Budget Highlights
The STARBASE Program 2019 biennium budget request is \$179,000 or 20.7% lower than the 2017 biennium budget. Reasons for this decrease are primarily due to proposed statewide present law decreases in personal services.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	2.00	2.00	2.00	2.00	2.00
Personal Services	206,756	215,358	257,962	165,914	166,897
Operating Expenses	216,191	216,197	175,814	177,227	176,474
Total Expenditures	\$422,947	\$431,555	\$433,776	\$343,141	\$343,371
Federal Spec. Rev. Funds	422,947	431,555	433,776	343,141	343,371
Total Funds	\$422,947	\$431,555	\$433,776	\$343,141	\$343,371
Total Ongoing	\$422,947	\$431,555	\$433,776	\$343,141	\$343,371
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

STARBASE expended 98.0% of its FY 2016 budget. Personal services were 96.0% expended and operating expenses were 100.0% expended.

Executive Request

STARBASE is requesting a decrease in personal services in FY 2018 and FY 2019, which comprises the majority of the decrease in the biennium budget. This proposed decrease will be discussed further in the Personal Services section below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 4

Department Of Military Affairs: 04 Starbase Personal Services Present Law Calculations			
PS Base:	\$257,962		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$92,048)	(\$91,065)
Legislative	Statutory Personal Service Change	544	1,566
	Difference	(92,592)	(92,631)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(3,456)	(3,477)
	Broadband Pay Adjustments	-	-
	Benefits and Taxes on Pay Adjustment	-	-
	Other	(89,136)	(89,154)
	Total	(\$92,592)	(\$92,631)

Personal services were nearly \$258,000 or 59.5% of total FY 2017 appropriations. The executive is requesting reductions of \$92,000 in FY 2018 and \$91,000 in FY 2019. This request is approximately \$93,000 less than anticipated by the LFD based upon pay plan and statutory personal services adjustments. This decrease is due to a combination of factors including turnover, vacant positions, and additional 2% vacancy savings rate proposed by the executive.

Funding

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

Department of Military Affairs, 04-Starbase Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03453 Air National Guard	686,512	0	0	0	686,512	100.00 %
Federal Special Total	\$686,512	\$0	\$0	\$0	\$686,512	100.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$686,512	\$0	\$0	\$0	\$686,512	

The program is funded entirely with federal special revenues from the Air National Guard.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	433,776	433,776	867,552	126.37 %
SWPL Adjustments	0	0	0	0.00 %	(90,635)	(90,405)	(181,040)	(26.37)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$0	\$0	\$0		\$343,141	\$343,371	\$686,512	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	(92,048)	(92,048)	0.00	0	0	(91,065)	(91,065)
DP 2 - Fixed Costs	0.00	0	0	1,410	1,410	0.00	0	0	646	646
DP 3 - Inflation Deflation	0.00	0	0	3	3	0.00	0	0	14	14
Grand Total All Present Law Adjustments	0.00	\$0	\$0	(\$90,635)	(\$90,635)	0.00	\$0	\$0	(\$90,405)	(\$90,405)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	6,741,708	6,755,351	13,643	0.20 %
Operating Expenses	30,653,738	30,172,332	(481,406)	(1.57)%
Equipment & Intangible Assets	340,294	301,072	(39,222)	(11.53)%
Transfers	50,000	50,000	0	0.00 %
Total Expenditures	\$37,785,740	\$37,278,755	(\$506,985)	(1.34)%
General Fund	3,374,031	3,244,504	(129,527)	(3.84)%
State/Other Special Rev. Funds	840	840	0	0.00 %
Federal Spec. Rev. Funds	34,410,869	34,033,411	(377,458)	(1.10)%
Total Funds	\$37,785,740	\$37,278,755	(\$506,985)	(1.34)%
Total Ongoing	\$37,785,740	\$37,278,755	(\$506,985)	(1.34)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Army National Guard (ARNG), until federalized, is a state military organization that provides trained and equipped military units for use in the event of a state or national emergency. The federal/state cooperative agreement provides funding for facilities management, environmental, and communications support to the organization for: 1) providing professional and skilled personnel for the administration, planning, and execution of statewide repair and maintenance functions on facilities and training areas; 2) planning, programming, and contracting for construction; 3) ensuring all activities and facilities comply with environmental regulations; and 4) providing statewide communication services, security contracts, and leases for buildings and land used by the Army National Guard. The program is mandated by the U.S. and Montana Constitutions and Title 10, Chapters 1-3, MCA.

Program Highlights

Army National Guard Major Budget Highlights

- The Army National Guard 2019 biennium budget request is \$507,000 or 1.3% lower than the 2017 biennium budget. Significant changes include:
 - Proposed decreases due to statewide present law adjustments for personal services, natural gas, and propane.
 - Proposed decreases in general fund due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.
 - Proposed increases in federal special revenue due to a new proposal for 1.00 FTE for an Electronic Security System position.
 - A proposed increase in 1.00 FTE for an Antiterrorism Coordinator Position, which is a net-zero increase because the increase to personal services is offset by the decrease to operating expenses.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	43.30	43.30	43.30	45.30	45.30
Personal Services	3,195,884	3,323,015	3,418,693	3,372,600	3,382,751
Operating Expenses	14,880,634	15,268,188	15,385,550	15,076,144	15,096,188
Equipment & Intangible Assets	180,148	189,758	150,536	150,536	150,536
Transfers	25,000	25,000	25,000	25,000	25,000
Total Expenditures	\$18,281,666	\$18,805,961	\$18,979,779	\$18,624,280	\$18,654,475
General Fund	1,632,431	1,642,969	1,731,062	1,616,409	1,628,095
State/Other Special Rev. Funds	420	420	420	420	420
Federal Spec. Rev. Funds	16,648,815	17,162,572	17,248,297	17,007,451	17,025,960
Total Funds	\$18,281,666	\$18,805,961	\$18,979,779	\$18,624,280	\$18,654,475
Total Ongoing	\$18,281,666	\$18,805,961	\$18,979,779	\$18,624,280	\$18,654,475
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Army National Guard Program expended 97.2% of its FY 2016 budget. Personal services were 96.2% expended and operating expenses were 97.5% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, primarily in personal services and operating expenses. The difference in personal services is predominately due to the allocation of the pay plan. The difference in operating expenses is mainly related to the transfer of funds for legal costs that are centrally paid by the Director's Office and the transfer of funds to equipment and intangible assets to a cover shortfall in matching funds when federal funds became available for the purchase of new vehicles.

