

# FY 2018 STATUS REPORT

A Report Prepared for the  
Legislative Finance Committee

By  
**Legislative Fiscal Division**

June 18, 2018



## INTRODUCTION

The purpose of this report is to provide a summary of revenues and budget changes since the February 2018 Status Report. Included in the report are an updated HJ 2 general fund balance sheet; year-to-date general fund revenues as compared to FY 2017; and agency budget and expenditure modifications since March 1, 2018.

## GENERAL FUND BALANCE SHEET

### GENERAL FUND BALANCE SUMMARY

The general fund ending fund balance for FY 2019 is projected to be \$221.6 million. Changes to fund balance since the February 2018 Status Report include the addition of:

- \$2.8 million in FY 2019 contingent fund transfer to implement the requirements of HB 638
- \$40.2 million in potential FY 2019 supplemental appropriations
- \$25.3 million in FY 2018 fire fund transfers required in HB 6 to bring the FY 2018 funding provided to the fire fund during the November 2017 Special Session to \$40.0 million

Continuing authority, excluding HB 1, was reduced by \$1.1 million. Department of Military Affairs determined that the authority was not required for previous disaster or emergencies declarations.

### HB 638

HB 638 (2017 Legislature) provided for an increase to direct care worker wages through a state special revenue fund, funded with a transfer from the general fund. While this bill was temporarily delayed due to SB 261, the appropriations in this bill are assumed to be triggered for FY 2019, and are an ongoing state obligation.

### FY 2019 Supplemental Appropriations

In March of this year, the executive requested to transfer FY 2019 appropriation authority to FY 2018 to cover unexpended cost overruns. At that time the biennial overruns were anticipated to cost \$30.5 million in the Department of Public Health and Human Services (DPHHS) and \$8.0 million in the Office of Public Defender (OPD). At this time the OPD shortfall is still anticipated at \$8.0 million, but the DPHHS shortfall is less. DPHHS has updated the department budget status report and based on those values the Legislative Fiscal Division has updated the projected supplemental need to be in a range of \$7.0 to \$15.0 million. The balance sheet includes a mid-point value of \$11.0 million for a DPHHS supplemental request, and assumes there is not offset from the SB 9 restoration (2017 Special Session).

The wildland fire season began early in FY 2018 and ended up burning 1.4 million acres of shared lands. The cost to the state was one of the most expensive to date at an estimated \$69.3 million for FY 2018. The legislature met in the 2017 Special Session and addressed additional appropriation authority to cover unexpected cost overruns for fires in FY 2018. Actions included providing an additional \$40.0 million in funding to the fire fund to address FY 2018, leaving a projected balance of \$2.5 million at the end of FY 2018. Additional fire funding for FY 2019 was not provided by the legislature. The balance sheet includes an assumed supplemental appropriation for fires equal to the average cost of fires less the available fund balance.

General Fund Balance Sheet - HJ 2 Revenues June 2018				
(\$ Millions)				
	Actual FY 2016	Actual FY 2017	Estimated FY 2018	Estimated FY 2019
Beginning Fund Balance	\$455.436	\$256.478	\$47.933	\$184.538
Revenues				
Actual/HJ 2	2,121.288	2,141.479	2,359.345	2,476.395
Ongoing Revenue			0.929	0.011
OTO Revenue (2017 reg. session)			10.421	4.351
SB 261 Fire suppression fund transfer in, August 15, 2017			30.000	
SB 261 Triggered Revenue - 2019 biennium distribution change for accomodations tax			1.640	1.640
2017 November Special Session OTO Revenue (assumed SB 9 Section 5)			32.311	13.044
Prior Year Adjustments - revenue	(3.667)	(1.932)		
Total Revenue Funds Available	2,573.057	2,396.025	2,482.578	2,679.978
Expenditures - Ongoing				
Statutory Appropriations (updated since 10/2017)	265.168	291.065	320.830	326.632
SB 261 Statutory Approp Reduction (TPA)			(2.000)	(2.000)
General Fund Transfers (adjusted for SB 261 Old Fund)	29.254	20.668	19.483	20.068
HB 2 Language Appropriations			0.050	0.050
HB 2 Agency Budgets*	1,908.415	1,957.389	1,918.732	1,949.376
HB 2 Special Session Additional Authority (assuming SB 9, section 5 (3)(c))				45.721
Contingent Fund Transfer per HB 638**				2.789
HB 1 (estimates adjusted for special session)	5.025	8.239	2.586	10.172
Other Appropriations		3.417	2.698	1.154
Continuing Authority (excludes HB 1)**			1.457	
Reversions			(6.792)	(7.054)
Ongoing Expenditures	2,207.861	2,280.778	2,257.044	2,346.910
OTO				
HB 2 Agency Budgets *	64.519	47.185	15.158	14.393
HB 2 Appropriation Transfers and Other		0.433		
HB 3 Supplemental Appropriations (estimated for FY 2019)**		23.167		40.200
Special Session SB 9 Budget Stabilization Transfer				45.721
Fire Fund Transfers**	50.310	11.422	25.309	
Other Appropriations			0.528	
Other, including carry forward	1.147	1.752		
Total Expenditures	2,323.836	2,364.737	2,298.040	2,447.224
Other adjustments	5.888	12.217		
Adjustments - Prior Year		(4.058)		
CAFR Adjustments	1.368	0.369		
Ending Fund Balance	\$256.478	\$47.933	\$184.538	\$232.754
Structural Balance (ongoing revenues minus ongoing expenditures)	(\$86.573)	(\$139.299)	\$103.229	\$129.496
An estimated higher ending fund balance of \$242.6 million may occur for FY 2019 if the following occur: contract negotiations, public sale of abandoned property, and additional non-HB 2 additional expenditure reductions as considered in special session.				
* The balance sheet and Appendix A tie in the following manner: Appendix A HB 2 general fund total includes other authority, primarily SB 294 (pay plan). The balance sheet shows SB 294 authority in other appropriaions.				
** Adjusted since the March balance sheet.				

