

FY 2016 BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division Staff

March 10, 2016



GENERAL FUND BALANCE SHEET

The anticipated ending fund balance for FY 2017 is \$357.2 million. The FY 2015 Comprehensive Annual Financial Report (CAFR) by state accounting has been published and FY 2015 CAFR adjustments of \$328,000 are included in the balance sheet. In addition, FY 2016 carryforward updates through March 4 are included.

General Fund March 2016 (\$ Millions)				
	Actual FY 2014	Actual FY 2015	Budget FY 2016	Budget FY 2017
Beginning Fund Balance	\$537.600	\$424.451	\$455.436	\$353.624
Revenue	2,077.044	2,199.653	2,262.932	2,355.360
Total Funds Available	2,614.644	2,624.104	2,718.368	2,708.985
Disbursements				
Ongoing				
HB 2, pay plan, pension bills, lang. approps, bills with base funding lang.	1,763.500	1,822.770	1,937.403	1,985.308
HB 2 supplemental		21.168		
Statutory	254.621	261.240	276.987	293.498
Transfers	14.761	26.527	15.250	16.412
Other appropriation bills (includes 2015 bi remaining HB1 authority)	1.518	8.401	5.586	5.377
Assumed FY 2017 Appropriations (HB 1 & SB 260)				7.600
Reversions			(7.100)	(7.300)
OTO				
HB 2	20.600	21.923	60.888	45.922
Transfers - includes fire transfers	135.500	13.308	50.314	
Transfers - other (HB 10, HB 403)			11.300	
Contingent Fund Transfer & FY Transfer			12.500	5.000
Other (includes: carry forward)		2.564	1.616	
Total Disbursements	2,190.500	2,177.901	2,364.744	2,351.816
Adjustments - includes Comprehensive Annual Financial Report adjustments	0.307	9.233		
Ending Fund Balance (Unassigned)	\$424.451	\$455.436	\$353.624	\$357.169

The CAFR ending fund balance for FY 2015 includes general fund spend down of \$75 million. The balance sheet reflects this in FY 2016 budgeted revenues and expenditures.

OVERVIEW

The above estimated ending fund balance will not change materially until fiscal year end 2016, when HJ 2 revenues and budgeted expenditures are replaced with actual revenues and expenditures. This will be reported in the September 2016 LFC meeting.

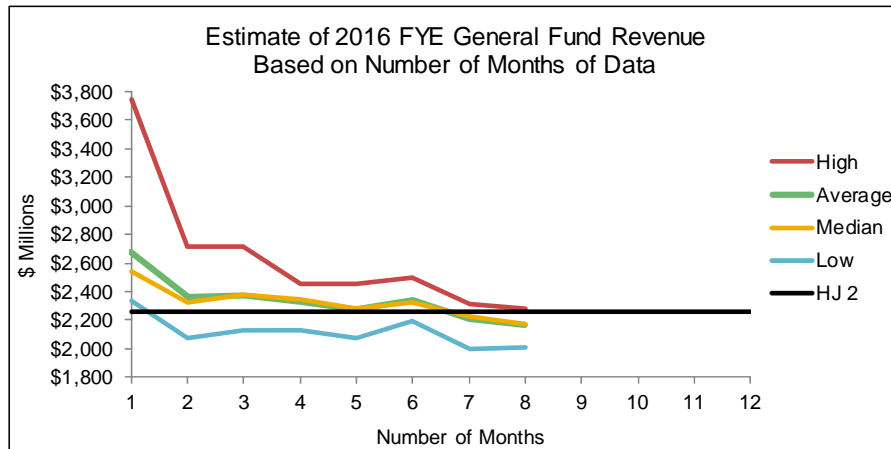
Current revenue trends calculated by using year to date median collections compared to historical collection patterns indicate end of the year general fund collections at \$2,175 million or about \$90 million less than HJ 2 revenue estimate. If a similar \$90 million shortage occurs in FY 2017, the ending fund balance would still be sufficient and the [17-7-140 \(3\)](#) "trigger" would not occur as the fund balance would have to fall below \$118 million. This means the estimated biennial shortfall would need to be more than \$239 million (\$357 million anticipated ending fund balance less \$118 million required ending fund balance).

GENERAL FUND REVENUE AND HISTORICAL COLLECTION PATTERNS

Combining year-to-date revenue with historical revenue collection patterns (FY 2002 to FY 2015) the total revenue ranged from as high as \$2,284 million or \$21 million above HJ 2 to \$256 million below

estimate. For the June meeting, the LFD will reforecast FY 2016 through FY 2019 and will have a better sense of how this change is impacting all years in the forecast period.

As FY 2016 progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2016 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Based on collections through the end of February, the difference between the high and low is less than \$300 million, with the average and median values below the HJ 2 estimate.



Potential total general fund collections range from a low of \$2,007 million to a high of \$2,284 million, with a median value of \$2,175 million and an average value of \$2,164 million. The FY 2016 estimate for total general fund in HJ 2 is \$2,263 million.

IMPORTANT CONSIDERATIONS

The economy is strong and the decline in revenue is not due to the current economy. Wages are growing as anticipated at about 5% and withholding is up at about 3.3%. The declines in anticipated revenues are due to lower natural resource taxes related to drops in price and interest earnings that are lower than anticipated in HJ 2.

Additional risk in FY 2016 could come from income tax revenue. CY 2014 capital gains income was relatively high and resulted in higher tax revenue in FY 2015. It is unknown how CY 2014 capital gains realizations may have impacted CY 2015 capital gains income and FY 2016 tax revenue. Potential options include the following:

- o The recent average trend of growth over the past several years will continue and capital gains will be strong, potentially stronger than CY 2014
- o The flat stock market in CY 2015 will provide opportunity for taxpayers to offset gains made in CY 2014 with losses in CY 2015 and reduce tax liability

REVENUES

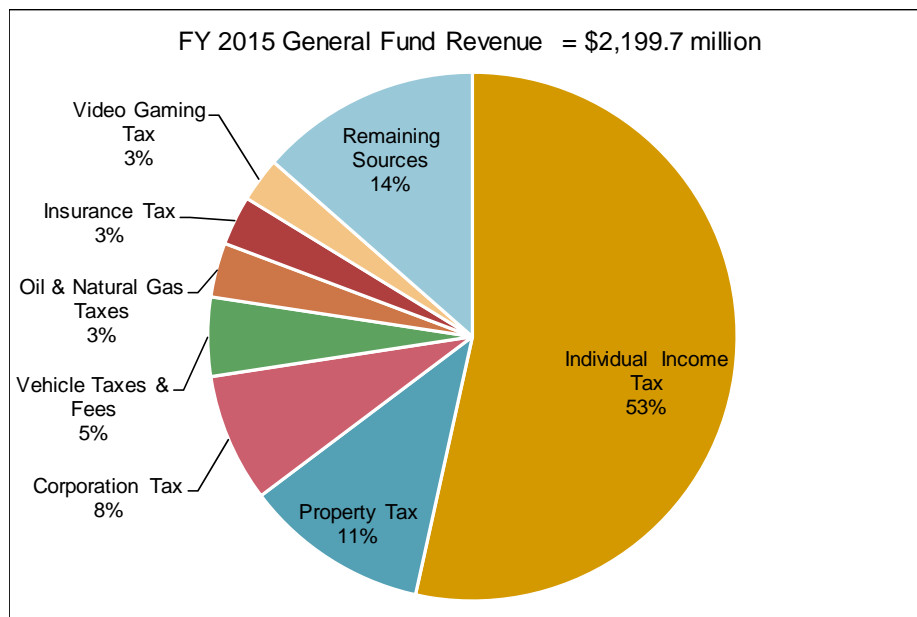
General fund revenue collections are \$26.5 million or 2.0% less than FY 2015 amounts through February, and are currently below the overall growth estimate of 2.9% contained in HJ 2. The decline in revenue is somewhat inflated due to a posting error of \$9.3 million made in February 2015 which was subsequently reversed the following month. Adjusting for the error produces a year-to-date decline of \$17.2 million or 1.3%.

All major revenue sources and any other sources with significant differences will be discussed in further detail in the next section.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2015	HJ 2 Est. FY 2016	HJ 2 Est. % Change	2/28/2015 FY 2015	2/29/2016 FY 2016	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,175.745	\$1,229.616	4.6%	\$806.899	\$833.227	\$26.328	3.3%
Property Tax	247.881	253.799	2.4%	140.960	143.816	2.855	2.0%
Corporation Tax	172.729	179.898	4.2%	104.929	76.319	(28.610)	-27.3%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	62.641	59.638	(3.002)	-4.8%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	26.182	11.260	(14.922)	-57.0%
Insurance Tax	66.582	72.279	8.6%	27.982	31.397	3.415	12.2%
Video Gaming Tax	59.799	62.007	3.7%	29.537	30.050	0.514	1.7%
Other Business Taxes							
Drivers License Fee	4.811	4.081	-15.2%	2.854	2.877	0.024	0.8%
Investment Licenses	6.773	7.412	9.4%	6.209	6.631	0.422	6.8%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	11.201	13.044	1.843	16.5%
Public Contractor's Tax	3.257	3.560	9.3%	3.640	2.524	(1.116)	-30.7%
Railroad Car Tax	3.706	3.741	0.9%	2.842	3.111	0.269	9.5%
Rental Car Sales Tax	3.907	3.486	-10.8%	2.348	2.700	0.352	15.0%
Retail Telecom Excise Tax	18.257	18.999	4.1%	8.656	8.569	(0.086)	-1.0%
Other Natural Resource Taxes							
Coal Severance Tax	16.063	14.434	-10.1%	8.712	7.506	(1.206)	-13.8%
Electrical Energy Tax	5.133	4.580	-10.8%	2.561	2.374	(0.187)	-7.3%
Metal Mines Tax	8.320	8.311	-0.1%	0.390	0.241	(0.149)	-38.2%
U.S. Mineral Leasing	26.960	24.069	-10.7%	16.252	11.854	(4.398)	-27.1%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	1.948	1.832	(0.116)	-6.0%
Other Interest Earnings							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	10.833	10.152	(0.681)	-6.3%
TCA Interest Earnings	2.164	8.527	294.0%	1.147	1.954	0.807	70.4%
Other Consumption Taxes							
Beer Tax	3.034	3.129	3.1%	1.804	1.766	(0.038)	-2.1%
Cigarette Tax	29.604	31.036	4.8%	18.753	19.476	0.723	3.9%
Liquor Excise Tax	19.257	19.521	1.4%	11.418	11.558	0.140	1.2%
Liquor Profits	11.000	11.021	0.2%	-	-	-	-
Lottery Profits	12.363	11.031	-10.8%	2.555	2.417	(0.138)	-5.4%
Tobacco Tax	6.056	6.396	5.6%	3.640	3.631	(0.009)	-0.3%
Wine Tax	2.307	2.363	2.4%	1.406	1.426	0.020	1.4%
Other Sources							
All Other Revenue	40.822	40.060	-1.9%	22.919	18.408	(4.510)	-19.7%
Highway Patrol Fines	4.042	4.349	7.6%	2.249	2.282	0.033	1.5%
Nursing Facilities Fee	4.810	4.756	-1.1%	2.404	2.395	(0.009)	-0.4%
Public Institution Reimbursement	16.819	16.606	-1.3%	6.763	1.677	(5.086)	-75.2%
Tobacco Settlement	3.225	3.145	-2.5%	-	0.023	0.023	-
Largest Seven Subtotal	1,902.301	1,963.049	3.2%	1,199.130	1,185.707	(13.423)	-1.1%
Remaining Sources Subtotal	297.352	299.883	0.9%	153.503	140.428	(13.075)	-8.5%
Grand Total	\$2,199.653	\$2,262.932	2.9%	\$1,352.632	\$1,326.135	(\$26.498)	-2.0%

MAJOR SOURCES

In FY 2015, the largest seven revenue sources accounted for just over 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