Executive Request

The Army National Guard Program is requesting a decrease in personal services and operating expenses in FY 2018 and FY 2019. The proposed decrease in personal services will be discussed further in the Personal Services section below. While overall personal services decreased, there are two new proposals for additional FTE that will be discussed in further detail in the New Proposal section below. Proposed decreases in operating expenses are partly due to a statewide present law adjustment for inflation/deflation because of decreases in propane and natural gas. Additional decreases in operating expenses are discussed in further detail in the New Proposal section of this analysis.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 5

Department Of Military Affairs: 12 Army National Guard Pgm				
Personal Services Present Law Calculations				
PS Base:		\$3,418,693		
			FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services		(\$181,249)	(\$171,193)
Legislative	Statutory Personal Service Change		<u>25,604</u>	<u>36,055</u>
	Difference		(206,853)	(207,248)
Management Choices Explaining the Difference				
	Additional 2% Vacancy Savings		(67,437)	(67,646)
	Broadband Pay Adjustments		33,086	33,086
	Benefits and Taxes on Pay Adjustment		7,569	7,569
	Other		(180,071)	(180,256)
	Total		(\$206,853)	(\$207,248)

Personal services were \$3.4 million or 18.0% of total FY 2017 appropriations. The executive proposes an \$181,000 decrease in FY 2018 and \$171,000 decrease in FY 2019. The executive proposal is approximately \$207,000 lower than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This decrease is due to a combination of factors including turnover, vacant positions, and the additional 2% vacancy savings proposed by

the executive. This decrease is partially offset by DMA changing its pay plan to increase salaries from 80% of the 2012 market to 85% of the 2012 market.

Funding

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

Department of Military Affairs, 12-Army National Guard Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	3,244,504	0	0	0	3,244,504	8.70 %
02343 Armory Rental Funds	840	0	0	0	840	100.00 %
State Special Total	\$840	\$0	\$0	\$0	\$840	0.00 %
03132 National Guard	34,033,411	0	0	0	34,033,411	100.00 %
Federal Special Total	\$34,033,411	\$0	\$0	\$0	\$34,033,411	91.29 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$37,278,755	\$0	\$0	\$0	\$37,278,755	

The Army National Guard is funded with a combination of general fund and federal funds. General fund accounts for about 9% of total funding. The funding ratio between general fund and federal funds depends on the nature of the activity, the uses or location of the facility, and the goals of the operation. Different funding scenarios include:

- When a facility is owned by the state and located on state land, maintenance and utility costs are split evenly with the federal government
- When a facility is state owned, but located on federal land, the maintenance and utility costs are funded 75% with federal funds and 25% with state general fund
- When a facility is classified as a logistics facility, the funding is 100% federal for the entire facility
- When a facility is owned federally and located on federal land and when a facility serves training missions, funding is mainly 100% federal, except when the building is used as an armory
- When an armory is constructed with federal funds and located on federal land, maintenance and utility costs are funded 75% with federal funds and 25% with state general fund. When armories are rented to groups, the state special revenue funds generated from rental fees are used to augment general fund support of the facilities

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,731,062	1,731,062	3,462,124	106.71 %	18,979,779	18,979,779	37,959,558	101.83 %
SWPL Adjustments	(33,185)	(21,499)	(54,684)	(1.69)%	(330,954)	(300,797)	(631,751)	(1.69)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(81,468)	(81,468)	(162,936)	(5.02)%	(24,545)	(24,507)	(49,052)	(0.13)%
Total Budget	\$1,616,409	\$1,628,095	\$3,244,504		\$18,624,280	\$18,654,475	\$37,278,755	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(5,438)	0	(175,811)	(181,249)	0.00	(5,136)	0	(166,057)	(171,193)
DP 2 - Fixed Costs	0.00	2,819	0	21,052	23,871	0.00	10,376	0	5,308	15,684
DP 3 - Inflation Deflation	0.00	(30,566)	0	(143,010)	(173,576)	0.00	(26,739)	0	(118,549)	(145,288)
Grand Total All Present Law Adjustments	0.00	(\$33,185)	\$0	(\$297,769)	(\$330,954)	0.00	(\$21,499)	\$0	(\$279,298)	(\$300,797)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(81,468)	0	0	(81,468)	0.00	(81,468)	0	0	(81,468)
DP 1201 - ARNG ESS Position	1.00	0	0	56,923	56,923	1.00	0	0	56,961	56,961
DP 1202 - ARNG Antiterrorism Coordinator Position	1.00	0	0	0	0	1.00	0	0	0	0
Total	2.00	(\$81,468)	\$0	\$56,923	(\$24,545)	2.00	(\$81,468)	\$0	\$56,961	(\$24,507)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

DP 1201 - ARNG ESS Position -

The executive requests an increase in federal special revenue for 1.00 FTE for an Electronic Security Systems (ESS) position. This position would provide backup to the current ESS manager and assist with the workload volume including newly acquired access control equipment, which is scheduled for installation throughout 2016 at various Army National Guard facilities across the state. This project, along with ESS maintenance, has created a workload that surpasses the capability of a single individual.