# GENERAL FUND REVENUE SUMMARY

FY 2018 general fund revenues through the end of May are \$253.4 million or 13.8% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,428.0 million, about \$7.0 million less than the HJ 2 estimate for FY 2018. Using the cash concept model described in Appendix E, current collections suggest potential revenue below HJ 2 by about \$8.0 million.

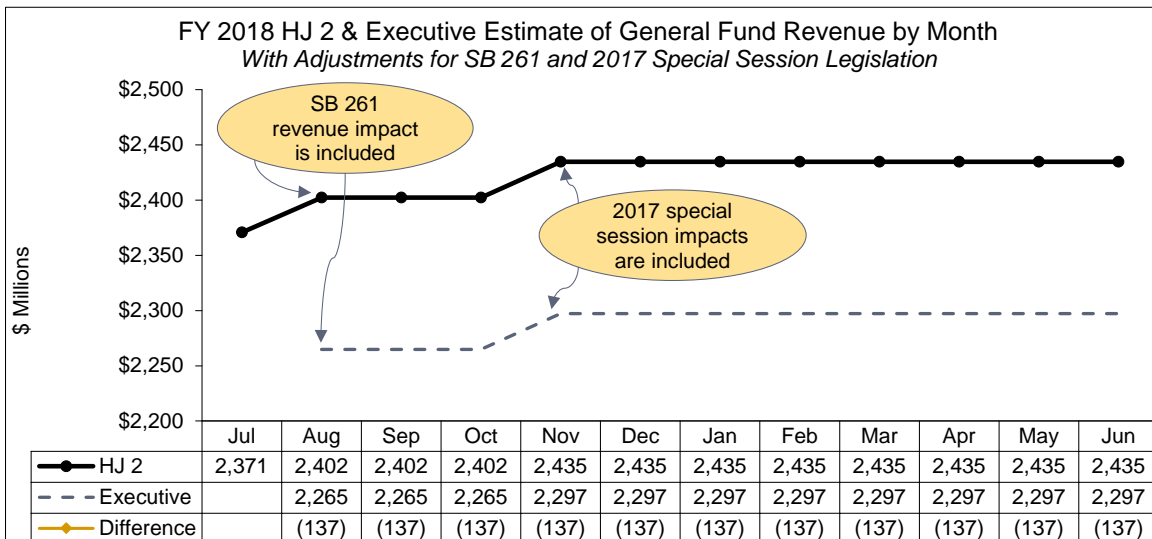
Although year-to-date estimates through May are suggesting final revenue collections similar to HJ 2, the volatility of capital gains income, oil price, and corporation income may result in total revenue collections that are higher or lower than what current collections suggest for FY 2018. In addition, the accruals posted at the close of FY 2018 may impact the final growth rates of several sources.

Finally, taxpayer timing changes as a result of [Tax Cuts and Jobs Act of 2017](#) could influence year-to-date extrapolations. However, the impact on corporation and individual income taxes appears minimal after April final payments, and the property tax impact may be partially offset by the federal reauthorization of the Secure Rural Schools Act.

## HJ 2 as Adjusted for Legislation

The Legislative Fiscal Division (LFD) consistently reports HJ 2 revenue estimates and other comparisons after adjusting for enacted legislation, including legislatively authorized transfers to the general fund. To put this update into context, a detailed look at how the comparison points are established will be helpful.

The HJ 2 estimate for FY 2018 including all enacted legislation from the 2017 regular and special sessions is \$2,434.6 million, which has changed since the end of the 2017 session with the implementation of [SB 261 \(2017 Regular Session\)](#) in August 2017 and the 2017 Special Session legislation in November 2017. The chart below zooms in to illustrate the point-in-time changes to both HJ 2 and the executive estimate used to call the special session.