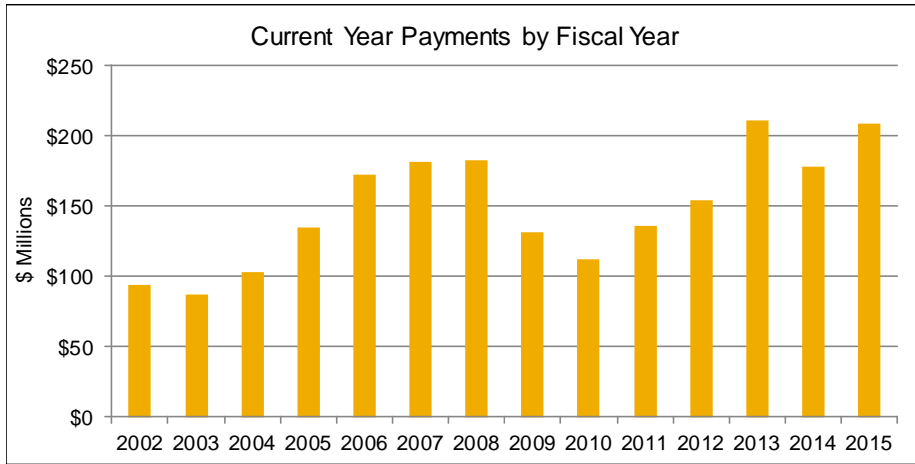


Individual Income Tax: On Track with HJ 2 after Adjusting for FY 2015 Posting Error

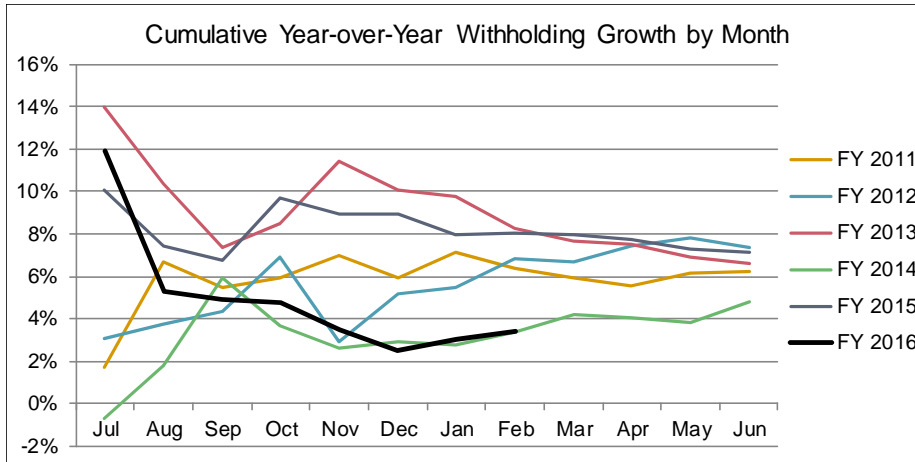
Individual income tax collections are \$26.3 million or 3.3% above last year, which is below the anticipated growth of 4.6% contained in HJ 2. In February 2015, there was a payment of \$9.3 million that was mistakenly posted to the mineral royalties withholding account that should have been posted to the oil and natural gas clearing account; the correction will be shown in the March year-to-date report. Accounting for the error in the table below would result in a mineral royalties decline of 46.1%, and total growth of \$35.6 million or 4.5% above this time last year.

Individual Income Tax (\$ Millions)				
	YTD 2016	YTD 2015	\$ Difference	% Difference
Withholding	\$578.1	\$558.9	\$19.2	3.4%
Estimated Payments	182.2	171.7	10.4	6.1%
Current Year Payments	26.0	21.3	4.7	22.2%
Audit, P&I, Amended	31.9	22.9	9.1	39.6%
Refunds	(136.9)	(124.1)	(12.9)	10.4%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	6.8	4.7	2.1	45.0%
Mineral Royalties	5.2	18.9	(13.7)	-72.7%
Total	\$833.2	\$806.9	\$26.3	3.3%

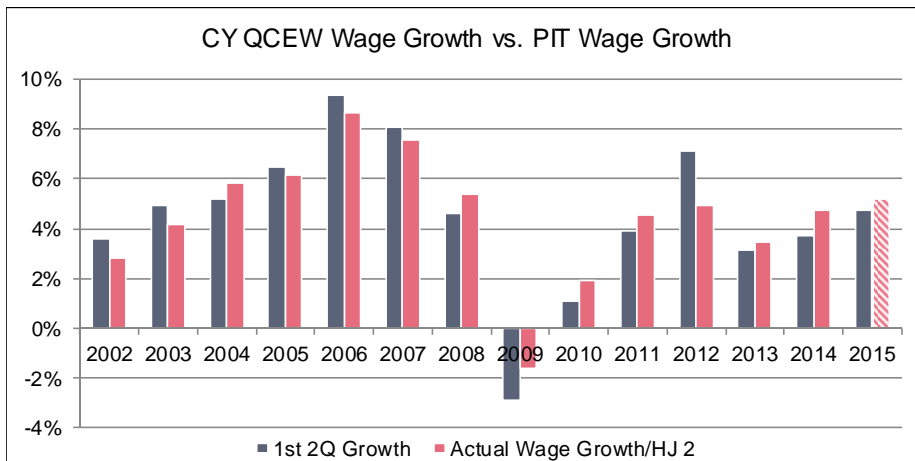
The increase in current year payments reflect the tax due by tax year 2014 extension filers, rather than that of 2015 filers. Current year payments have fluctuated in recent years, perhaps in response to taxpayers' capital gains realizations of the prior tax year. For example, FY 2013 payments were high primarily due to the increased capital gains realizations at the end of CY 2012 as taxpayers responded to the potentially higher federal capital gains tax rates of the "fiscal cliff." About three-quarters of total current year payments are received in April.



Withholding shows weak growth when compared to FY 2015 collections; however, as shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year. By February, the year-over-year growth seems to stabilize, along with potential assessments of overall FY 2016 withholding growth.



Although withholding comes primarily from wage income, change in withholding may also reflect taxpayers' changing expectation of other income sources such as retirement income and possibly capital gains. The current slower growth in withholding appears to be due to factors other than wage growth; as shown in the chart below, wage growth in the first half of 2015 was nearly 5%.



Property Tax: In Line with Estimate

Property tax collections are above last year by \$2.9 million or 2.0%, and currently below the HJ 2 estimated growth of 2.4%. Final collections will likely come in close to HJ 2 estimates, perhaps slightly above due to strong growth in Class 9 pipeline property.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of February are \$28.6 million or 27.3% below last year, and below the anticipated increase of 4.2% contained in HJ 2. The year-over-year decrease is primarily due to a large one-time audit that occurred in FY 2015. HJ 2 assumed a \$25 million revenue shift from FY 2015 to FY 2016 due taxpayer behavior. The shift appeared to have not materialized in FY 2015; therefore, the additional revenue is unlikely to appear in FY 2016.

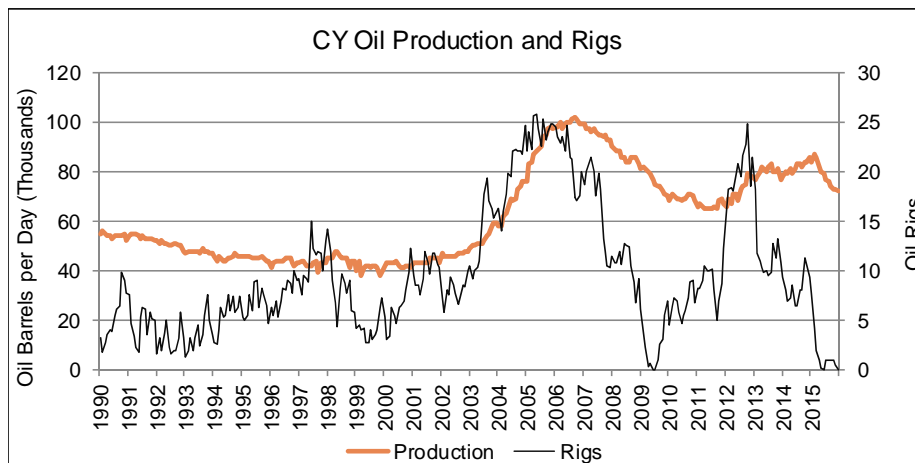
Corporation Income Tax (\$ Millions)				
Account	YTD 2016	YTD 2015	\$ Difference	% Difference
Corporation Tax	\$11.0	\$13.7	(\$2.7)	-19.7%
Estimated Payments	69.1	72.8	(3.7)	-5.1%
Refunds	(13.2)	(14.2)	1.0	-6.7%
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%
Audit, P&I, Amended	5.1	24.5	(19.3)	-79.0%
Total	\$76.3	\$104.9	(\$28.6)	-27.3%

Vehicle Fees & Taxes: Currently Below Estimate

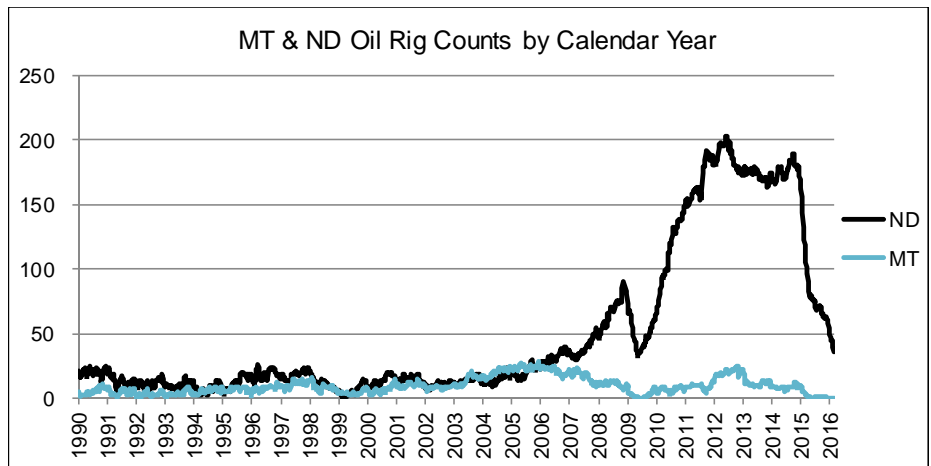
Through February of FY 2016, vehicle taxes and fees are 4.8% or \$3.0 million below collections last year at this time. The year-over-year decline is due to uncharacteristically high light vehicle registrations in February of FY 2015. Until February, year-to-date collections had been approximately 10% higher than FY 2015 collections. If that trend continues following February, collections are likely to end up near the HJ 2 estimate which assumed a decline of 0.2%.

Oil & Natural Gas Production Tax: Below Estimate

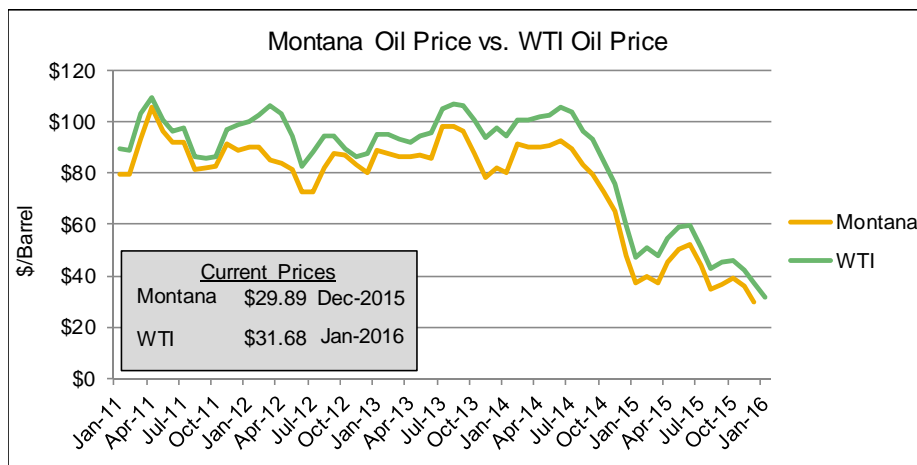
With first quarter collections posted, oil and natural gas tax is below last year 57.0% or \$14.9 million, and below the HJ 2 anticipated decline of 19.0%. The dollar difference will continue to increase but the percentage difference should move somewhat closer to HJ 2 as the first quarter compares to the first quarter of FY 2015, which was the strongest quarter that year. Production continues to decline as shown in the following chart, and there has only been at most one rig operating in the state since March of 2015.