DP 1202 - ARNG Antiterrorism Coordinator Position -

The executive requests 1.00 FTE for an antiterrorism program coordinator position which will serve as a liaison with state, federal, and military law enforcement and intelligence entities. This is a net-zero increase to the Army National Guard budget because while there is an increase in personal services, there is a corresponding decrease in operating expenses for contracted services.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	6,604,514	6,576,434	(28,080)	(0.43)%
Operating Expenses	3,974,082	3,971,099	(2,983)	(0.08)%
Equipment & Intangible Assets	15,500	0	(15,500)	(100.00)%
Total Expenditures	\$10,594,096	\$10,547,533	(\$46,563)	(0.44)%
General Fund	868,639	735,039	(133,600)	(15.38)%
Federal Spec. Rev. Funds	9,725,457	9,812,494	87,037	0.89 %
Total Funds	\$10,594,096	\$10,547,533	(\$46,563)	(0.44)%
Total Ongoing	\$10,594,096	\$10,547,533	(\$46,563)	(0.44)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Air National Guard, until federalized, is a state military organization that provides trained and equipped military units for use in the event of a state or national emergency. The federal/state cooperative agreement provides for administrative, facilities maintenance, security, and fire protection support to the Air National Guard base at Gore Hill near Great Falls. The Air National Guard program operates under both federal and state mandates in accordance with its dual missions and is mandated by the United States and Montana Constitutions and Title 10, Chapter 1-3, MCA.

Program Highlights

**Air National Guard
Major Budget Highlights**

- The Air National Guard 2019 biennium budget request is \$47,000 or 0.4% lower than the 2017 biennium budget. Significant changes include:
 - Proposed statewide present law decreases in personal services due to the how the executive snapshot captures personal services for firefighters. To correct the snapshot there is a present law increase for the reestablishment of federal firefighting overtime.
 - Proposed statewide present law decreases in fixed costs and inflation/deflation. The majority of the inflation/deflation decrease is due to a reduction in natural gas rates. Since the contract for the Montana Air National Guard is not part of the utilities contract negotiated by the Department of Administration, the program is not receiving the same reduction. There is a present law adjustment correcting the automatic deduction.
 - Proposed increases in general fund for firefighter salaries, training, and medical needs.
 - Proposed decreases in general fund due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.
 - Proposed increases in federal special revenue to make 1.00 FTE permanent. This request is for a Real Property Specialist.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	40.00	40.00	40.00	41.00	41.00
Personal Services	3,032,099	3,252,115	3,352,399	3,281,982	3,294,452
Operating Expenses	1,511,908	1,984,206	1,989,876	1,982,491	1,988,608
Equipment & Intangible Assets	13,887	15,500	0	0	0
Total Expenditures	\$4,557,894	\$5,251,821	\$5,342,275	\$5,264,473	\$5,283,060
General Fund	412,342	435,484	433,155	366,581	368,458
Federal Spec. Rev. Funds	4,145,552	4,816,337	4,909,120	4,897,892	4,914,602
Total Funds	\$4,557,894	\$5,251,821	\$5,342,275	\$5,264,473	\$5,283,060
Total Ongoing	\$4,557,894	\$5,251,821	\$5,342,275	\$5,264,473	\$5,283,060
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Air National Guard expended 86.8% of its FY 2016 budget. Personal services were 93.2% expended and operating expenses were 76.2% expended. The program overestimated the amount of federal funds that would be used in state FY 2016, which is contributing to the lower expenditure percentage in the operating budget. However, these funds will likely be spent in federal FY 2016.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, which are primarily in personal services. This difference is due to the allocation of the pay plan.

Executive Request

The Air National Guard Program is requesting a decrease in personal services and operating expenses in FY 2018 and FY 2019. The proposed decrease for personal services will be discussed further in the Personal Services section below. While overall there is a decrease to personal services, there are two proposed increases that will be discussed further in the Present Law Adjustments and New Proposals sections below. Proposed increases and decreases in operating expenses are also discussed in further detail in the Present Law Adjustments and New Proposal sections below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 6

Department Of Military Affairs: 13 Air National Guard Pgm Personal Services Present Law Calculations			
PS Base: \$3,352,399			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$550,197)	(\$545,516)
Legislative	Statutory Personal Service Change	<u>67,260</u>	<u>72,143</u>
	Difference	(617,457)	(617,659)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(56,271)	(56,369)
	Broadband Pay Adjustments	411	411
	Benefits and Taxes on Pay Adjustment	126	126
	Other	(561,723)	(561,827)
	Total	(\$617,457)	(\$617,659)

Personal services were nearly \$3.4 million or 62.8% of total FY 2017 appropriations. The executive proposes a \$550,000 decrease in FY 2018 and \$546,000 decrease in FY 2019. The executive proposal is approximately \$618,000 lower than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is primarily due to the additional 2% vacancy savings proposed by the executive and how the executive's snapshot captures personal services for firefighters. The snapshot is based on a typical 2080 hour schedule, but firefighters rotate through three day, 24 hour shifts. There is a proposed present law adjustment discussed below that corrects this issue in personal services.

Funding

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

Department of Military Affairs, 13-Air National Guard Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	735,039	0	0	0	735,039	6.97 %
02013 Radioactive Waste Transport	0	0	0	0	0	0.00 %
State Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
03453 Air National Guard	9,812,494	0	0	0	9,812,494	100.00 %
Federal Special Total	\$9,812,494	\$0	\$0	\$0	\$9,812,494	93.03 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$10,547,533	\$0	\$0	\$0	\$10,547,533	

The Montana Air National Guard is predominately funded through federal funds. General fund, comprising about 7.0% of the total funding for the program, supports some building and ground maintenance activities, a portion of administrative expenses, and a portion of the personal services costs.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	433,155	433,155	866,310	117.86 %	5,342,275	5,342,275	10,684,550	101.30 %
SWPL Adjustments	(62,954)	(61,077)	(124,031)	(16.87)%	(574,801)	(564,003)	(1,138,804)	(10.80)%
PL Adjustments	16,946	16,946	33,892	4.61 %	456,285	464,073	920,358	8.73 %
New Proposals	(20,566)	(20,566)	(41,132)	(5.60)%	40,714	40,715	81,429	0.77 %
Total Budget	\$366,581	\$368,458	\$735,039		\$5,264,473	\$5,283,060	\$10,547,533	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(55,019)	0	(495,178)	(550,197)	0.00	(54,552)	0	(490,964)	(545,516)
DP 2 - Fixed Costs	0.00	1,991	0	13,108	15,099	0.00	725	0	9,770	10,495
DP 3 - Inflation Deflation	0.00	(9,926)	0	(29,777)	(39,703)	0.00	(7,250)	0	(21,732)	(28,982)
DP 1301 - ANG Fire FLSA Salaries Federal Authority	0.00	0	0	418,500	418,500	0.00	0	0	426,288	426,288
DP 1306 - ANG General Fund Support for Firefighters	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
DP 1309 - ANG Natural Gas SWPL Deflation Correction	0.00	6,946	0	20,839	27,785	0.00	6,946	0	20,839	27,785
Grand Total All Present Law Adjustments	0.00	(\$46,008)	\$0	(\$72,508)	(\$118,516)	0.00	(\$44,131)	\$0	(\$55,799)	(\$99,930)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 1301 - ANG Fire FLSA Salaries Federal Authority -

The executive is requesting federal special revenue for firefighter FLSA salaries and benefits for hours that exceed 2080 per FTE. Fire protection services at the Montana Air National Guard are in place 24 hours a day, 7 days a week. This request is due to hours over 2080 and overtime not being captured in the personal services snapshot used in the initial budget preparation.