The table below compares the adjusted revenue amounts shown in the previous chart with the two year-to-date revenue extrapolation modeled amounts.

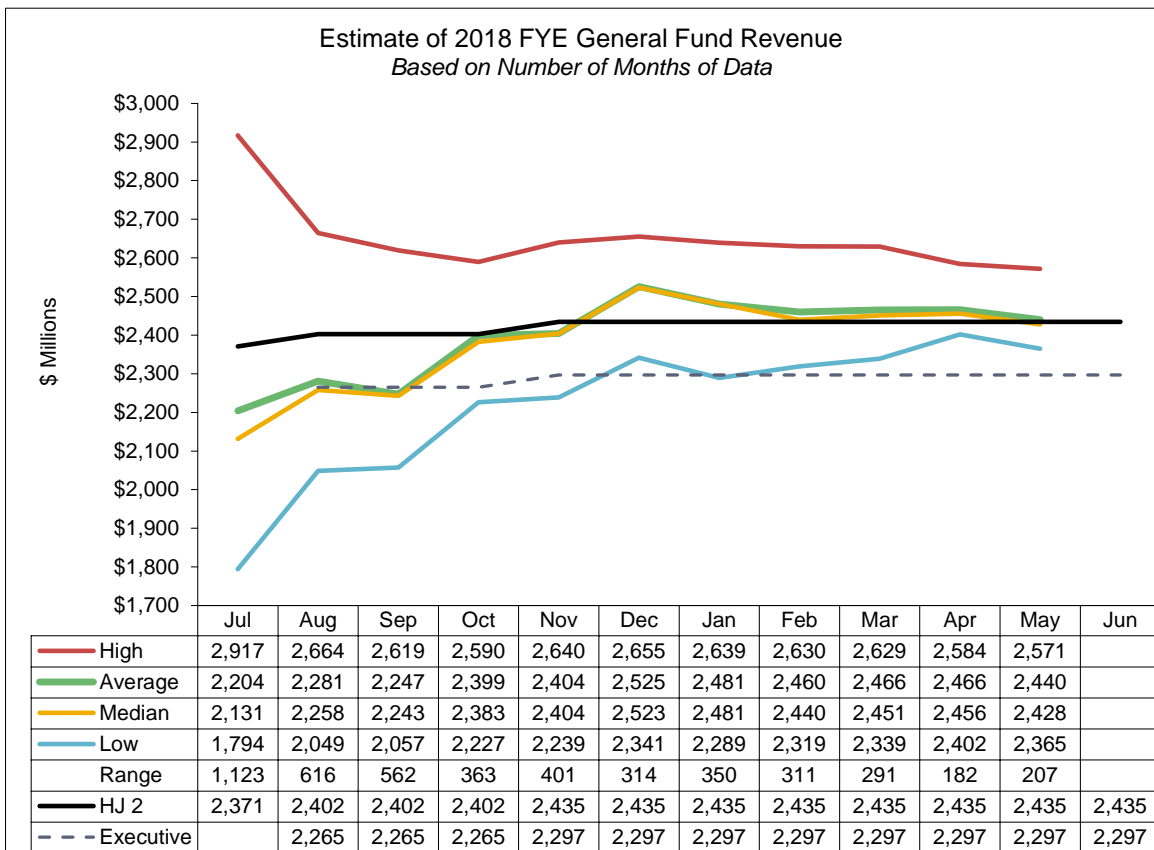
Range of Revenue Options (\$ Millions)			
Estimate	FY 2018	FY 2019	Notes
HJ 2	\$2,435	\$2,495	Official legislative revenue estimate adjusted for all enacted legislation
YTD Median Extrapolation	2,428		Based on total general fund collection patterns since FY 2002
Cash Concept Model	2,427		Based on collection patterns of large revenue sources since FY 2002
Executive Estimate for 2017 Special Session	2,297	2,352	Used to balance GF budget during 2017 Special Session, but not adopted

## Year-to-Date Revenue Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2018 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002.

The chart below includes the same adjusted HJ 2 and executive revenue estimate amounts detailed in the previous section and adds the historical collections pattern information. Note that year-to-date revenue collections reported by LFD also include transfers to the general fund, and are comparable to the adjusted HJ 2 amounts.

Based on collections through May, the difference between the high and low amounts is about \$207.0 million, with the median value of \$2,428 million about \$7.0 million below the HJ 2 estimate.