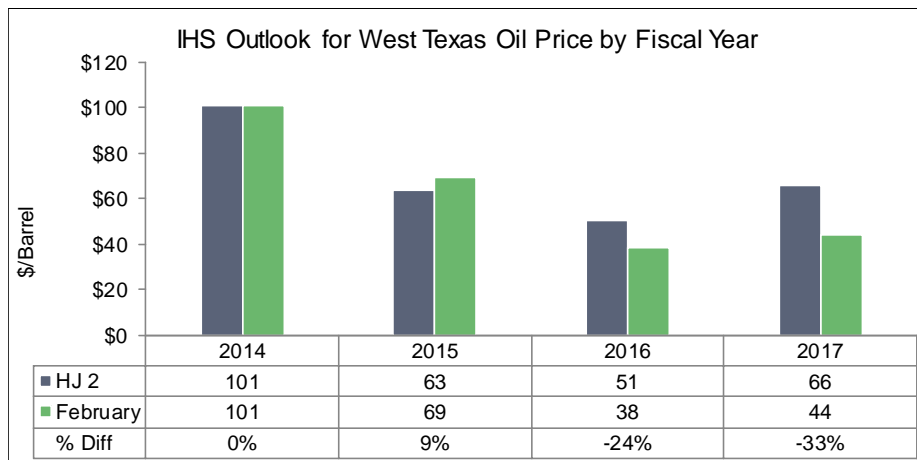
The impact of the oil industry response to lower prices has been even more pronounced in North Dakota, as illustrated in the adjacent chart.



The decline in price is the primary driver in the reduced revenue collections. The following chart compares the monthly average price for Montana oil with the WTI price. There is a two-to-three month lag in available monthly price data.



Current West Texas Intermediate (WTI) oil price is below the estimate contained in HJ 2, and the most recent outlook from IHS suggests that the lower prices will continue throughout the remainder of the 2017 biennium. The chart below shows the WTI price contained in HJ 2 and the outlook for WTI from the IHS February 2016 forecast.



Video Gaming Tax: Slightly Below HJ 2

Revenue from video gambling is currently \$0.5 million or 1.7% above collections from last year at this time. In HJ 2, FY 2016 video gambling revenue was forecast to grow by 3.7%. The slower-than-expected growth may be due to a switch in gambling behavior from gaming machines to the lottery in the month of January, a result of the unusually high jackpot. Prior to the January payment, this source had been tracking higher than 3.7% growth. The April payment may provide more information on the decreased growth.

Insurance Tax: Faster-than-Expected Growth

Current insurance tax collections are 12.2% or \$3.4 million above FY 2015 year-to-date. HJ 2 anticipates growth of 8.6% at fiscal yearend. The current volatility of this source comes from the continued take-up of the Affordable Care Act including increasing participation on the exchange, hard-to-predict changes in health insurance premiums year-over-year, and timing of payments.

OTHER KEY DIFFERENCES

Lodging Facilities Sales Tax: Above Estimate Due to Online Travel Companies' Remittances

Lodging facilities sales tax collections are \$1.8 million or 16.5% above last year, and above the anticipated growth of 11.0% contained in HJ 2. The growth is driven by \$1.1 million in payments made in November by online travel companies as a result of litigation with DOR. Going forward, the online travel companies are anticipated to remit about \$0.1 million per quarter. The litigation also impacted rental car sales taxes, with an additional \$0.3 million in payments by the online travel companies.

Public Contractors' Tax: Below Estimate Primarily due to Timing

Public contractors' tax collections are \$1.1 million or 30.7% lower than last year, and below the anticipated growth 9.3% contained in HJ 2. A large refund was process in February that had been processed in January of the prior year; staff at DOR anticipates total refunds to end up in line with historical trends.

Coal Severance Tax: Below Estimate Due to Lower Production

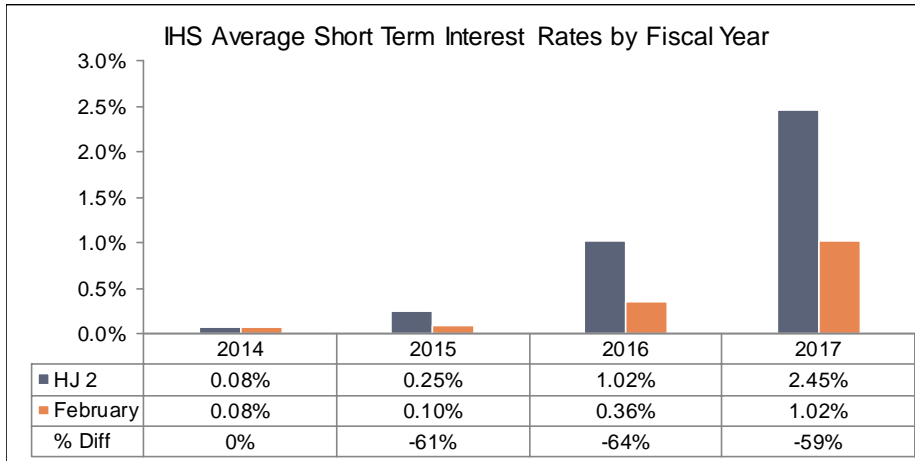
Coal severance tax revenue is \$1.2 million or 13.8% below year-to-date collections in FY 2015, and below the HJ 2 estimated decline of 10.1%. General fund collections were expected to decrease primarily due to [HB 228](#) shifting coal distribution from the general fund to the coal board account; however, total coal collections were expected to stay flat. Production is down somewhat however, accounting for the decline.

U.S. Mineral Royalties: Below Estimate, Likely Due to Oil

U.S. mineral royalties are down year-to-date 27.1% or \$4.4 million, and below the HJ 2 forecast decrease of 10.7%. While total U.S. mineral royalties were expected to decrease, the larger-than-expected decrease is most likely due to oil royalties being lower than expected. The U.S. Department of the Interior's Office of Natural Resources Revenue releases the royalty payment category breakdowns at the end of the federal fiscal year, so detailed information by revenue type will not be available until November 2016.

TCA Interest Earnings: Below Estimate Due to Lower Interest Rates

To date, TCA interest earnings are trending below the estimate contained in HJ due to continued low interest rates. The differences in the projections for short-term interest rates in HJ 2 compared to IHS February 2016 forecasts can be seen in the following chart, with the lowered expectations for interest rates continuing throughout the 2017 biennium.



All Other Revenue: Below Estimate Due to SB 405 Premiums

To date, all other revenue collections are 19.7% or \$4.5 million below last year's collections, primarily due to a decrease in abandoned property collections. In HJ 2, collections were expected to decrease by 1.9%. In addition, the official estimate included nearly \$3.0 million in premium collections from [SB 405](#), which have not been collected yet.

Public Institution Reimbursements: Below Estimate

Public institution reimbursements are currently 75.2% or \$5.1 million behind last fiscal year. Part of this is likely due to the historically erratic of these collections, but there are some explainable irregularities this year. Part of [SB 411](#) specified that in FY 2017 some of the revenues from this source be withheld from the general fund to pay off bonding associated with MDC. Instead, DPHHS withheld those funds this year and are paying the bond in FY 2016. Some of the funds currently withheld are anticipated to be deposited back into the general fund for FY 2016. The impact of moving this payment to FY 2016 will net to zero for the biennium.

BUDGET AND EXPENDITURES

FY 2016 APPROPRIATIONS AND EXPENDITURES

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

- Modifications to FY 2016 appropriations that have been made to the HB 2 FY 2016 budget between December 1 and February 29. For changes occurring between July 1 and November 30 refer to the [2017 Budget Status Update Report](#), provided to the Legislative Finance Committee (LFC) at its December meeting.
- Expenditure and spending patterns relative to the portion of the fiscal year that has passed with emphasis on personal services and state special revenue funding where revenues or expenditures are above or below expectations
- Non-budgeted proprietary funds
- Statutory appropriations
- Budget amendments
- Carry forward authority
- Other appropriations authority granted to state agencies

As used in the report the following definitions apply:

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

Legislative Fiscal Division (LFD) has developed a [guide](#) to the transactions included in each both budget types.

The vast majorities of the appropriation changes examined in this report do not impact the overall agency budget, but alter allocated budgets between programs, expenditures categories, or the organizational units of the agency. As illustrated in [Appendix A, Budget Changes by Program](#), the December report's allocated and modified budgets are used as the beginning point. Further columns in Appendix A show modifications for reorganizations, program transfers, and operating plan changes that occurred between the December and March reports. These modifications establish the March modified budget used to compare budgeted appropriations to actual expenditures and to determine the remaining budget authority. It should be noted that for the purposes of this report appropriations provided as one-time-only are included as part of total appropriations and expenditure.

Typically, through the end of February of each year personal service costs for the first 16 pay periods or 61.5% of personal services and 66.7% of other costs is normally what has been disbursed at this point in the fiscal year, leaving between 38.5% and 33.3% respectively in remaining authority. Analysts examined differences in expenditures that varied from these percentages that are calculated based on the amount of time elapsed in the budget year, referred to in this report as fiscal year expenditure percentages. This report focuses on fiscal year expenditure percentages that were below 50.0% or above 70.0% of expenditure for general fund or state resources as a whole.

Fiscal year expenditure percentages are calculated based on the amount of time elapsed in a budget year.
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To provide a more complete picture of agency resources, the following narrative includes appropriation authority beyond HB 2 provided through non-budgeted proprietary funds¹, statutory appropriations, budget amendments, and carry forward authority². These additional appropriations are included in the summary chart of state resources in [Appendix B, State Resource Summary of FY 2016 Budgeted Authority and Actual Expenditures](#). It should be noted that budget amendments and carry forward authority that have been “continued” from a previous fiscal year are included along with Long-Range Building and Information Technology Program projects approved by previous legislatures under continuing appropriations. Those that were added to the budget in FY 2016 are reflected in the appropriate columns.

Required Report and Budget Amendments

The Legislative Finance Committee (LFC) receives a number of reports from various state agencies including:

- Budget amendments increasing agency appropriations for state or federal special revenues or proprietary funds between December 1 and February 29. Details by budget amendment and a summary of the changes are provided in [Appendix C](#)
- Operating plan changes and program transfers meeting requirements for LFC review received between December 4 and February 29. Letters from the Office of Budget and Program Planning outlining these proposed changes are included in [Appendix D](#)
- Other agency reports statutorily required to be provided to the LFC

LFC Review

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

HB 2 GENERAL FUND BY AGENCY

The following table illustrates the budgeted and actual expenditures of general fund for HB 2 through February 29. The budgeted number reflects the March modified budget as previously discussed. A summary of budgetary changes by section, agency, and program can be found in [Appendix A](#).

¹ Non-budgeted proprietary funds include both internal service and enterprise funds. HB 2 includes legislatively adopted rates for internal service funds. The rates approved by the legislature act as both revenue and expenditure caps as the rates are the maximum the program may charge during the biennium. The legislature does not approve rates or appropriate funds for the majority of enterprise funds.

² By statute, an agency may re-appropriate up to 30% of unused appropriations for personal services, operating expenses, and equipment in HB 2. The funding may be “carried forward” for use in the next two years for any purpose that is consistent with the agencies’ goals and objectives. For budgeting purposes carry forward authority is considered a one-time-only (OTO) appropriations.