DP 1306 - ANG General Fund Support for Firefighters -

The executive is requesting general fund for the Montana Air National Guard Fire Department for specific salary, training, and medical needs not funded by the federal government. This includes funding for physical and physician contracted services and mandatory state training for 30 fire personnel.

DP 1309 - ANG Natural Gas SWPL Deflation Correction -

The executive is requesting 75% of federal special revenue and 25% of general fund be restored because an automatic deflation reduction in the natural gas utility budget will not occur for the Air National Guard. A statewide present law deflation reduction has been automatically applied to both years of the biennial budget but Air National Guard utilities are not negotiated or contracted by the State of Montana utility department. No such reduced utilization or cost decreases in natural gas utility will occur.

New Proposals -

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

New Proposals	Fiscal 2018					Fiscal 2019				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(20,566)	0	0	(20,566)	0.00	(20,566)	0	0	(20,566)
DP 1304 - ANG Real Property Specialist FTE	1.00	0	0	61,280	61,280	1.00	0	0	61,281	61,281
Total	1.00	(\$20,566)	\$0	\$61,280	\$40,714	1.00	(\$20,566)	\$0	\$61,281	\$40,715

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

DP 1304 - ANG Real Property Specialist FTE -

The executive is requesting federal special revenue for 1.00 FTE Real Property Specialist to become permanent. This position works on the readiness programs at the Montana Air National Guard and is the lead worker on the new mandatory Federal Independent Audit Review program.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	3,792,397	3,506,652	(285,745)	(7.53)%
Operating Expenses	2,307,902	2,434,725	126,823	5.50 %
Grants	23,457,156	23,345,906	(111,250)	(0.47)%
Transfers	5,075,578	5,065,348	(10,230)	(0.20)%
Total Expenditures	\$34,633,033	\$34,352,631	(\$280,402)	(0.81)%
General Fund	2,577,451	2,381,189	(196,262)	(7.61)%
State/Other Special Rev. Funds	120,071	119,282	(789)	(0.66)%
Federal Spec. Rev. Funds	31,935,511	31,852,160	(83,351)	(0.26)%
Total Funds	\$34,633,033	\$34,352,631	(\$280,402)	(0.81)%
Total Ongoing	\$34,633,033	\$34,352,631	(\$280,402)	(0.81)%
Total OTO	\$0	\$0	\$0	0.00 %

Program Description

The Disaster and Emergency Services Division (DES) duties and responsibilities are provided for under Title 10, Chapter 3, MCA. The division is responsible for the coordination, development and implementation of emergency management planning, mitigation, response, and recovery statewide. This responsibility includes the administration and disbursement of federal Homeland Security and Emergency Management funds to eligible political subdivisions and tribal nations across the state. The division maintains a 24 hour a day point of contact to coordinate the volunteer, state, and federal response for assistance to political subdivisions and tribal nations in the event of an incident, emergency, or disaster.

Program Highlights

Disaster and Emergency Services Major Budget Highlights	
- Disaster and Emergency Services 2019 biennium budget request is \$280,000 or 0.8% lower than the 2017 biennium budget. Significant changes include: - Proposed statewide present law adjustments to personal services. - Proposed decreases due to the executive's implementation of a reduction to the budget which is based on the 5% reduction plan.	

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	23.00	23.00	23.00	23.00	23.00
Personal Services	1,830,280	1,936,536	1,855,861	1,750,168	1,756,484
Operating Expenses	511,353	1,102,605	1,205,297	1,223,029	1,211,696
Grants	5,908,524	11,723,213	11,733,943	11,672,953	11,672,953
Transfers	942,895	2,542,904	2,532,674	2,532,674	2,532,674
Total Expenditures	\$9,193,052	\$17,305,258	\$17,327,775	\$17,178,824	\$17,173,807
General Fund	1,221,014	1,278,631	1,298,820	1,191,595	1,189,594
State/Other Special Rev. Funds	33,758	60,430	59,641	59,641	59,641
Federal Spec. Rev. Funds	7,938,280	15,966,197	15,969,314	15,927,588	15,924,572
Total Funds	\$9,193,052	\$17,305,258	\$17,327,775	\$17,178,824	\$17,173,807
Total Ongoing	\$9,193,052	\$17,305,258	\$17,327,775	\$17,178,824	\$17,173,807
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

Disaster and Emergency Services expended 53.1% of its FY 2016 budget. Personal services were 94.5% expended, operating expenses were 46.4% expended, and grants were 50.4% expended. Lower operating and grant expenditures were due to the program not receiving the level of grant funds anticipated in the budget from the Department of Homeland Security.

Executive Request

Disaster and Emergency Services is requesting a decrease in personal services and operating expenses in FY 2018 and FY 2019. Proposed decreases will be discussed further in the Personal Services and New Proposals sections below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 7

Department Of Military Affairs: 21 Disaster & Emergency Services Personal Services Present Law Calculations			
PS Base:	\$1,855,861		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	(\$105,693)	(\$99,377)
Legislative	Statutory Personal Service Change	<u>21,808</u>	<u>28,520</u>
	Difference	(127,501)	(127,897)
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(35,623)	(35,755)
	Broadband Pay Adjustments	31,799	31,799
	Benefits and Taxes on Pay Adjustment	6,630	6,630
	Other	(130,306)	(130,570)
	Total	(\$127,501)	(\$127,897)

Personal services were nearly \$1.9 million or 10.7% of total FY 2017 appropriations. The executive proposes a \$106,000 decrease in FY 2018 and \$99,000 decrease in FY 2019. The executive proposal is approximately \$128,000 lower than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This decrease is due to a combination of factors including turnover, vacant positions, and the additional 2% vacancy savings proposed by the executive.