## SB 9 Allocations & HB 2 Appropriations to State Agencies in the Event of Excess Revenues

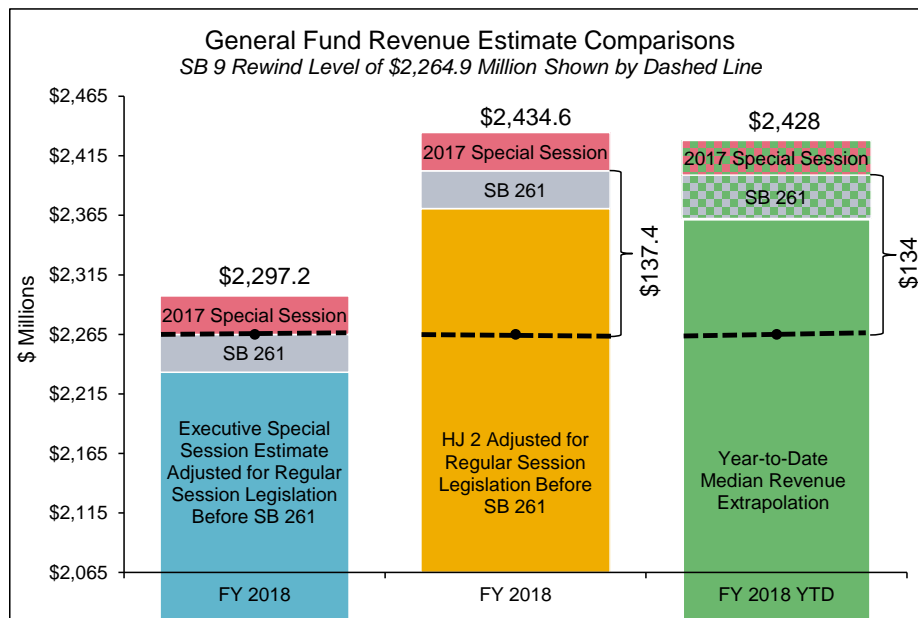
Per [SB 9 \(2017 Special Session\)](#), if the amount of unaudited state general fund revenue and transfers into the general fund received at the end of FY 2018 is more than \$2,264.9 million, excluding transfers in [HB 6 \(2017 Special Session\)](#) and any revenue generated by [SB 5 \(2017 Special Session\)](#), then the state treasurer shall notify the legislative fiscal analyst and others of the amount of excess revenue and the following actions will be taken:

1. If the excess revenue is less than \$20.0 million, it will remain in the general fund;
2. If the excess revenue is \$20.0 million or more, the transfers in HB 6 from the secretary of state enterprise fund and the public service commission state special revenue account are void. In addition, the state auditor shall remit \$530,825 to the state treasurer by December 15, 2017;
3. If the excess revenue is at least \$20.0 million, but no more than \$111.4 million, the excess revenue will be as follows:
  - a. \$20.0 million will remain in general fund;
  - b. 50% of the remainder will be transferred to the budget stabilization reserve fund established by [SB 261 \(2017 Regular Session\)](#) ;
  - c. 50% of the remainder will be prorated to agencies to proportionally offset the reductions in HB 2. A list of agencies and the amounts offset is provided in SB 9.
4. If the excess revenue is more than \$111.4 million, all of the above will be followed, and the extra will remain in the general fund.

### SB 9 Threshold Compared to HJ 2

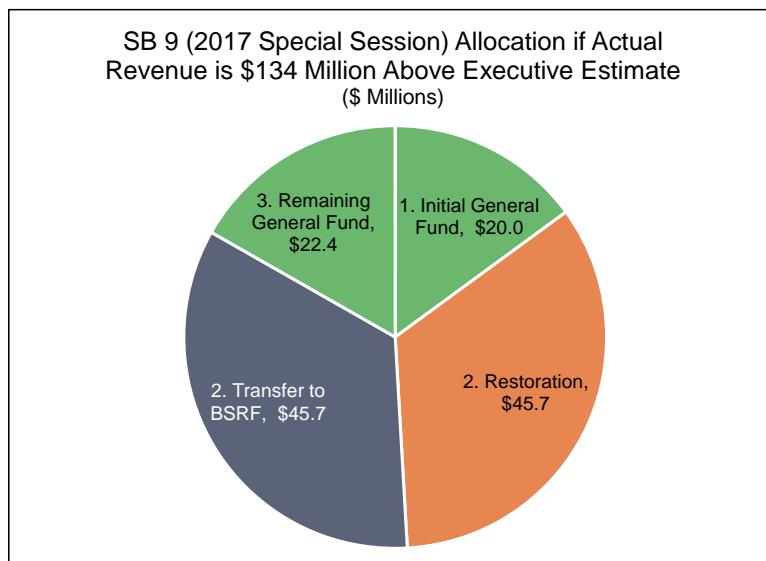
Note that the \$2,264.9 million threshold in SB 9 is based on the executive’s general fund revenue estimate used to call the 2017 Special Session of the Legislature, which was below HJ 2 by \$137.4 million in FY 2018.

The HJ 2 estimate for FY 2018 including all enacted legislation from the 2017 regular and special sessions is \$2,434.6 million. If the transfers in HB 6 and revenue anticipated from SB 5 are excluded, the amount would be \$2,402.3 million, which is \$137.4 million above the SB 9 threshold.