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

	FY 2016		
	Modified Budget	Actual and Accruals	%
Section A - General Government			
Legislative Branch	\$12,794,317	\$7,731,367	60.4%
Governor's Office	9,376,140	3,951,786	42.1%
Commissioner of Political Prac	681,125	420,554	61.7%
State Auditor's Office	4,500,000	2,594,134	57.6%
Department of Revenue	54,282,625	31,177,370	57.4%
Department of Administration	7,685,762	4,148,221	54.0%
Department of Commerce	7,324,891	3,494,951	47.7%
Department of Labor & Industry	1,875,267	1,264,602	67.4%
Department of Military Affairs	<u>6,481,572</u>	<u>3,618,557</u>	<u>55.8%</u>
Section A - General Government Total	105,001,699	58,401,541	55.6%
Section B - Health and Human Services			
Department of Public Health and Human Services	<u>505,884,833</u>	<u>298,415,061</u>	<u>59.0%</u>
Section B - Health and Human Services Total	505,884,833	298,415,061	59.0%
Section C - Natural Resources and Transportation			
Department of Fish, Wildlife, and Parks	973,158	347,788	35.7%
Department of Environmental Quality	5,595,412	2,938,450	52.5%
Department of Livestock	2,656,816	1,149,747	43.3%
Department of Natural Resources and Conservation	28,265,506	17,149,125	60.7%
Department of Agriculture	<u>981,141</u>	<u>556,477</u>	<u>56.7%</u>
Section C - Natural Resources and Transportation Total	38,472,033	22,141,588	57.6%
Section D - Judicial Branch, Law Enforcement, and Justice			
Judicial Branch	48,531,678	26,189,958	54.0%
Board of Crime Control	2,480,780	1,519,003	61.2%
Department of Justice	34,759,844	19,954,960	57.4%
Office of the Public Defender	34,682,575	20,453,326	59.0%
Department of Corrections	<u>198,812,191</u>	<u>117,915,364</u>	<u>59.3%</u>
Section D - Judicial Branch, Law Enforcement, and Justice Total	319,267,068	186,032,611	58.3%
Section E - Education			
35010 Office of Public Instruction	780,805,388	483,766,850	62.0%
51010 Board of Public Education	187,428	94,569	50.5%
51020 Commissioner of Higher Ed	241,563,673	173,852,090	72.0%
51130 School for the Deaf & Blind	7,044,650	4,153,046	59.0%
51140 Montana Arts Council	550,429	306,698	55.7%
51150 Library Commission	3,062,738	1,787,102	58.3%
51170 Historical Society	<u>3,481,038</u>	<u>2,032,182</u>	<u>58.4%</u>
Section E - Education Total	1,036,695,344	665,992,537	64.2%
Grand Total	\$2,005,320,977	\$1,230,983,338	61.4%

As reflected in the figure, state agency expenditures supported through general fund are 61.4% expended compared to about 66.0% using fiscal year expenditure percentages. Over \$1,727.0 million of the \$2,005.3 million in FY 2016 general fund appropriations or 86.1% is contained in four state agencies:

- Department of Public Health and Human Services
- Department of Corrections
- Office of Public Instruction
- Commissioner of Higher Education

Agency spending by these four agencies drives the overall general fund 61.4% expended. Discussion of general fund expenditures can be found in the section narratives for each agency beginning on page 20.

HB 2 STATE RESOURCES BY AGENCY

The following table illustrates the budgeted and actual FY 2016 expenditures for all state resources appropriated to state agencies through HB 2. This includes general fund, state and federal special revenue, and budgeted proprietary funds. As discussed previously budget changes are included in the modified budget used for comparisons.

Comparison of Modified Budget to Year to Date Actual Expenditures			
FY 2016			
HB 2 - State Resources			
	FY 2016		
	Modified Budget	Actual and Accruals	% Expended
Section A - General Government			
Legislative Branch	\$15,393,379	\$8,940,605	58.1%
Consumer Council	1,706,559	797,939	46.8%
Governor's Office	10,126,140	3,951,786	39.0%
Secretary of State	104,892	56,001	53.4%
Commissioner of Political Prac	681,125	420,554	61.7%
State Auditor's Office	13,400,734	7,309,136	54.5%
Department of Revenue	196,837,234	95,146,353	48.3%
Department of Administration	22,680,738	11,077,869	48.8%
Department of Commerce	33,303,553	7,905,046	23.7%
Department of Labor & Industry	85,045,363	43,020,101	50.6%
Department of Military Affairs	<u>49,235,631</u>	<u>22,808,894</u>	<u>46.3%</u>
Section A - General Government Total	428,515,348	201,434,285	47.0%
Section B - Health and Human Services			
Department of Public Health and Human Services	<u>2,087,396,095</u>	<u>1,137,408,420</u>	<u>54.5%</u>
Section B - Health and Human Services Total	2,087,396,095	1,137,408,420	54.5%
Section C - Natural Resources and Transportation			
Department of Fish, Wildlife, and Parks	83,839,525	46,296,567	55.2%
Department of Environmental Quality	66,671,802	29,728,163	44.6%
Department of Transportation	676,917,950	380,955,882	56.3%
Department of Livestock	12,604,916	7,135,405	56.6%
Department of Natural Resources and Conservation	70,108,347	33,287,031	47.5%
Department of Agriculture	<u>17,849,466</u>	<u>7,723,454</u>	<u>43.3%</u>
Section C - Natural Resources and Transportation Total	927,992,006	505,126,502	54.4%
Section D - Judicial Branch, Law Enforcement, and Justice			
Judicial Branch	50,483,875	27,221,193	53.9%
Board of Crime Control	13,134,004	5,375,963	40.9%
Department of Justice	98,674,313	56,037,309	56.8%
Department of Public Service Regulation	4,133,777	2,346,390	56.8%
Office of the Public Defender	34,956,501	20,594,100	58.9%
Department of Corrections	<u>203,739,222</u>	<u>120,320,470</u>	<u>59.1%</u>
Section D - Judicial Branch, Law Enforcement, and Justice Total	405,121,692	231,895,425	57.2%
Section E - Education			
35010 Office of Public Instruction	958,325,159	565,954,221	59.1%
51010 Board of Public Education	365,420	180,851	49.5%
51020 Commissioner of Higher Ed	331,603,260	211,317,804	63.7%
51130 School for the Deaf & Blind	7,373,045	4,268,308	57.9%
51140 Montana Arts Council	1,485,491	1,053,302	70.9%
51150 Library Commission	6,483,763	3,507,313	54.1%
51170 Historical Society	<u>5,699,820</u>	<u>3,411,362</u>	<u>59.9%</u>
Section E - Education Total	1,311,335,958	789,693,162	60.2%
Grand Total	\$5,160,361,099	\$2,865,557,794	55.5%

As shown in the previous figure, overall expenditure of state resources is at 55.5% of the total HB 2 state resources appropriated by the legislature compared to about 66.7% using fiscal year expenditure percentages. When looking at total state resources over 40.4% of the funding is allocated to the Department of Public Health and Human Resources (DPHHS). Together with DPHHS, the following agencies make up 82.3% of the remaining state budget:

- Office of Public Instruction – 18.5%
- Department of Transportation – 13.1%
- Commissioner of Higher Education – 6.4%
- Department of Corrections – 3.9%

State Special Revenues

At its December meeting, the LFC requested information on state special revenue funds including whether the revenues were providing sufficient resources for budgeted expenditures and if fund balances were increasing or decreasing. As part of the analysis, LFD staff reviewed state special revenues accounts with either revenues or expenditures averaging more than \$1.0 million a year over the last five years. The accounts that meet the criteria are shown in [Appendix E](#). Staff included discussion of state special revenue accounts that have declining revenues or changes in fund balance in the agency section narratives.³ The following figure summarizes the agencies, state special revenue accounts, and challenges related to either declining revenues or fund balance changes presented in the various narratives.

³ The Governmental Accounting Standards Board (GASB) is an independent organization that establishes standards of accounting and financial reporting for state and local governments. GASB is recognized as the official source of generally accepted accounting principles that, by statute, state agencies must use to present their financial activities. Effective June 30, 2015, GASB 68 Accounting and Financial Reporting for Pensions required state agencies to record their share of the net pension liability for the state's pension systems including Montana Public Employee Retirement System and Teachers' Retirement System pensions on their financial statements. Net pension liability is defined as the difference between the present obligation of pension systems to pay deferred earned benefits (total pension liability) and the assets currently available to pay pension benefits (net plan position).

It should be noted that employer contribution rates are set in statute, meaning state agencies pay the employer contribution to employee pensions required by statute not the amount calculated as their share of the net pension liability. Net pension liabilities recorded in the financial statements are not immediately due but the accounting entries reduce fund balance. As a result, several state special revenue accounts and proprietary funds show reduced or negative fund balances. The cash balances of the accounts are not impacted by the entries.

State Special Revenue Funds Highlighted in the Budget Status Update				
State Agency	Fund Description	5 yr Average Revenues	5 yr Average Expenditures	Analysis
Department of Revenue	Orphan Share Fund	\$3,139,905	\$0	Declining revenues
Dept of Environmental Quality		\$20,299	\$3,495,864	Declining revenues
Department of Justice	Environmental Contingency RIT	0	0	Declining revenues
Department of Revenue		35,851	0	
Dept Nat Resource/Conservation		466	24,680	
Dept of Environmental Quality		10,655	16,198	
Dept of Military Affairs		0	2,003	
MT Dept of Agriculture		0	10,545	
Total Environmental Contingency RIT		\$46,973	\$53,426	
Department of Revenue	Coal Sev. Tax Shared SSR	3,088,774	0	Declining revenues
Dept Nat Resource/Conservation		62	2,343,535	
Library Commission		2	554,502	
MT Dept of Agriculture		16	407,211	
Total Coal Severance Tax Shared SSR		\$3,088,854	\$3,305,248	
Commissioner of Higher Ed	Natural Resources Operations	0	173,564	Declining revenues
Department of Revenue		3,280,863	0	
Dept Nat Resource/Conservation		284,074	961,463	
Dept of Environmental Quality		582	1,891,638	
Judiciary		1,514	1,004,616	
Total Natural Resources Operations		\$3,567,034	\$4,031,280	
Department of Revenue	Natural Resources Projects	6,415,143	0	Declining revenues
Dept Nat Resource/Conservation		5,170,862	12,357,927	
Dept of Environmental Quality		0	0	
Total Natural Resources Projects		\$11,586,005	\$12,357,927	
Department of Justice	Highways Special Revenue	12,738,823	32,796,936	Fund balance challenges, declining revenues
Department of Transportation		267,248,512	254,555,795	
Dept. of Fish, Wildlife & Parks		400	806,385	
Long Range Building		0	1,791,872	
Total Highways Special Revenue		\$279,987,735	\$289,950,988	
Labor & Industry	Board Of Pharmacy	\$1,034,159	\$773,459	Fund balance challenges
Labor & Industry	Board Of Nursing	\$1,311,036	\$1,055,363	Fund balance challenges
Labor & Industry	Bd Of Nursing Home Admin	\$50,786	\$38,009	Fund balance challenges
Labor & Industry	Board of Athletic Trainers	\$21,632	\$19,077	Fund balance challenges
Labor & Industry	Building Codes State Spec Rev	\$3,932,679	\$3,549,669	Fund balance challenges
Department of Revenue	Tobacco Hlth and Medicaid Init	36,617,509	0	Fund balance challenges
Public Health & Human Services		718,456	44,888,807	
Total Tobacco Hlth and Medicaid Init		\$37,335,965	\$44,888,807	
Dept. of Fish, Wildlife & Parks	Wildlife Habitat	4,481,792	3,575,194	Fund balance challenges
Dept Nat Resource/Conservation	Fire Supression Fund	11,379,067	9,370,209	Fund balance challenges
Dept of Military Affairs		0	73,738	
Total Fire Suppression Fund		\$11,379,067	\$9,443,947	
Department of Revenue	Guarantee Fund	3,433,225	0	Declining revenues
Dept Nat Resource/Conservation		60,528,690	0	
Office of Public Instruction		5,970,036	70,410,246	
Total Guarantee Fund		\$69,931,950	\$70,410,246	
Department of Commerce	School Facility & Tech Account	3,944,324	7,331,990	Declining revenues
Office of Public Instruction		0	7,767,916	
Total School Facility & Tech Account		\$3,944,324	\$15,099,906	

Challenges for State Special Revenue Accounts That Impact Multiple Agencies

Many of the accounts within the state special revenue fund support multiple state agencies. The following section discusses three accounts, appropriated to multiple state agencies that have challenges due to declining natural resource revenues or have appropriations exceeding the working capital balance.