Funding

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

Department of Military Affairs, 21-Disaster & Emergency Services Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	2,381,189	0	0	0	2,381,189	6.93 %
02156 SAR DES DFWP Fees	41,928	0	0	0	41,928	35.15 %
02170 SAR DES Off Road Vehicle	67,668	0	0	0	67,668	56.73 %
02180 EMERGENCY PREPAREDNESS SUMMIT	0	0	0	0	0	0.00 %
02335 DES Training Conference	9,686	0	0	0	9,686	8.12 %
State Special Total	\$119,282	\$0	\$0	\$0	\$119,282	0.35 %
03134 DES Emergency Mgmt Perf 97.042	10,006,196	0	0	0	10,006,196	31.41 %
03143 DES Homeland Security 97.067	15,316,590	0	0	0	15,316,590	48.09 %
03166 DES Hazard Mitigation 97.039	2,600,306	0	0	0	2,600,306	8.16 %
03191 DES Pre-Disaster Mit 97.047	2,707,068	0	0	0	2,707,068	8.50 %
03208 DES Hazardous Materials 20.703	360,000	0	0	0	360,000	1.13 %
03239 DES Flood Mitigation 97.029	862,000	0	0	0	862,000	2.71 %
03429 Disaster & Emergency Services	0	0	0	0	0	0.00 %
Federal Special Total	\$31,852,160	\$0	\$0	\$0	\$31,852,160	92.72 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$34,352,631	\$0	\$0	\$0	\$34,352,631	

Funding for Disaster and Emergency Services is broken down primarily into three functional areas:

- Administration and coordination

- Search and rescue
- Grant program

Administrative and coordinative functions are primarily funded with 50% state general fund and 50% federal funds. Disaster coordination functions are typically funded 100% with federal funds.

Search and rescue activities are funded through state special revenue funds derived from surcharges on conservation licenses and off-road vehicle licenses.

Grant activities typically utilize federal funds. The amount of this funding budgeted in HB 2 can vary greatly depending on the federal source and available amounts known at the time of budget submission.

The Governor is also provided a number of statutory appropriations in the event of a declared emergency or disaster. The most notable of these is the authority to authorize up to \$16.0 million for disaster relief. These expenditures are authorized through executive orders.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,298,820	1,298,820	2,597,640	109.09 %	17,327,775	17,327,775	34,655,550	100.88 %
SWPL Adjustments	(46,235)	(48,236)	(94,471)	(3.97)%	(87,961)	(92,978)	(180,939)	(0.53)%
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	(60,990)	(60,990)	(121,980)	(5.12)%	(60,990)	(60,990)	(121,980)	(0.36)%
Total Budget	\$1,191,595	\$1,189,594	\$2,381,189		\$17,178,824	\$17,173,807	\$34,352,631	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	(52,847)	0	(52,846)	(105,693)	0.00	(49,689)	0	(49,688)	(99,377)
DP 2 - Fixed Costs	0.00	6,647	0	11,156	17,803	0.00	1,453	0	4,945	6,398
DP 3 - Inflation Deflation	0.00	(35)	0	(36)	(71)	0.00	0	0	1	1
Grand Total All Present Law Adjustments	0.00	(\$46,235)	\$0	(\$41,726)	(\$87,961)	0.00	(\$48,236)	\$0	(\$44,742)	(\$92,978)

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate

adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

New Proposals -

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

New Proposals	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(60,990)	0	0	(60,990)	0.00	(60,990)	0	0	(60,990)
Total	0.00	(\$60,990)	\$0	\$0	(\$60,990)	0.00	(\$60,990)	\$0	\$0	(\$60,990)

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

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	3,287,140	3,766,364	479,224	14.58 %
Operating Expenses	340,141	365,700	25,559	7.51 %
Total Expenditures	\$3,627,281	\$4,132,064	\$504,783	13.92 %
General Fund	2,185,236	2,520,064	334,828	15.32 %
State/Other Special Rev. Funds	1,442,045	1,612,000	169,955	11.79 %
Total Funds	\$3,627,281	\$4,132,064	\$504,783	13.92 %
Total Ongoing	\$3,527,281	\$4,132,064	\$604,783	17.15 %
Total OTO	\$100,000	\$0	(\$100,000)	(100.00)%

Program Description

The Veterans Affairs Division assists discharged veterans and their families, cooperates with state and federal agencies, promotes the general welfare of veterans, and provides information on veterans' benefits. The program also administers the veterans' cemeteries located at Miles City, Fort Harrison in Helena, and Missoula. The Board of Veterans' Affairs is administratively attached to the Department of Military Affairs, and operates under a state mandate provided in Title 10, Chapter 2, MCA.

Program Highlights

Veterans Affairs Division Major Budget Highlights
- The Veterans Affairs Division 2019 biennium budget request is \$505,000 or 13.9% higher than the 2017 biennium budget. Significant changes include: - Proposed increases to personal services due to a statewide present law adjustment and a request for general fund for Veterans Service Officer (1.00 FTE). - Proposed increases to operating expenses to reestablish state special revenue funding that reduces the use of general fund.

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	26.00	26.00	26.00	27.00	27.00
Personal Services	1,599,159	1,601,327	1,685,813	1,881,236	1,885,128
Operating Expenses	190,816	191,730	148,411	184,222	181,478
Total Expenditures	\$1,789,975	\$1,793,057	\$1,834,224	\$2,065,458	\$2,066,606
General Fund	1,069,942	1,070,512	1,114,724	1,260,570	1,259,494
State/Other Special Rev. Funds	720,033	722,545	719,500	804,888	807,112
Total Funds	\$1,789,975	\$1,793,057	\$1,834,224	\$2,065,458	\$2,066,606
Total Ongoing	\$1,740,556	\$1,743,057	\$1,784,224	\$2,065,458	\$2,066,606
Total OTO	\$49,419	\$50,000	\$50,000	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

The Veterans Affairs Program expended 99.8% of its FY 2016 budget. Personal services were 99.9% expended and operating expenses were 99.5% expended.