As depicted with the green bar in the previous chart on page 6, the year-to-date median revenue extrapolation of \$2,428 million is \$134.0 million above the SB 9 threshold. If final actual revenue equals the current year-to-date extrapolation, then the \$134 million would be allocated as follows:

1. \$20.0 million to the general fund
2. \$91.4 million split equally, with
  - \$45.7 million prorated to agencies to proportionally offset the reductions in HB 2
  - \$45.7 million transferred to the budget stabilization reserve fund (BSRF)
3. Remaining \$22.4 million to the general fund



## FY 2019 Implications

Year-to-date revenue suggests FY 2018 final collections may be close to the HJ 2 estimate. The official estimate for FY 2019 anticipates a growth of 2.5% from FY 2018, with the low revenue growth in FY 2019 primarily due the inclusion of one-time-only revenues in FY 2018. Current forecast indicators from IHS Market indicate a stable economy for the remainder of the 2019 biennium, in line with current revenue expectations.

## YEAR-TO-DATE GENERAL FUND REVENUE

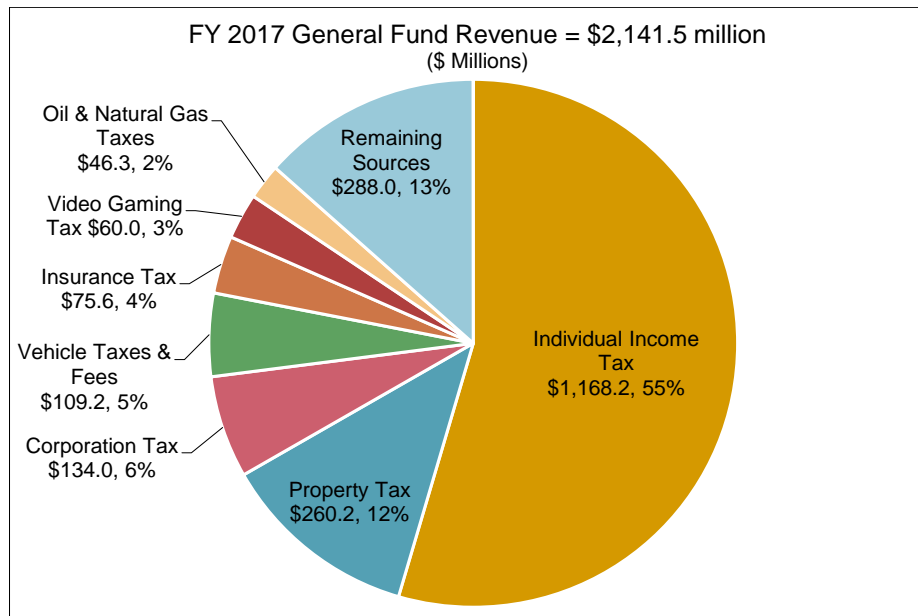
FY 2018 general fund revenues through the end of May are \$253.4 million or 13.8% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Note that the increase is in part due to legislatively authorized transfers of \$65.6 million posted to All Other Revenue.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2017	HJ 2/SS FY 2018	HJ 2 Est. % Change	May FY 2017	May FY 2018	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,168.225	\$1,320.808	13.1%	\$1,153.084	\$1,281.971	\$128.887	11.2%
Property Tax	260.224	277.119	6.5%	153.089	166.209	13.120	8.6%
Corporation Tax	133.992	168.763	26.0%	109.419	138.954	29.535	27.0%
Vehicle Taxes & Fees	109.197	112.956	3.4%	88.890	89.161	0.271	0.3%
Oil & Natural Gas Taxes	46.334	49.939	7.8%	22.490	25.171	2.681	11.9%
Insurance Tax	75.558	76.003	0.6%	61.260	61.641	0.380	0.6%
Video Gaming Tax	59.956	61.904	3.2%	44.665	46.646	1.981	4.4%
<b>Other Business Taxes</b>							
Drivers License Fee	4.308	4.341	0.8%	3.785	3.946	0.161	4.2%
Investment Licenses	7.327	7.660	4.5%	7.172	7.498	0.327	4.6%
Lodging Facilities Sales Tax	21.780	23.399	7.4%	16.429	17.444	1.015	6.2%
Public Contractor's Tax	3.078	2.540	-17.5%	1.968	3.020	1.052	53.5%
Railroad Car Tax	3.790	3.642	-3.9%	3.790	3.649	(0.141)	-3.7%
Rental Car Sales Tax	3.402	3.357	-1.3%	2.563	2.843	0.280	10.9%
Retail Telecom Excise Tax	15.603	15.570	-0.2%	11.688	10.379	(1.309)	-11.2%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	13.799	13.811	0.1%	11.581	10.896	(0.686)	-5.9%
Electrical Energy Tax	4.314	4.439	2.9%	3.442	3.310	(0.132)	-3.8%
Metal Mines Tax	4.839	4.274	-11.7%	2.346	3.332	0.986	42.0%
U.S. Mineral Leasing	17.322	20.497	18.3%	11.756	15.519	3.763	32.0%
Wholesale Energy Trans Tax	3.464	3.505	1.2%	2.721	2.753	0.032	1.2%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	19.799	19.829	0.1%	16.391	14.353	(2.038)	-12.4%
TCA Interest Earnings	5.692	7.577	33.1%	4.593	8.125	3.532	76.9%
<b>Other Consumption Taxes</b>							
Beer Tax	2.998	3.072	2.5%	2.389	2.391	0.002	0.1%
Cigarette Tax	30.558	30.652	0.3%	25.594	24.052	(1.542)	-6.0%
Liquor Excise Tax	20.366	22.265	9.3%	16.501	17.056	0.555	3.4%
Liquor Profits	11.750	14.614	24.4%	-	-	-	-
Lottery Profits	9.624	12.365	28.5%	6.472	6.639	0.167	2.6%
Tobacco Tax	6.247	6.815	9.1%	5.104	4.991	(0.113)	-2.2%
Wine Tax	2.429	2.584	6.4%	2.004	2.009	0.005	0.3%
<b>Other Sources</b>							
All Other Revenue	49.336	113.552	130.2%	27.915	98.170	70.254	251.7%
Highway Patrol Fines	3.927	4.152	5.7%	3.147	3.054	(0.093)	-3.0%
Nursing Facilities Fee	4.635	4.305	-7.1%	3.404	3.226	(0.178)	-5.2%
Public Institution Reimbursement	14.264	15.718	10.2%	9.401	10.668	1.267	13.5%
Tobacco Settlement	3.343	2.622	-21.6%	3.343	2.768	(0.575)	-17.2%
Ongoing Revenue Subtotal	2,137.129	2,360.274	10.4%	1,838.398	2,026.194	187.796	10.2%
OTO Revenue & Transfers Subtotal	4.351	74.371	-	-	65.648	65.648	-
<b>Grand Total</b>	<b>\$2,141.479</b>	<b>\$2,434.645</b>	<b>13.7%</b>	<b>\$1,838.398</b>	<b>\$2,091.842</b>	<b>\$253.444</b>	<b>13.8%</b>



## MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87.0% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

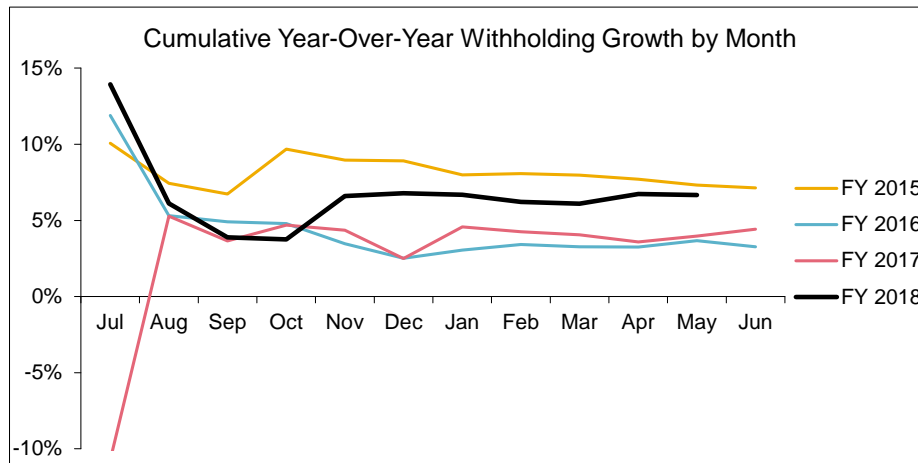


### Individual Income Tax: Below Estimate

Individual income tax collections through the end of May are \$128.9 million or 11.2% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, high December and January estimated payments, and growth in April current year payments.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$887.4	\$831.9	\$55.5	6.7%
Estimated Payments	265.4	224.5	40.9	18.2%
Current Year Payments	182.3	167.8	14.5	8.6%
Audit, P&I, Amended	36.1	32.8	3.3	10.0%
Refunds	(284.1)	(279.1)	(5.1)	1.8%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	33.7	26.3	7.4	28.2%
Mineral Royalties	7.9	5.8	2.1	35.9%
<b>Total</b>	<b>\$1,282.0</b>	<b>\$1,153.1</b>	<b>\$128.9</b>	<b>11.2%</b>

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to maintain growth above 6.0% compared to FY 2017 collections. As shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.



### Property Tax: Above Estimate Due to Higher Taxable Value and Reauthorization of Secure Rural Schools Act

Property tax collections are above last year by \$13.1 million or 8.6%, compared to 6.5% in HJ 2. While the second payment has not been posted through this report, tax collections will likely come in above HJ 2. The increase is primarily driven by actual taxable value being about 1.0% above estimated taxable value, and the reauthorization of the Secure Rural Schools Act.