Accounts Receiving Resource Indemnity Trust (RIT) Related Revenue

The Constitution requires a resource indemnity trust with a \$100.0 million trust principle. Since the RIT threshold of \$100.0 million was met, the legislature has statutorily allocated three taxes previously transferred into the RIT to various state special accounts. The taxes include:

- Resource indemnity and ground water assessment
- Metalliferous mine
- Applicable portions of oil and gas taxes

Resource Indemnity Funding: 2017 Interim										
Related Funds	02010 Oil & Gas	02022 Future Fish	02070 HazWas	02107 ECA	02162 EQPF	02216 Wa Sto	02289 GRW	02472 Orphan Share	02576 Operations	02577 Projects
FY 2016 Beginning Balance	\$473,775	\$1,629,454	\$436,105	\$695,114	\$4,008,139	\$586,695	\$21,607	\$8,359,250	\$828,762	\$2,043,439
FY 2016/2017 Revenues										
RIT Interest - Direct	462,277	796,888		124,459		355,598	478,133			5,100,085
RIGWA			863,133		910,485	150,000	732,000			1,726,266
Short Term Investment Pool - Interest	0		600		4,000	400		8,000		
Metal Mines Tax									1,726,706	
Oil and Gas Tax								3,503,699	2,399,242	2,565,342
Agency Generated Revenues					5,437,000	120,000				31,000
Adjustment for Excess Balance ¹	201	2,006				2,006	1,204			14,043
Other Income	100,000									
Legislative Transfer (SB418)									1,200,000	
2017 Biennium Projected Available Funds	\$1,036,253	\$2,428,348	\$1,299,838	\$819,573	\$10,359,624	\$1,214,699	\$1,232,944	\$11,870,949	\$6,154,710	\$11,480,175
Appropriations for FY 2016										
UM - Bureau of Mines							(666,000)		(249,731)	
DNRC	(250,000)					(349,759)			(611,268)	
DEQ			(666,714)		(3,891,352)			(3,511,265)	(2,063,453)	
AGR					(127,491)					
Other Agency										
HB 6 & HB 7 Appropriations										(10,857,235)
Zortman-Landusky Transfer								(1,200,000)		
Continuing Authority		(2,312,062)		(58,376)	(551,364)			(3,567,592)	(31,163)	
Reversion (Estimate)	152,810		35,504		179,649				549,595	
Anticipated Unused Appropriations										
Proj. Fund Balance Ending FY 2016	\$939,063	\$116,286	\$668,628	\$761,197	\$5,969,065	\$864,940	\$566,944	\$3,592,092	\$3,748,690	\$622,940
Appropriations for FY 2017										
UM - Bureau of Mines							(666,000)		(248,968)	
DNRC	(250,000)					(259,759)			(628,377)	
DEQ			(676,519)		(3,943,844)			(3,511,265)	(2,094,739)	
AGR					(127,558)					
HB 6 & HB 7 Appropriations										
Zortman-Landusky Transfer										
Reversion (Estimate)									(13,352)	
Anticipated Unused Appropriations										
Biennium Ending Fund Balance	\$689,063	\$116,286	(\$7,891)	\$761,197	\$1,897,663	\$605,181	(\$99,056)	\$80,827	\$763,254	\$622,940

Possible declining revenues in coal, oil, and gas have direct impacts on several state special revenue funds including those associated with the resource indemnity trust. These funds include the environmental contingency account, the orphan share, the natural resource operations account, and the natural resource projects account. The agencies impacted include the Departments of Fish, Wildlife, and Parks; Environmental Quality; and Natural Resources and Conservation. During FY 2016, agencies have made some changes switching funding away from RIT funds to other state special revenue funds.

Coal Severance Tax Shared Account

Declines in coal revenues impact the coal severance tax shared account. The coal tax shared account receives 5.46% of coal severance taxes and supports the Growth Through Agriculture Program at the Department of Agriculture, conservation districts at the Department of Natural Resources and Conservation, and local libraries at the State Library. The fund was balanced by the 2015 legislature but revenues are estimated to decline by 3.8% from the HJ2 estimate. The Office of Budget and Program Planning (OBPP) is working with agencies to reduce expenditures. As reduction plans are finalized by OBPP, the LFD will further report on the status of this fund.

Highway State Special Restricted Revenue Account (HSRA)

Revenues for the HSRA include:

- Gasoline taxes
- Diesel taxes
- Gross vehicle weight fees
- Federal indirect cost recoveries
- Other revenues

As of the end of February revenues are forecasted to be slightly higher than projected in the HJR 2 estimates but are not enough to fully cover all existing authority.

The legislature appropriated HSRA funding to four state agencies:

- Department of Transportation (MDT)
- Department of Justice
- Department of Fish, Wildlife, and Parks
- Department of Administration for long-range projects on behalf of MDT

In December the LFD advised that with consideration of all appropriation authority, the appropriations provided to state agencies exceeded the working capital balance by \$32.7 million.

SECTION A – GENERAL GOVERNMENT

Legislative Branch

HB 2 Budget

The Legislative Branch budget has not been modified since December.

HB 2 Expenditures

The Legislative Branch budget is 58.1% expended as of the end of February compared to fiscal year expenditure percentages of 66.7%. The majority of the divisions have expenditures in line with fiscal year expenditure percentages.

Statutory Appropriations

Legislative Branch reserve account is used for major information technology projects, when approved by the Legislative Council. Any carry forward funding that is unexpended at the end of the biennium may be deposited into the account as well as any funding remaining from the feed bill. Fund balance as of February is \$1.8 million.

Consumer Counsel

HB 2 Budget

The Consumer Counsel budget has not been modified since December.

HB 2 Expenditures

Operating Expenses

The Consumer Counsel received a one-time-only \$250,000 state special revenue appropriation for caseload contingencies in operating expenses. The agency has not spent any of this appropriation to date which explains the 42.2% expended percentage at the end of February.

Governor's Office

HB 2 Budget

Contingency Base Funding

The Office of Budget and Program Planning (OBPP) has \$1.75 million remaining in contingency base funding. This appropriation is comprised entirely of general fund.

Personal Services Contingency Funds

OBPP has \$1.75 million unallocated in personal services contingency funding. This is a one-time-only appropriation made up of general, state special, federal special, and proprietary funds.

HB 2 Expenditures

Operating Expenses

Overall, operating expenses are 28.5% expended compared to fiscal year expenditure percentages of 66.7% through the end of February. This is largely due to the inclusion of the unspent contingency base funding and one-time-only personal services contingency funding, totaling \$3.5 million.

State Auditor's Office (SAO)

HB 2 Budget

The State Auditor's Office budget has not been modified since December.

HB 2 Expenditures

Operating Expenses

Expenses are 48.3% spent compared to 66.7% using fiscal year expenditure percentages. This is due to the inclusion of one-time-only funds related to the phase-out of the Insure Montana Program.

Equipment and Intangible Assets

As of the end of February the SAO has expended 33.9% of its equipment and intangible assets budget. This includes a \$20,000 one-time-only equipment appropriation. According to the SAO, a new server was purchased this month. Overall, large information technology equipment purchases are cyclical and the cost can vary substantially from when estimates are derived to when purchases are made.

Department of Revenue (DOR)

HB 2 Budget

Modified Budget

Program Transfers

DOR moved 1.00 FTE and \$42,388 in general fund from the Citizen Services and Resource Management Division to the Director's Office. The FTE was transferred to balance the workload in the Director's Office.

Operating Plan Changes

DOR transferred \$8,000 from operating expenses to equipment and intangible assets in the Property Assessment Division.

HB 2 Expenditures

The Department of Revenue has expended 48.3% of its appropriation authority through February of FY 2016. Expenditures for the majority of the divisions are in line with fiscal year expenditure percentages. The Department of Revenue has a budgeted proprietary program, the Liquor Control Division. To date, the Liquor Control Division has expended \$63.1 million of its \$140.9 million in HB 2 authority. The modified budget for the Liquor Control Division includes a language appropriation of up to \$138.0 million to maintain inventories, pay freight charges, and transfer profits and taxes to appropriated accounts. The division has thus far expended 44.6% of this appropriation.

Statutory Authority

To date, DOR has expended \$80.0 million or 33.7% of their statutory appropriation authority. The department's statutory appropriation authority is primarily for local assistance in the form of entitlement share payments and oil and gas payments to local governments. The majority of oil and gas payments do not occur until April through June, thus explaining the expenditure level of 33.7% to date.

Other Bills

SB 405, the Montana Health and Economic Livelihood Partnership (HELP) Act appropriated \$393,213 to the DOR in general fund authority for the 2017 biennium to administer the taxpayer integrity fee component of the HELP Act. This authority is considered base funding for the 2019 biennium budget. For FY 2016, \$31,719 will be used to fund 0.50 FTE in the Business and Income Taxes (BIT) division. In FY 2017, \$95,157 will be used for personal services and 1.0 FTE in BIT and \$266,337 will be used in the Director's Office for operating expenses.

Department of Administration (DOA)

HB 2 Budget

Modified Budget

Operating Plan Changes

The Architecture and Engineering Division transferred \$5,875 in operating expenses supported by state special revenues to equipment and intangible assets to purchase a large format scanner.

HB 2 Expenditures

DOA has expended 48.8% of its HB 2 state resources as of the end of February. Expenditures for both personal services and operating expenses are below fiscal year expenditure percentages.

Personal Services

Agency wide personal services expenditures as of February 2016 was 53.5% compared to 61.5% using fiscal year expenditure percentages or almost \$1.0 million less. Every division has lower expenditure on personal services in part due to vacant positions. About half of the vacant positions were within the Banking and Financial Institutions Division (BFIS). According to BFID staff, three positions will be filled in the next few months.

Operating Expenses

Overall expenditures for operating expenses are below fiscal year expenditure percentages with 43.8% expended 66.7% through the fiscal year or about \$2.3 million less than fiscal year expenditure percentages would indicate. Two divisions, State Information Technology Services and the Montana State Lottery make up the majority of the differences. Operating expenses budgeted for the FirstNet grant in SITSD continues to lag projections with just \$75,514 of \$1,434,365 expended as of the end of February. The Montana State Lottery received \$549,000 in appropriations for new tickets and to support converting to a lottery contractor. This funding has only been 9% expended as of the end of February. In addition, while advertising costs were budgeted at \$604,770 through February expenditures have been \$190,037.

Non-budgeted Proprietary Funds

DOA has a number of functions that are supported by non-budgeted proprietary funds including information technology services, state employee group benefits, and state agency self-insurance. Each of the funds is experiencing some challenges.

State Information Technology Services Division (SITSD)

Currently expenditure exceed revenues for the proprietary fund supporting SITSD. By fiscal year end revenues are projected to increase above projected expenditures.

As of February 2016, SITSD has notified state agencies that changes in software licensing agreements and services will impact the SITSD rate charges for agencies including:

- \$3.0 million for Oracle licensing and cloud services
- \$0.2 million for Adobe unlimited licenses

State Employee Group Benefits Plan (SEGBP)

As of February 2016, the expenditures for the SEGBP exceeded revenues by \$3.1 million. In the next four months of FY 2016 the SEGBP should realize higher revenues due to the increase in the employer share contribution to employee benefit costs. Revenues and expenditures are measured for FY 2016, not for plan year 2015.

State Agency Self-insurance Account

As of February 2016, the fund balance in the state agency self-insurance account was \$10.5 million. Revenues exceeded expenditures by \$8.4 million. Claims expenses are less than average through February 2016. If this trend continues the state agency self-insurance account may be able to establish reserves which were depleted in previous biennia.

Statutory Appropriations

Declining revenues for coal severance taxes are projected to result in a reduction in contributions to the Montana Public Employee Retirement System of \$0.5 million. All other DOA statutory appropriations are consistent with expenditure trends.

Other Bills

The State Information Technology Services and the Architecture and Engineering Divisions manage long-range projects that are funded separately from the general appropriations act.

HB 10

The legislature appropriated long-range information technology funding to DOA for various projects. In December DOA transferred \$20.0 million to the Department of Public Health and Human Services for projects to enhance the combined healthcare information and Montana eligibility systems (CHIMES). The transfer includes \$2.0 million of general fund and \$18.0 million in federal funds are included in the transfer.

HB 403

The legislature appropriated \$4.0 million in state special revenue funds to DOA for fire protection measures, elevator maintenance, flooring replacement, and infrastructure repairs within the capitol complex. Deferred maintenance and repairs for the Old Governor's Mansion, statewide life safety and deferred maintenance, energy improvements, and statewide roof repairs and replacements of \$6.95 million were appropriated from Long-range Building Program funds.