FY 2016 Appropriation Compared to FY 2017 Appropriation

There are differences between FY 2016 and FY 2017 appropriations, which are primarily in personal services. This difference is due to the allocation of the pay plan.

Executive Request

The Veterans Affairs Program is requesting an increase in personal services and operating expenses in FY 2018 and FY 2019. The proposed increase will be discussed further in the Personal Services, Present Law Adjustments and New proposals sections below.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 8

Department Of Military Affairs: 31 Veterans Affairs Program Personal Services Present Law Calculations			
PS Base:	\$1,660,813		
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$169,412	\$173,272
Legislative	Statutory Personal Service Change	<u>30,725</u>	<u>34,711</u>
	Difference	138,687	138,561
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(38,123)	(38,204)
	Broadband Pay Adjustments	102,397	102,397
	Benefits and Taxes on Pay Adjustment	21,122	21,122
	Other	53,291	53,247
	Total	\$138,687	\$138,561

Personal services were nearly \$1.7 million or 90.5% of FY 2017 appropriations. The executive proposes a \$169,000 increase in FY 2018 and \$173,000 increase in FY 2019. The executive proposal is approximately \$139,000 higher than anticipated by the LFD based upon pay plan and statutory personal services adjustments in each fiscal year. This difference is due to the review and updating of job descriptions that resulted in pay grade changes as well as DMA changing its pay plan to increase salaries from 80% of the 2012 market to 85% of the 2012 market.

Funding

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

Department of Military Affairs, 31-Veterans Affairs Division Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	2,520,064	0	0	0	2,520,064	49.47 %
02214 Veterans Affairs Cemeteries	0	0	0	962,152	962,152	37.38 %
02222 Patriotic License Plate Fees	200,000	0	0	0	200,000	7.77 %
02548 Veterans Affairs SB401	1,412,000	0	0	0	1,412,000	54.85 %
State Special Total	\$1,612,000	\$0	\$0	\$962,152	\$2,574,152	50.53 %
03453 Air National Guard	0	0	0	0	0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$4,132,064	\$0	\$0	\$962,152	\$5,094,216	

The Veterans Affairs Program is funded with both general fund and state special revenue. General fund is used to support functions throughout the program.

The Veterans Affairs SB401 fund was created by the legislature during the 2003 regular session in SB 401, which allocated proceeds from the sale of veterans' specialty license plates. In addition to the revenue received from the sale of some specialty license plates, this fund and the Veterans' Affairs Cemeteries fund receive a portion of all of the motor vehicle registration revenue that is deposited in the general fund each year. The 2013 Legislature increased the percentage of

motor vehicle fees into this fund from 0.64% to 0.81%. The State Veterans' Cemeteries Program statutory funding includes revenue derived primarily from cemetery donations and plot allowances.

The Patriotic License Plate fund receives revenue from a \$15 surcharge on original licensing and renewal of patriotic license plates issued in Montana.

Program Budget Summary by Category

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

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	1,114,724	1,114,724	2,229,448	88.47 %	1,784,224	1,784,224	3,568,448	86.36 %
SWPL Adjustments	95,835	94,727	190,562	7.56 %	181,223	182,339	363,562	8.80 %
PL Adjustments	0	0	0	0.00 %	50,000	50,000	100,000	2.42 %
New Proposals	50,011	50,043	100,054	3.97 %	50,011	50,043	100,054	2.42 %
Total Budget	\$1,260,570	\$1,259,494	\$2,520,064		\$2,065,458	\$2,066,606	\$4,132,064	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	84,706	84,706	0	169,412	0.00	86,636	86,636	0	173,272
DP 2 - Fixed Costs	0.00	10,447	0	0	10,447	0.00	7,115	0	0	7,115
DP 3 - Inflation Deflation	0.00	682	682	0	1,364	0.00	976	976	0	1,952
DP 3102 - State Special Veteran's Affairs Funding	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
Grand Total All Present Law Adjustments	0.00	\$95,835	\$135,388	\$0	\$231,223	0.00	\$94,727	\$137,612	\$0	\$232,339

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

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

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

DP 3102 - State Special Veteran's Affairs Funding -

The executive is requesting state special revenue funds to reestablish the one-time-only fund switch implemented last biennium to reduce the use of general fund because of available state special revenue in the veteran's service account.

New Proposals -

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

New Proposals										
-----Fiscal 2018-----						-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3101 - Veteran's Service Officer	1.00	50,011	0	0	50,011	1.00	50,043	0	0	50,043
Total	1.00	\$50,011	\$0	\$0	\$50,011	1.00	\$50,043	\$0	\$0	\$50,043

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

DP 3101 - Veteran's Service Officer -

The executive is requesting general fund for 1.00 FTE. This request is for a Veterans Service Officer to augment existing agency staff in the Veterans Affairs Division to serve clients requesting federal veterans' benefits through claim production and advocacy representation.

5% Base Budget Reduction Form

17-7-111-3(f)

AGENCY CODE & NAME: 67010 Department of Military Affairs

	Minimum Requirement	
	General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET	\$ 311,156	\$ 35,240
Priority	General Fund Annual Savings	State Special Revenue Annual Savings
1 SERVICE(S) TO BE ELIMINATED OR REDUCED		
1 Army National Guard Operations	\$ 81,468	\$ 21
2 Air National Guard Operations	\$ 20,566	
3 Director's Office	\$ 38,356	
4 Veterans Affairs Local Support and training	\$ -	\$ -
5 Disaster and Emergency Services	\$ 60,990	\$ 1,688
6 Challenge Operations	\$ -	
7 National Guard Scholarships	\$ 8,920	
8 Montana National Guard Land Purchase Account	\$ 100,856	\$ 33,531
9		
10		
11		
TOTAL SAVINGS	\$ 311,156	\$ 35,240
DIFFERENCE	0	0

Form A

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Army National Guard Program 12

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

The Army National Guard Program would have to reduce the number of repair and maintenance projects completed in the FY

#2 THE SAVINGS THAT ARE EXPECTED:

The ARNG program could save \$81,468 in general fund.