The reauthorization of the Secure Rural Schools Act by the federal government will likely cause property tax to come in higher than estimated by \$2.5 million. This is a payment to schools in federal timber areas that has a revenue share with the 55 mills that is distributed to the general fund. This combined with higher-than-estimated taxable value is will likely result in an increase relative to the HJ 2 estimate.

### Corporation Income Tax: YTD on Track with HJ 2

Corporation income tax collections through the end of May are 27.0% or \$29.5 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments, lower refunds, and a large, one-time audit. In HJ 2, this source was expected to grow by 26.0%.

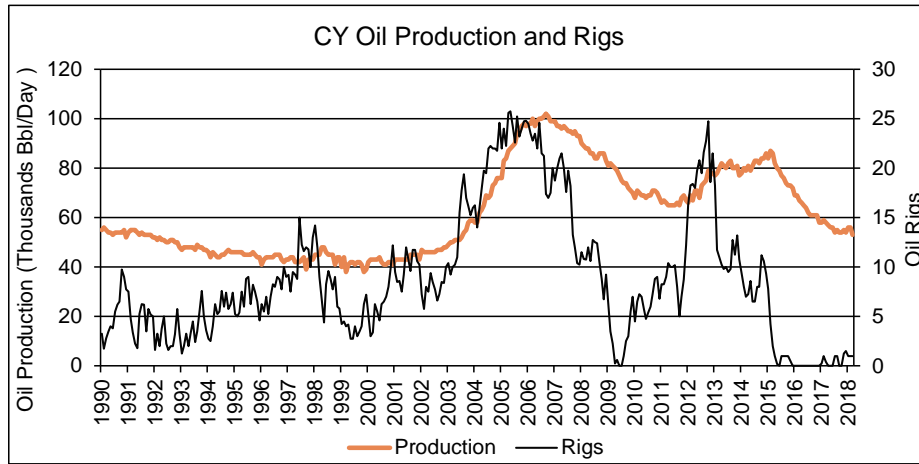
Corporation Income Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Corporation Tax	\$31.6	\$30.1	\$1.5	4.8%
Estimated Payments	100.7	89.6	11.1	12.4%
Refunds	(21.7)	(26.0)	4.3	-16.5%
Refund Accrual Reversal	3.3	3.8	(0.4)	-11.3%
Audit, P&I, Amended	25.0	11.9	13.1	109.6%
<b>Total</b>	<b>\$139.0</b>	<b>\$109.4</b>	<b>\$29.5</b>	<b>27.0%</b>

### Vehicle Fees & Taxes: Currently Below Estimate

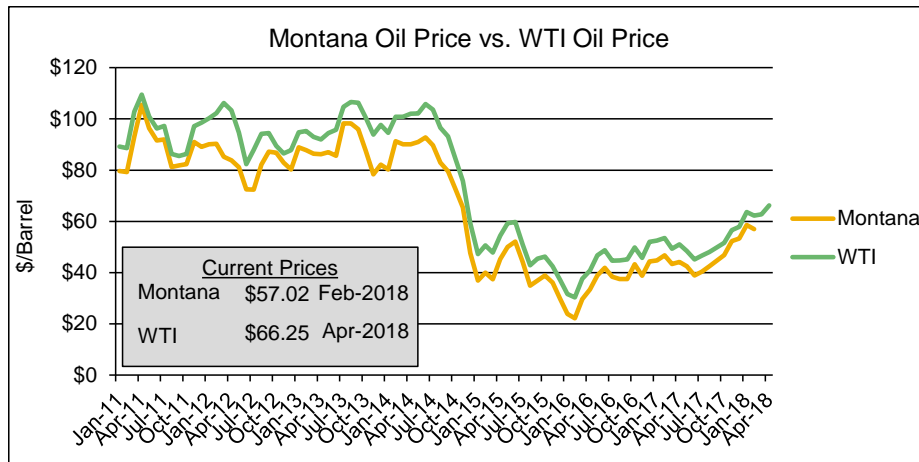
Through May, vehicle taxes and fees are 0.3% or \$0.3 million above collections last year at this time. The timing of payments into the accounting system has been sporadic from month to month; however, this source is expected to end up near HJ 2.

### Oil & Natural Gas Production Tax: Above Estimate

Through May, two of the four oil & gas payments have been booked to the state accounting system. Price increases have offset small decreases in production, and as a result collections are higher than last year. Specifically, collections are 11.9% or \$2.7 million above last year. The year-to-date growth of 11.9% is above the assumed growth of 7.8% in HJ 2.



As the chart above shows, oil production had been declining since the beginning of 2015 through late 2017, as there was at most two rigs operating in the state since early 2015. However, it has remained relatively flat in recent months. The figure below shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



### Insurance Tax: Back on Track

Insurance tax collections are 0.6% or \$0.4 million above FY 2017 through May. Collections for this source are currently right in line with the level of growth anticipated in HJ 2.