Department of Commerce

HB 2 Budget

The Department of Commerce budget has not been modified since December.

HB 2 Expenditures

General fund expenditures are 47.7% at the end of February. The 2015 Legislature provided \$1.5 million as a restricted, biennial, one-time-only appropriation to the Community Development Division (CDD) for capital improvement grants which has not been expended. According to the Department of Commerce, the contracts for the funding have been awarded. Grants will be disbursed on a reimbursement basis. Department of Commerce anticipates with spring arriving the projects will begin soon.

Overall expenditures for the Department of Commerce are at 23.7% when compared to fiscal year expenditure percentages. Lower spending in three expenditure categories, personal services, operating expenses, and grants drive the lower expenditures.

Personal Services

To date, personal services within Department of Commerce are 50.3% expended or about \$0.5 million lower than fiscal year expenditure percentages. As of February 2, 2016 5.70 FTE or 11.4% of total FTE were vacant including 1.25 FTE in the Board of Horse Racing.

Operating Expenses

Operating expenses are 43.8% expended as of the end of February or \$2.3 million lower. While all divisions and programs have lower expenditures, two programs within the Office of Tourism and Business Development (OTBD) are driving the lower percentage. To date, actual expenditures for promotional activities funded by private support are \$40,377 or about 5.4% of the \$750,000 in appropriations. Many of the activities are seasonal in nature so that the majority of the private funds are collected and expended in the second half of the year.

In addition the Microbusiness Loan Program has \$536,105 in operating expense authority which as of the end of February has not been utilized. According to the Department of Commerce the program recently certified the Native American Development Corporation (NADC) as a microbusiness development corporation. The program anticipates that once the start-up conditions for NADC have been met loans of about \$480,000 will be processed.

Grants

The Department of Commerce generally receives applications for grants in the fall and makes grant awards in the spring. As a result, while the expenditures for grants appear low at this point in the budget cycle (14.9%), this is normal given the process used for awarding grants.

Statutory Appropriations

One of the statutory appropriations provided to the Department of Commerce is for the distressed wood products industry revolving loan fund. In FY 2016 budgeted statutory appropriations from the fund include:

- \$1.85 million in state special revenues with total expenditures of \$1.80 million including loans of \$1.775 million
- \$1.08 million in federal special revenues with total expenditures of \$1.03 million including loans of \$1.00 million

Other statutory appropriations include:

- Tourism promotion supported by lodging use facility taxes - 60.1% expended
- Research and commercialization supported by coal trust interest - 27.3% expended
- Big Sky Economic Development Program supported by income from the big sky economic development trust – 8.9% expended

Department of Labor and Industry (DOLI)

HB 2 Budget

Modified Budget

Operating Plan Changes

There were three adjustments that affected operating expenses. The first adjustment transferred \$17,089 each year of the biennium from operating expenses to debt service in the Employment Relations Division for a computer lease. This adjustment affected general and state special revenue funds. The second adjustment in the Commissioner's Office transferred \$10,000 from operating expenses to transfers. DOLI is transferring \$10,000 in state special revenues to the Department of Commerce to pay for a portion of expenditures related to the Montana Main Street Symposium. The final adjustment transferred \$951 in the Office of Community Services for each year of the biennium from operating expenses to debt service for a computer lease. This operating plan change affected general and federal special revenue funds.

Personal Services Contingency Funds

OBPP provided general fund from personal service contingency funds to the Office of Community Services. This transfer of \$41,000 was made to replace funding lost from a Homeland Security grant.

HB 2 Expenditures

DOLI HB 2 state resources are 50.6% expended compared to fiscal year expenditure percentages of about 66.0% at the end of February.

Personal Services

Personal services are 52.0% expended through the end of February, which is below fiscal year expenditure percentages of 61.5% or about \$4.6 million lower given the time elapsed in the budget year. There were 69.00 FTE vacant as of February 2, 2016. Of these positions, 12.00 FTE provided by the HELP Act remain vacant.

Operating Expenses

DOLI operating expenses are 52.7% expended, below fiscal year expenditure percentages at the end of February or \$3.9 million lower. According to DOLI this is in part because large bills related to technology services and other fixed costs are delayed a month.

Grants

Grants are 37.9% expended or \$2.4 million lower than would be anticipated given the time elapsed in the fiscal year. The lower expenditures percentage is due to the timing of the grant cycle, with the majority recorded in June.

State Special Revenues

Professional Boards

State statute outlines several responsibilities for DOLI regarding professional boards. Fees for administrative services are required to be commensurate with services provided. Additionally, the cash balance in the fund is not allowed to exceed twice the board's annual appropriation. As of the end of February, there are four boards that have cash balances in excess of statutory limits, the Board of Athletic Trainers, the Board of Nursing Home Administrators, the Board of Pharmacy, and the Board of Nursing. All four boards anticipate being below the threshold within the next year by either revenue reductions or increased expenditures.

Building Codes

In FY 2013 the fund balance in the building codes account began increasing and was at \$2.2 million at the beginning of FY 2016. DOLI has made fee reductions in one program, has started the process to reduce fees in another program, and is looking at potential fee reductions in other programs. These fee reductions will lead to a decrease in revenues which will in turn reduce or eliminate the growth of the fund balance.

Budget Amendments

DOLI had two budget amendments. One budget amendment for the Unemployment Insurance Division increases federal appropriation authority for a grant awarded by the United States Department of Labor. This grant will be used to collect on employer delinquent accounts and benefit overpayments. It also provides the ability to utilize an electronic employer response to process claims. These funds support 2.00 FTE, \$178,360 in personal services, and \$821,535 in operating expenses. The second amendment increased federal appropriation authority within the Office of Community Service. The \$17,350 grant to support operating expenses will be used to continue the implementation of the ready Montana community disaster simulation.

Department of Military Affairs

HB 2 Budget

Modified Budget

Operating Plan Changes

DMA transferred \$1,500 from grants to operating expenses within Disaster and Emergency Services for the federal hazardous materials grant.

HB 2 Expenditures

Grants

The Disaster and Emergency Services Division (DES) administers a number of grants related to emergency management and hazard mitigation. According to DMA, DES did not receive the grant funding at the level projected in the budget for the Homeland Security Grant Program and the FEMA Emergency Management Performance Grants that make up the bulk of the federal grant funding.

Statutory Appropriations

The Department of Military Affairs has number of statutory appropriations including \$4.26 million in general fund related to disasters.

SECTION B – DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

Department of Public Health and Human Services (DPHHS)

HB 2 Budget

Modified Budget

Program Transfers

DPHHS transferred a total \$118,228 (\$42,675 in general fund). These include transfers of operating authority from the Business and Financial Services Division to the Director's Office, to cover the cost of Worker's Compensation Program fees (\$78,228) and from the Human and Community Services Division to the Quality Assurance Division for legal certification of child care providers (\$40,000).

Operating Plan Changes

One operating plan change with a fiscal impact occurred since the last budget update. State special revenue authority of \$5,600 was moved from operating expenses to equipment and intangible assets for the purchase of new card scanners for fingerprint background checks of medical marijuana providers managed by the Quality Assurance Division.

In addition, there were two operating plan changes adding modified FTE. The Addictive and Mental Disorders Division was approved by OBPP to add 34.12 modified FTE to operate and staff the forensic unit at the Galen facility; it will be funded from Montana State Hospital operations general fund authority established in HB 2. This change is due to the need to manage patient overflow, increase separation of clientele and increase the timeliness of evaluations. The Child and Family Services Division added 4.00 modified FTE to form the hierarchical structure in the newly developed region 6. These FTE will be funded using the personal services authority provided for permanent positions that have been unfilled during a portion of FY 2016.

Within the Human Resources Division \$7.9 million of state special authority was transferred from Medicaid Healthy Montana Kids (HMK) to non-Medicaid HMK services (for more details on this, see the separate report on [Medicaid Monitoring](#)).

HB 2 Expenditures

As of the end of February, DPHHS has spent \$1,137.4 million of its \$2,087.4 million in appropriations. This translates to 54.5% of the total agency budget 66.7% through FY 2016. The ratios of expenditures to appropriations agency-wide are in line with fiscal year expenditure patterns by both expenditure type and fund type.

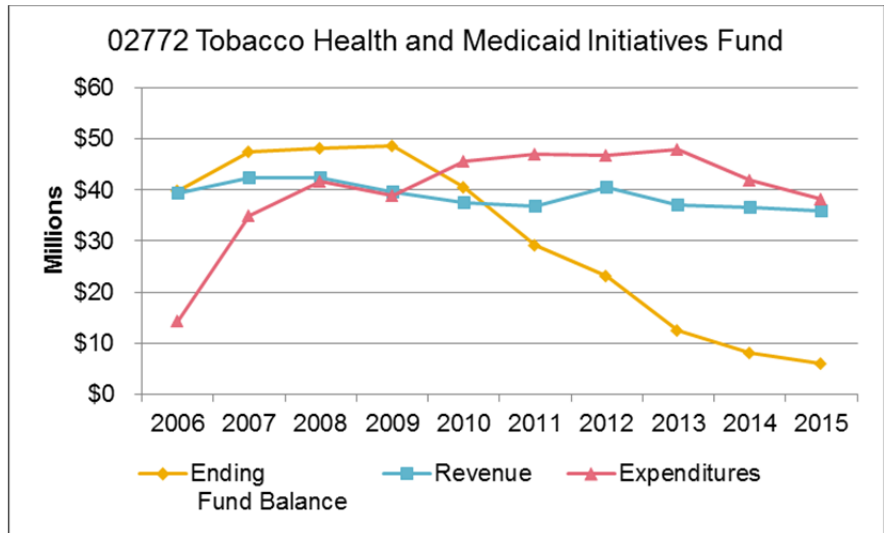
Benefits & Claims

Benefits and claims expenditures are at 54.1% of the total appropriation; this is to be expected, as benefits and claims – especially in Medicaid which is the primary cost-driver in this category – experience a lag between utilization and actual reimbursement.

State Special Revenue

Tobacco Health and Medicaid Initiatives Fund

As can be seen in this chart, there was a fund balance in the tobacco health and Medicaid initiatives fund that quickly built revenues in FY 2006 and FY 2007. However, between FY 2009 and FY 2015, expenditures exceeded revenues and fund balance was spent down. It is expected that in future years, the expenditures will be more in line with actual revenues.



In FY 2016 the appropriation from this account is \$37.9 million, which is a continued decline from the \$38.3 million expended in FY 2015. With projected FY 2016 revenues of approximately \$35.0 million, the legislature approved a expending fund balance, if all appropriation authority is utilized. The beginning fund balance for FY 2016 was \$6.0 million. The department is currently projecting unused appropriation authority of \$1.9 million in FY 2016.

Other Non-budgeted Funds

DPHHS received a private grant in the amount of \$4.6 million to develop and implement a “Montana Simulation in Motion” project providing simulation education to health providers. To manage this grant, 1.0 modified FTE has been added.

Statutory Appropriations

With the implementation of the HELP Act DPHHS now has statutory authority for both program administration and Medicaid benefits, including both general fund and federal funds. As of the end of February, statutory authority of \$41.4 million, including \$0.5 million of general fund has been established. In the documents used to establish this authority, the department has indicated they intended to establish authority for the first quarter of actual claims under the HELP Act, which would be the third quarter of FY 2016. Additional authority is expected to be established prior to fiscal year end. As for current expenditures, the department has recorded \$21.3 million for benefits.

Budget Amendments

Public Health and Safety Division has received continuing authority for 3.00 modified FTE from a continuing federal grant, which expires with the federal fiscal year. Because the federal fiscal year includes a quarter of the succeeding state fiscal year, this results in the inclusion of 3.00 modified FTE in FY 2016 and only 0.75 modified FTE in FY 2017.