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

National Guard facilities will have to prioritize maintenance and repair projects and delay the least important to the following fiscal years.

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

Delayed repairs may become more expensive at a later date.

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

Yes. National Guard Regulation 5-1.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Air Guard Program 13

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

The Air Guard Program would reduce operation expenses to reach the 5% budget reduction target.

#2 THE SAVINGS THAT ARE EXPECTED:

\$20,566 in General Fund dollars,

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

The operation budget is used for administrative , facilities maintenance, security and fire protection support. The level of support will be reduced.

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

Unknown

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

Yes. National Guard Regulation 5-1.

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Director's Office 1

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

The Director's Office will reduce operation expenses to reach the 5% budget reduction target..

#2 THE SAVINGS THAT ARE EXPECTED:

A 5% reduction would be an annual general fund savings of \$38,356

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

A large portion of the division's operating budget pays fixed costs to other State Departments. All other costs such as supplies, travel, equipment, and military awards will be reduced or eliminated. Reducing travel to other programs in the state will exacerbate existing personnel management difficulties. Not providing awards and decorations to National Guard Soldiers for recognition of state service will conflict with requirements in military regulations.

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

Unknown at this time,

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

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Disaster & Emergency Services 21

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

The Disaster & Emergency Services Division would have to eliminate \$52679 from the State Hazardous Materials Response Team pass through. The reduction would reduce the pass through amount. The impact would be felt not only by the 6 regional hazmat teams, but will have a greater impact on the ability of the teams to train and exercise with other jurisdictions. In addition, the Emergency Preparedness Summit fund (02180) would be used to refund \$10,000 to state general fund.

#2 **THE SAVINGS THAT ARE EXPECTED:**

A 5% reduction would be a savings of \$60,990 in general fund and state special revenue spending will be reduced \$1,688.

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

The impact would be felt not only by the 6 regional hazmat teams, but will have a greater impact on the ability of the teams to train and exercise with other jurisdictions.

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

The reductions will reduce the ability to keep the response equipment up to date which in turn will reduce the response capability of the 6 Regional Hazardous Materials Response Teams when responding to rural or frontier jurisdictions across the state with very limited or non-existent hazmat capabilities

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

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Scholarship Program 3

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

The National Guard Scholarship program would have to reduce the number scholarships awarded each year.

#2 THE SAVINGS THAT ARE EXPECTED:

The program would save \$8,920 each year of the biennium.

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

The elimination of these scholarships could negatively impact recruiting and retention in both the Army and Air National Guard.

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

There is really no way to mitigate the impact as scholarship dollars for guard men and women would not be available to assist with tuition and school costs.

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

No

Form B

5% Base Budget Reduction Form

AGENCY CODE & NAME: 67010 Department of Military Affairs

Montana National Guard Land Purchase Account

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

The Department of Military Affairs would seek to change MCA 10-1-108 to add an additional language so that \$134, 387 would be returned to the State General fund

#2 THE SAVINGS THAT ARE EXPECTED:

\$134,387

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

Less money for land purchases

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

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

MCA 10-1-108

Form B

FY 2017 Fund Appropriation Transactions - Department of Military Affairs							
	Legislative Appropriation	Allocations (Contingency Base & Pay	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative	% Change from Approp + Allocations
01 Director'S Office							
01100 General Fund	\$701,277	\$27,114	\$42,000		\$770,391	9.9%	9.9 %
03132 National Guard	240,374	27,500	50,000		317,874	32.2%	32.2 %
03134 DES Emergency Mgmt Perf 97.04	47,330	27,500			74,830	58.1%	58.1 %
03453 Air National Guard	71,592	29,063			100,655	40.6%	40.6 %
Program Total	1,060,573	111,177	92,000		1,263,750	19.2%	19.2 %
02 Challenge Program							
01100 General Fund	1,030,409	44,351			1,074,760	4.3%	4.3 %
03132 National Guard	3,051,342	132,790			3,184,132	4.4%	4.4 %
Program Total	4,081,751	177,141			4,258,892	4.3%	4.3 %
03 Scholarship Program							
01100 General Fund	209,409				209,409	0.0%	0.0 %
Program Total	209,409				209,409	0.0%	0.0 %
04 Starbase							
03453 Air National Guard	295,573	138,203			433,776	46.8%	46.8 %
Program Total	295,573	138,203			433,776	46.8%	46.8 %
12 Army National Guard Pgm							
01100 General Fund	1,735,614	17,448	(22,000)		1,731,062	-0.3%	-0.3 %
02343 Armory Rental Funds	420				420	0.0%	0.0 %
03132 National Guard	17,066,874	231,423	(50,000)		17,248,297	1.1%	1.1 %
Program Total	18,802,908	248,871	(72,000)		18,979,779	0.9%	0.9 %
13 Air National Guard Pgm							
01100 General Fund	430,114	8,041	(5,000)		433,155	0.7%	0.7 %
03453 Air National Guard	4,502,191	406,929			4,909,120	9.0%	9.0 %
Program Total	4,932,305	414,970	(5,000)		5,342,275	8.3%	8.3 %
21 Disaster & Emergency Services							
01100 General Fund	1,264,617	39,203	(5,000)	0	1,298,820	2.7%	2.7 %
02156 SAR DES DFWP Fees	20,964				20,964	0.0%	0.0 %
02170 SAR DES Off Road Vehicle	33,834				33,834	0.0%	0.0 %
02335 DES Training Conference	4,843				4,843	0.0%	0.0 %
03134 DES Emergency Mgmt Perf 97.04	15,930,188	39,126		(10,922,982)	5,046,332	-68.3%	-68.3 %
03143 DES Homeland Security 97.067				7,658,295	7,658,295	100.0%	100.0 %
03166 DES Hazard Mitigation 97.039				1,300,153	1,300,153	100.0%	100.0 %
03191 DES Pre-Disaster Mit 97.047				1,353,534	1,353,534	100.0%	100.0 %
03208 DES Hazardous Materials 20.703				180,000	180,000	100.0%	100.0 %
03239 DES Flood Mitigation 97.029				431,000	431,000	100.0%	100.0 %
Program Total	17,254,446	78,329	(5,000)	0	17,327,775	0.4%	0.4 %
31 Veterans Affairs Program							
01100 General Fund	1,037,831	86,893	(10,000)		1,114,724	7.4%	7.4 %
02222 Patriotic License Plate Fees	100,000				100,000	0.0%	0.0 %
02548 Veterans Affairs SB401	569,500				569,500	0.0%	0.0 %
Program Total	1,707,331	86,893	(10,000)		1,784,224	4.5%	4.5 %
Grand Total	\$48,344,296	\$1,255,584	\$0	\$0	\$49,599,880	2.6%	2.6%