Human and Community Services Division submitted an amendment for \$0.8 million in federal authority and the continuation of 1.50 modified FTE for the Montana Project Launch Initiative (MT-

PLI). MT-PLI implements mental health initiatives in areas of Gallatin and Park counties where the suicide rate is twice the national average and includes families living below 200% of the federal poverty level (FPL)

Developmental Services Division received a grant from the Substance Abuse and Mental Health Services Administration (SAMSHA) providing approximately \$0.8 million in federal funds in FY 2016. This award will be used to transition youth to stable environments, while dealing with traumatic and/or violent substance abuse issues related to mental health.

Other Bills

A separate complete report is available for [Medicaid expansion](#) as authorized under the HELP Act. The program is funded with a statutory appropriation rather than through HB 2.

SECTION C – NATURAL RESOURCES AND TRANSPORTATION

Department of Fish, Wildlife, and Parks (FWP)

HB 2 Budget

Modified Budget

Program Transfers

FWP moved \$70,185 in federal authority from the Administration Program to the Fisheries Program.

Operating Plan Changes

FWP made the following operating plan changes:

- Established 0.50 modified FTE for maintenance work at the Murray Springs Hatchery to be funded by Army Corps of Engineers federal special revenue.
- Moved \$11,200 in state special revenue from operating expenses to transfers for a cooperative agreement with Department of Natural Resources and Conservation for forestry work in the Three Mile Wildlife Management Area
- Moved \$8,450 in state special revenue from operating expenses to equipment for Hunter Education equipment in the Communication and Education Division
- Moved \$15,199 from grants to equipment in the Enforcement Division

Fiscal Year Transfer

FWP also consolidated a biennial appropriation of \$210,000 in state special revenue for snowmobile equipment in the Parks Division.

HB 2 Expenditures

FWP has expended 55.2% of its appropriations 66.7% of the way through the budget year. General fund is 35.7% expended. The general fund appropriation for aquatic invasive species has lower expenditures due to the seasonality of the activities. As fishing and boating activity increases, expenditures will increase accordingly.

Operating Expenses

Three divisions within FWP showed lower than expected expenditures in operating expenses. The department stated that the Parks, Communications and Education, and Administration Divisions all spent less due to seasonality, which is in line with previous fiscal years. As the summer approaches, spending will increase.

State Special Revenues

The wildlife habitat account income mostly comes from non-resident licenses, and can only be spent on easements and leases for wildlife habitat. Fund balance over the last several years has fluctuated due to easement purchases and leases. At the end of FY 2015 fund balance was \$13.5 million.

Budget Amendments

Information regarding FWP budget amendments can be found in Appendix C. The largest approved budget amendment was \$7.0 million in federal Pittman/Robertson funds to purchase part of the Haskill Basin conservation easement. This easement would encompass approximately 3,020 acres of wildlife habitat and more than 80% of the Whitefish city watershed.

Required Reports

FWP submitted a report on the Wildlife Mitigation Program. This program is a remediation program for the impacts of Libby and Hungry Horse dams. The report outlines the work done under the program as well as showing the financial position of the wildlife mitigation trust. The most recent report shows expenses against the wildlife mitigation trust were \$371,207 in FY 2015. Total income was \$120,047. The fund must retain a principal balance of \$8.0 million and the current balance is \$11.7 million.

Department of Environmental Quality (DEQ)

HB 2 Budget

Modified Budget

Operating Plan Changes

DEQ moved \$35,000 state special revenue from operating expenses to transfers to cover an Architecture and Engineering energy project.

HB 2 Expenditures

Operating Expenses

DEQ showed operating expenses lower than the anticipated calendar expenditure percentages. This is due to large one-time-only (OTO) appropriations such as the orphan share account and Zortman/Landusky and the seasonality of work. As remediation activities start up again in the spring and as projects are completed expenditures will align with appropriation authority.

State Special Revenues

The natural resources operations account is used by DEQ and the Department of Natural Resources and Conservation to fund the general administration of natural resource programs. It receives revenue from the interest off the resource indemnity trust (RIT), the resource indemnity ground water assessment (RIGWA), and 1.45% of the state share of the oil and gas taxes. Due to declining revenues, OBPP has requested DEQ and DNRC develop plans for adjusting expenditure. For additional information see the RIT chart on page 16.

Statutory Appropriations

DEQ has one statutory appropriation for petroleum tank release cleanup through the petroleum storage tank cleanup account in the state special revenue fund. This acts as a revolving fund that receives its revenue from the recovery of cleanup costs from liable parties. To date this fiscal year, the fund has paid \$1.6 million.

Department of Transportation (MDT)

HB 2 Budget

Modified Budget

Program Transfers

MDT transferred \$40,000 of federal special revenue operating expense authority from the Construction Program to the General Operations Program for the provision of fuel tax evasion grants.

Operating Plan Changes

MDT made \$125,468 in operating plan changes since December. The first change of \$81,968 was reviewed by the LFC in December, and moved authority from the grants to operating expenses. The change was made due to the results of an audit, which found that the use would be more accurately accounted for as an operating expense. The second change moved \$43,500 from the operating expenses to transfers out, and was related to a change in the way the federal government viewed payments to the Department of Justice, Highway Patrol Division, that then led to an accounting change.

HB 2 Expenditures

Operating Expenses

Operating expenses are 56.7% expended through February which is slightly less than the fiscal year expenditure percentage. MDT historically expends 58.5% of their operating budget through February. Two factors are slowing expenditures:

- The \$6.4 million West Yellowstone project is still in the planning phases
- MDT has reduced spending in an effort to preserve funds in the highway state special restricted account

State Special Revenues

The highway state special restricted revenue (HSRA) account is the primary state special revenue fund dedicated to the construction and maintenance of state roads and highways. In the December report, LFD advised HSRA would finish the 2017 biennium with a working capital balance that is \$32.7 million less than the level of appropriation authority considering all appropriations. Since December, the forecast for the working capital balance has not changed.

Staff provided a report/memo to the Revenue and Transportation Interim Committee at the March meeting, which is referenced as "[Uses of HSRA Funding](#)", along with charts outlining the HSRA working capital balance and projections on the revenues that could be generated by potential gasoline tax increases.

Federal Special Revenues

MDT received the finalized appropriation schedule for Fixing America's Surface Transportation (FAST) Act funding in January and is now able to obligate the funding to projects.

Budget Amendments

Since the December report, there has been one BA which changed authority from personal services to operating expenses within an existing federal grant. Further details are available in Appendix C.

Other Bills

MDT has \$4.9 million of new and continuing authority in FY 2016 provided in the Long-Range Building Program (LRBP) bills (HB 5 and HB 403) and the Long-Range Information Technology Program (LRITP) bills (HB 10). Through the end of February, MDT had expended \$1.5 million of the authority.

Department of Livestock (DOL)

HB 2 Budget

The Department of Livestock has not modified its budget since December.

HB 2 Expenditures

DOL expenditures of general fund is 43.3% as of the end of February. This is due to the Diagnostic Veterinary Laboratory utilizing fee based revenue and fund balance prior to accessing general fund. As the fund balance is reduced general fund will be required to continue laboratory operations.

Department of Natural Resources and Conservation

HB 2 Budget

Program Transfers

DNRC transferred \$50,086 from Conservation and Resource Development Division to the Director's Office and created 1.00 modified FTE for the Sage Grouse Program.

Operating Plan Changes

DNRC made the following operating plan changes:

- Moved \$21,700 in general fund in the Director's Office from operating expenses to debt service to properly record long-term leases of equipment
- Transferred \$30,000 in OTO general fund for Morrill Trust Administration in the Trust Land Management Division from operating expenses to personal services to pay for work of existing employees on trust lands. This movement is due to changing needs for different types of work on trust lands.
- Moved \$63,567 in state special revenue authority from debt service into operating expenses and transfers in the Water Resources Division to meet state accounting policies and cover an operating shortage.
- Transferred \$10,217 in state special revenue authority from operating expense to capital outlay in the Trust Lands Management Division to pay for a permanent private easement and land access agreement

HB 2 Expenditures

DNRC has expended 47.5% of its total HB 2 budget. The predominant reason of the lower level is the reduction in the pace of allocations of local assistance. Dependent on state special revenues this may change later in the fiscal year.

State Special Revenues

Coal Severance Tax Share Account

The coal severance tax shared account receives 5.46% of coal severance taxes and in DNRC may be used to support conservation districts. Due to declines in coal related revenues, the Office of Budget and Program Planning has requested impacted agencies develop plans for adjusting expenditure

Fire Suppression Fund

The fire suppression fund derives income from unused general fund appropriations, such as the excess of the Governor's emergency fund and a percentage of reversions. It is used to pay the state portion of fighting fires. The current condition of the fire suppression fund is shown in the table below.

Fire Suppression Fund Update March 2015			
	FY 2014	FY 2015	FY 2016
Beginning Fund Balance	\$115,155	\$42,502,103	\$38,357,577
Revenue			
Corporation Tax Transfer*	25,497,421	-	15,229,061
General Fund Reversion Transfer	13,338,027	3,653,421	21,596,093
Governor's Emergency Fund Transfer	943,867	-	13,484,448
Supplemental (HB3) Excess Transfer	11,912,088	-	-
Other Income	84,206	147,629	114,997
Total Revenue	51,775,610	3,801,050	50,424,599
Disbursements			
Personal Services	4,209,267	1,884,252	3,675,524
Operating Expenses	5,179,395	2,563,871	6,058,971
Equipment	-	340,000	-
Grants	-	2,951,000	-
Total Disbursements	9,388,662	7,739,123	9,734,495
Other Adjustments		(206,453)	
Ending Fund Balance (Unaudited)	\$42,502,103	\$38,357,577	\$79,047,681
*Corporation Tax Transfer ends after 2016			

Statutory Appropriations

DNRC has a number of statutory appropriations. The oil and gas production damage mitigation account pays for the costs of reclamation of oil and gas drill sites when no liable party is solvent. In FY 2016, it has expended \$19,127. The Morrill Act state special revenue account is capped at \$80,000 each biennium and pays for the administration of Morrill Land grant trust lands as trust documents prohibit funding of Morrill Act land management from land proceeds. The total spent under this authority is \$4,691. Additionally, the costs of fire suppression, including the fire suppression fund and federal reimbursements are statutorily appropriated.

Budget Amendments

DNRC added \$113,894 in federal authority through budget amendments. Further details can be found in Appendix C.

Other Bills

DNRC had two other bills with appropriations.

- HB 510 appropriated \$240,000 in general fund towards a local forest advisor. To date, \$2,354 has been expended. This is due to the position being hired at the beginning of February 2016
- SB 256 appropriated \$5.0 million in state special revenue for sage grouse stewardship. To date, no money has been expended. However, the Sage Grouse Oversight Team finalized plans in February to use this appropriation.

Department of Agriculture

HB 2 Budget

Modified Budget

Operating Plan Changes

The Department of Agriculture had one operating plan change that moved \$91,432 in state special revenue authority for the coal tax shared account from transfers to grants. This change was made due to accounting rules. Funds will still be used for the Growth Through Agriculture Program.

HB 2 Expenditures

The Department of Agriculture has expended 43.3% of its HB 2 state resources through the end of February. The majority of the programs and budgeted expenditures are commensurate with the fiscal year expenditure percentages.

Operating Expenses

The Department of Agriculture showed \$1.0 million lower expenditures in the Agriculture Development Division for operating expenses compared to fiscal year expenditure percentages. This is due to seasonality of travel by departmental staff. Most travel is done during the spring causing a lag in expenditures.

Grants

Department of Agriculture also showed \$2.1 million lower expenditures in grants compared to fiscal year expenditure percentages. Both the Agriculture Science and Agriculture Development Divisions have grants which are mostly issued during the spring. It is this activity that causes the HB 2 state resources expenditures to lag behind the fiscal year expenditure percentages.

Budget Amendments

The Department of Agriculture had one budget amendment for federal authority to enhance competitiveness of Montana specialty crops which raised no concerns.

SECTION D – JUDICIAL BRANCH, LAW ENFORCEMENT JUSTICE

Judicial Branch

HB 2 Budget

Modified Budget

Operating Plan Changes

The Supreme Court Operations program transferred \$54,462 general fund from operating expenses to personal services to fund two 0.50 modified FTE. The FTE are drug court coordinators in the 8th Judicial District (Cascade County) adult and juvenile drug courts and replace contracted provision of the coordinator functions.