FY 2017 Fund Appropriation Transactions - Department of Military Affairs							
	Legislative Appropriation	Allocations (Contingency Base & Pay Plan)	Program Transfers	Operation Plan Changes	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01100 General Fund	\$6,409,271	\$223,050	\$0	\$0	\$6,632,321	3.5%	0.0%
02156 SAR DES DFWP Fees	20,964				20,964	0.0%	0.0%
02170 SAR DES Off Road Vehicle	33,834				33,834	0.0%	0.0%
02222 Patriotic License Plate Fees	100,000				100,000	0.0%	0.0%
02335 DES Training Conference	4,843				4,843	0.0%	0.0%
02343 Armory Rental Funds	420				420	0.0%	0.0%
02548 Veterans Affairs SB401	569,500				569,500	0.0%	0.0%
03132 National Guard	20,358,590	391,713	-		20,750,303	1.9%	0.0%
03134 DES Emergency Mgmt Perf 97.042	15,977,518	66,626		(10,922,982)	5,121,162	-67.9%	-68.1%
03143 DES Homeland Security 97.067				7,658,295	7,658,295	100.0%	100.0%
03166 DES Hazard Mitigation 97.039				1,300,153	1,300,153	100.0%	100.0%
03191 DES Pre-Disaster Mit 97.047				1,353,534	1,353,534	100.0%	100.0%
03208 DES Hazardous Materials 20.703				180,000	180,000	100.0%	100.0%
03239 DES Flood Mitigation 97.029				431,000	431,000	100.0%	100.0%
03453 Air National Guard	4,869,356	574,195			5,443,551	11.8%	0.0%
Grand Total	\$48,344,296	\$1,255,584	-	-	\$49,599,880	2.6%	0.0%

2019 BIENNIUM BASE BUDGET

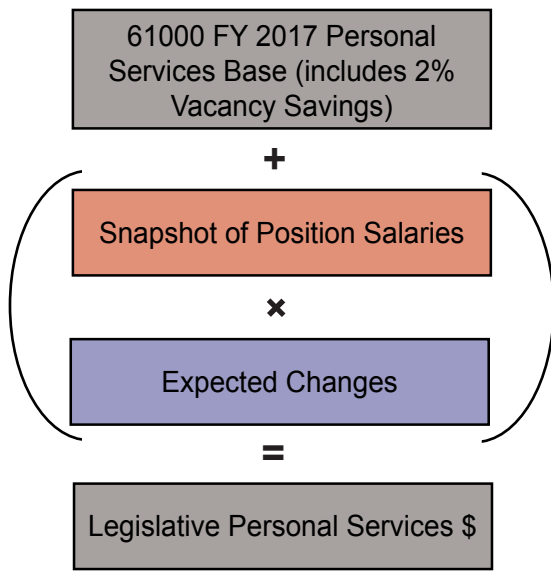
A '17 Leg Budget	+	B '17 Leg Allocations	+	C '17 Exec. BCD	=	D 2017 Base
• HB2 Ongoing		• HB13 - Pay Plan Reallocation • OBPP Personal Services Contingency base • OBPP Contingency Base		Transaction Types • AT - Agency Transfer • FT - Consolidation of split biennial appropriation • HA - House Adjustments • HC - House Corrections • OP - Operating Plan • PT - Program Transfers • RO - Reorganization • HB/SB - Cat/Dog bills in base		

2017 BASE BUDGET

Agency/Program	=	Agency/Program	=	Agency/Program
61000 Personal Services 62000 Operating Expenses 63000 Equipment 64000 Capital Outlay 65000 Local Assistance 66000 Grants 67000 Benefits + Claims 68000 Transfers		Program 1 Program 2 Program 3 Program X		01 - General Fund 02 - State Special Revenue 03 - Federal Special Revenue 06 - Enterprise 06 - Internal Service
Total by 1st Expenditure Level		Total by Program		Total by Fund Type

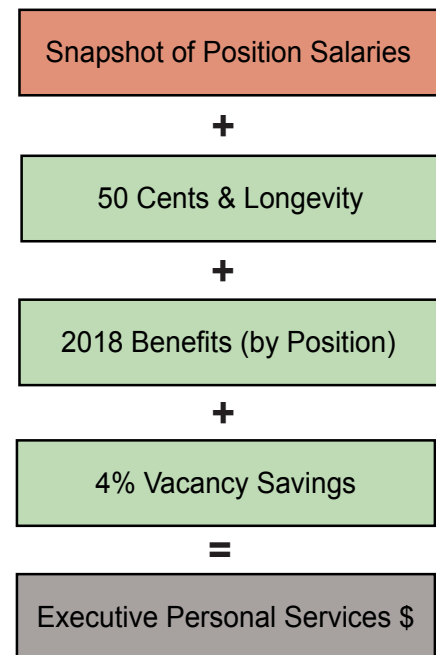
2019 BIENNIUM PERSONAL SERVICES COMPARISON

Legislative



Legislative Personal Services
- 61000 FY 2017 Personal Services Base
= Compare to DP1

Executive



Executive Personal Services
- 61000 FY 2017 Personal Services Base
= DP1 Statewide Present Law Adjustment

LEGISLATIVE PERSONAL SERVICES CALCULATION

(Base 61000 Amount plus Expected-Benefit-Changes-Amount)