Budget Amendments

The District Court Operations Program received funding from the US Department of Health and Human Services, Substance Abuse and Mental Health Services Administration for treatment team member travel, operating costs, and client related services including treatment and drug testing. The funding is for the 13 Judicial District (Yellowstone County) veteran's and DUI courts.

Crime Control Division

HB 2 Budget

Modified Budget

Operating Plan Changes

The Crime Control Division transferred \$1.5 million in federal funds from grants to transfers to allow grant funding to be transferred to the Departments of Justice and Corrections for national criminal history improvement program projects.

HB 2 Expenditure

Expenditures of state and federal special revenue appear low because of typical delays associated with the grant process where funding is approved, grants are announced and applied for, the board determines allocations, and grants are awarded. Only after grants are awarded can the recipients begin making expenditures of the funds. Expenditure percentages to date are similar to those of previous years.

Department of Justice (DOJ)

HB 2 Budget

The Department of Justice budget has not been modified since December.

HB 2 Expenditure

Except for operating expenses in the Forensic Services Division (FSD), the Department of Justice expenditures are in line with fiscal year expenditure percentages.

All HB 2 general fund authority for operating expenses has been expended in the Forensic Services Division, with 61.0% of operating expense spending for consultant services and non-capitalized equipment purchase and repairs. With this authority expended, the FSD will face difficulties funding the cost of the lease for the Yellowstone crime laboratory. The agency reminded the LFC at its September meeting that HB 512 authorized but did not appropriate funds for the Yellowstone crime lab. As such the agency could face a funding shortfall as a result of funding the lease of the Yellowstone crime lab.

Several programs show low general fund expenditures and high state special and federal special expenditures for this time in the fiscal year due to the statutory requirement to expend non-general fund first.

Budget Amendments

The Division of Criminal Investigations received federal funding via eight budget amendments for investigator overtime and other incidental costs in support of various taskforces involving immigration, drug, violent crimes, and violations of the Adam Walsh Child Protection and Safety Act. The Division of Criminal Investigations also received state special funding via a budget amendment for investigative work on Internet crimes against children under an agreement with the Billings Police Department. Additionally, the Forensic Services Division received federal funding to reduce backlogs of forensic deoxyribonucleic acid (DNA). Further details can be found in Appendix C.

Office of State Public Defender (OPD)

HB 2 Budget

Modified Budget (Appendix A)

Program Transfers

A program transfer moved 2.50 FTE and \$255,000 general fund from the State Public Defender Program to the Conflict Coordinator Program. This transfer moves modified FTE and personal services contingency funding that was allocated to OPD, and applies to FY 2017 in the amounts of 6.00 FTE and \$615,000 general fund. This change was included as part of its required reports on program transfers that met statutory triggers for LFC review. The LFC raised no concerns with this transaction. Since the December meeting OBPP has approved this program transfer.

HB 2 Expenditure

As an agency, the Office of Public Defender expenditures are in line with fiscal year expenditure percentages. However, expenditures in the Conflict Coordinator program are at 86.0% of budget and will likely require a transfer of funding from other programs. Contract attorneys used for conflict cases, primarily the higher than anticipated dependent and neglect cases, are part of this high expenditure rate.

Department of Corrections

HB 2 Budget

Modified Budget

Program Transfers

The Department of Corrections moved \$29,838 general fund and 0.33 FTE from the Correctional Enterprises program to the Business Management Services Division to address human resources workload issues at Pine Hills and the central office.

HB 2 Conditional Language

HB 2 includes a limit of \$69 per bed-day for housing state-responsible inmates in county jails. The language allows the Governor's budget director to authorize an increase to no more than \$72.50 per bed-day and increase the appropriation proportionately. In accordance with this authority, the rate for the Yellowstone County detention facility has been authorized to increase to \$72.50 per bed-day and the FY 2016 general fund authority has been increased by \$34,986.

HB 2 Expenditure

The Department of Corrections expenditures are in line with fiscal year expenditure percentages. However, no expenditures have been made from the restricted appropriation for the Medical Copayment Program in the Clinical Services Division. Efforts toward establishing the Medical Copayment Program have been suspended while the Department of Corrections works on implementing the HELP Act.

Budget Amendments

The Department of Corrections received \$19,574 in federal funds from the U.S. Department of Justice to offset costs of housing alien criminal offenders. Further details can be found in Appendix C.

SECTION E – EDUCATION

Office of Public Instruction (OPI)

HB 2 Budget

The Office of Public Education budget has not been modified since December.

HB 2 Expenditures

The 2015 legislature appropriated \$635.4 million general fund for BASE Aid and \$133.5 million for other payments to local school districts. Year to date, \$475.8 million or 62% of the general fund appropriation has been distributed to local districts.

OPI estimates total BASE Aid payments to school districts for FY 2016 will be \$683.3 million. LFD forecasts total funding available from HB 2 and the guarantee account will total \$683.7 million or \$0.4 million higher than OPI's estimates for BASE Aid payments.

The guarantee account is statutorily appropriated for BASE Aid and offsets general fund. The LFD forecast includes estimates for the guarantee account to be lower than the HJR 2 estimate by \$0.5 million. Changes to the guarantee account estimates include lower than expected revenue from oil bonus payments offset by higher than expected grazing fees and revenue from timber. The table below details available funding and anticipated BASE Aid payments as estimated by the LFD.

Funding For BASE Aid FY 2016	
<u>Funding Sources</u>	Amount
HB2 General Fund Appropriation	\$635,378,204
Guarantee Account HJ 2	\$48,825,000
Lower Than Expected Oil Bonus Payments	(5,460,000)
Higher Than Expected Grazing Fees	3,500,000
Higher Than Expected Timber Revenue	1,000,000
Other Revenue Higher Than Expected	500,000
LFD Forecast Available from Guarantee Account	\$48,365,000
Total Funding for BASE Aid	<u>\$683,743,204</u>
<u>Forecast BASE Aid Payments</u>	
OPI Forecast for Total BASE Aid	\$683,348,470
Funding Available less OPI Forecast Payments	<u>\$394,734</u>

State Special Revenues

School Facility and Technology Account

LFD anticipates the available funding for school facility debt service will be \$1.8 million less than level appropriated. Funding from this fund offsets the need for districts to fund debt from local levied or non-levy revenue.

HB 2 appropriated from the school facility and technology account \$8.6 million to school facilities reimbursement for debt service payments. Other statutory appropriations from the fund include \$1.0 million for technology grants to school districts disbursed in July, and administrative costs, estimated

at \$181,653. LFD estimates that there will be \$6.8 million available for debt service reimbursements to local school districts, \$1.8 million less than appropriated due to lower revenues in the account.

The HB 2 appropriation would have provided districts with an 85.8% prorated reimbursement rate, at the level forecasted by LFD, reimbursements would be prorated at 68.0%.

Board of Public Education (BPE)

HB 2 Budget

The Board of Public Education budget has not been modified since December.

HB 2 Expenditures

Operating Expenses

In previous years the BPE paid legal fees out of vacancy savings and operating expenses. The 2015 Legislature appropriated \$30,000 general fund as a restricted, one-time-only appropriation for legal fees. Year to date the BPE has expended \$9,377 or 31.3% of the appropriation for legal fees. \$5,800 of legal fees has been expended for legal research into the ramifications of the Every Student Succeeds Act (ESSA) the new federal law pertaining to K-12 education policy. The balance of legal fees was expended on teacher licensure issues that come before the board.

Office of the Commissioner of Higher Education (OCHE)

HB 2 Budget

Modified Budget

Program Transfer

A program transfer of \$0.6 million in federal special revenue appropriation authority was moved into the GEAR Up Program (Gaining Early Awareness and Readiness) as scholarship expenditures were greater than anticipated.

Fiscal Year Transfers

OCHE transferred \$2.3 million in federal special revenue into FY 2016 from the FY 2017 appropriation within the GEAR UP Program. This program is entirely federally funded. This is due to the program needing additional budget authority in FY 2016 because the budget set last biennium was low since carry over funds were not included in the budget request. The agency stated that in FY 2017, it is anticipated that a program transfer of federal appropriation authority will be made from the Guaranteed Student Loan Program to the GEAR UP Program.

A fiscal year transfer of \$0.1 million in state special revenue within the Student Assistance Program was transferred into FY 2016 from the FY 2017 appropriation due to legal fees incurred in FY 2016 related to transitioning to a new program manager, as well as marketing expenses incurred in FY 2016 related to re-branding the state's 529 plan allowing for family educational savings accounts.

HB 2 Expenditures

The MUS educational units are funded by the legislature with a lump sum appropriation that is allocated between campuses at the discretion of the Board of Regents. Throughout each fiscal year the campuses work within their budget and closely with the Office of the Commissioner of Higher Education to maintain positive fund balances. The campuses are working towards submitting their

budget requests to the Board of Regents this May for the 2019 biennium. No state appropriation changes are anticipated to the 2017 biennium budget.

Transfers

One-time-only transfers related to the Research Initiative of \$15.0 million are the primary driver of general fund being 72.0% expended at this time. Since our last quarterly update, OCHE has transferred approximately \$920,000 of the remaining \$1.0 million research initiative funding. Researchers and representatives of the Montana University System have provided recent updates to the Board of Regents as well as the Education and Local Government Interim Committee. These presentations are available on the Montana University System's website, found here: http://mus.edu/research_initiative.asp

Benefits and Claims

Approximately 31.4% of benefits and claims are expended in the federally funded Guaranteed Student Loan Program through February 29. OCHE stated that as the program is winding down and expenditure remains below the allowable budget to build a reserve for expenditure in the program's remaining years.

Budget Amendments

OCHE received federal sub-grant funding from the Western Interstate Commission on Higher Education (WICHE) through the U.S. Department of Education of approximately \$69,000. This provides funding for phase III of the Interstate Passport Initiative. Led by academic leaders in the WICHE states, the purpose of the initiative is to advance policies and practices supporting friction-free transfer for students in the region. Phases of the project are expected to go through federal FY 2018. For more information on the Interstate Passport Initiative go to: <http://www.wiche.edu/passport/about> Further information on the budget amendment can be found in Appendix C.

Statutory Appropriations

STEM Scholarship

The 2015 Legislature created the Montana STEM (Science, Technology, Engineering, and Mathematics) Scholarship Program, effective July 1, 2015. The program is administered by the Board of Regents through the Office of the Commissioner of Higher Education. The purpose of the Montana STEM Scholarship Program is to provide an incentive for Montana high school students to prepare for, enter into, and complete degrees in postsecondary fields related to science, technology, engineering, mathematics, and health care, with the goal of increasing the number of STEM degree recipients participating in Montana's workforce.

The program received \$400,000 in the beginning of FY 2016 for the 2015-2016 academic year, \$213,000 of which has been spent to date. As lottery revenue to the state general fund exceeds the amount received in FY 2015 the excess funds will be transferred into the program to fund further scholarships.

Montana Arts Council

HB 2 Budget

The Montana Arts Council budget has not been modified since December.

HB 2 Expenditures

Personal Services

The agency will have two retirements, one in the current fiscal year (accountant) and one in FY 2017 (executive director). It is estimated that expenses related to these retirements will total \$69,000, \$15,600 in the current fiscal year and \$53,000 in the second year for the biennium. The agency has four options to cover these costs.

1. Appropriations for operations could be used to cover retirement costs or,
2. The agency could leave positions open to generate enough vacancy savings or,
3. The agency could appeal to the budget office for contingency funding or,
4. The agency could use any combination of the above.

As of this writing, the agency is evaluating their options to address the retirement costs.

Montana State Library

HB 2 Budget

The Montana State Library budget has not been modified since December.

HB 2 Expenditures

The legislature adopts a budget for federal grants based on agency estimates. As grants are awarded to the agency, federal funds are then allocated through operating plan changes to the budget. Year to date only 21.2% of the budget for grants have been awarded, all other expenditures are in line with historical expenditure percentages.

Budget Amendments

A budget amendment for a contract with US Army Corps to provide information management services for the Yellowstone river effects assessment has been approved. This includes federal funding of \$13,697 for personal services and \$4,033 for operating expenses.