Insurance Premiums Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Insurance Licenses & Permits	\$0.0	\$0.0	\$0.0	26.1%
Premium Insurance Tax	48.5	47.7	0.8	1.7%
Fire Marshall Taxes	8.5	9.0	(0.6)	-6.5%
Premium Insurance Tax-Yearly	0.0	0.0	(0.0)	-54.3%
Surplus Lines Premium Tax	3.1	2.9	0.3	8.9%
Captive Premium Insurance Tax	1.6	1.6	(0.1)	-3.7%
<b>Total</b>	<b>\$61.6</b>	<b>\$61.3</b>	<b>\$0.4</b>	<b>0.6%</b>

### Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$2.0 million or 4.4% above collections from last year. This source was expected to grow by 3.2% so it is tracking slightly above the HJ 2 estimate.

## **OTHER KEY DIFFERENCES:**

### **Lodging Facilities Sales Tax: Below Estimate**

Lodging facilities sales tax is \$1.0 million or 6.2% above year-to-date collections in FY 2017, but below the 7.4% increase anticipated in HJ 2. Nearly 25.0% of this source is accrued at fiscal year end, so the final amount could end up close to HJ 2.

### **Public Contractors' Tax: Above Estimate**

Public contractors' tax is \$1.1 million or 53.5% above year-to-date collections in FY 2017, and above the 17.5% decline anticipated in HJ 2. There can be a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects have produced unusual future collection patterns in the past.

### **Retail Telecommunications Excise Tax: Below Estimate**

Retail telecommunications excise tax is \$1.3 million or 11.2% below year-to-date collections in FY 2017, and below the 0.2% decline anticipated in HJ 2. This source has been declining since FY 2010.

### **U.S. Mineral Leasing: Currently Above Estimate**

To date, U.S. mineral leasing royalties are \$3.8 million or 32.0% above this time last year. In HJ 2 this source was expected to grow by 18.3%. Payments into this account are typically sporadic from month-to-month, so it makes it difficult to estimate where final collections will end up.

### **Coal Trust Interest Earnings: Below Last Year Due to Timing**

To date, coal trust interest earnings are \$2.0 million or 12.4% below collections from one year ago. In FY 2017, \$2.0 million was booked in this account in August, when typically the first large collection doesn't occur until September. This was ultimately offset by low June collections. Final collections should end up near or slightly below the forecast.

### **Treasury Cash Account (TCA) Interest Earnings: Above Estimate**

Treasury cash account interest earnings are \$3.5 million or 76.9% above collections last year at this time, and above the HJ 2 anticipated growth of 33.1%. Short-term interest rates in FY 2018 are slightly lower than expected, so the increase relative to HJ 2 is due to a larger-than-expected daily cash balance.

### **Cigarette Tax: Below Estimate**

Cigarette tax revenue is \$1.5 million or 6.0% below year-to-date collections in FY 2017. The decline may be attributable to changing consumer preferences.

### **All Other Revenue: Above Last Year Due to Transfers**

To date, all other revenue collections are \$70.2 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$65.6 million of the year-over-year difference.

### **Public Institution Reimbursements: Above Last Year**

Public institution reimbursements are currently 13.5% or \$1.3 million above last fiscal year. Collections for this source are historically erratic, and may even out by the end of the fiscal year. However, this source is impacted by [SB 411 \(2015 Session\)](#) with the magnitude of the effect dependent upon the speed at which the closure of Montana Development Center moves forward. The closure process is going more slowly than anticipated and the final details have yet to be ironed out.

# BUDGET AND EXPENDITURES

## FY 2018 APPROPRIATIONS AND EXPENDITURES

This section of the report discusses the FY 2018 appropriations and related expenditures by budget section including:

- Modifications to FY 2018 appropriations that have been made to the HB 2 FY 2018 between March 1, 2018 and May 31, 2018
- Expenditure patterns through May 2018 relative to FY 2018 appropriations
- Supplemental transfers from FY 2019 to FY 2018
- Other appropriation authority granted to state agencies
- Statutory appropriations
- Non-budgeted proprietary funds
- Budget amendments

To provide a more complete picture of agency resources, [Appendix B](#) summarizes total appropriation authority provided to an agency including HB 2, HB 2 language appropriations, non-budgeted proprietary funds, statutory appropriations, budget amendments, carry-forward authority, continuing appropriations, and other appropriation bills. [Appendix A](#) summarizes HB 2 appropriations, budget modifications, and expenditures.

## FY 2018 EXECUTIVE BUDGET CHANGES

### Fiscal Year Transfer Supplemental Request

On March 8, 2018, the Legislative Fiscal Analyst received notification from the Governor's Budget Director that ten state agencies requested fiscal year transfers. The Legislative Finance Committee (LFC) met on May 9, 2018 to discuss the supplemental transfer request. The LFC did not submit a written report to the Governor concerning the supplemental transfer request thereby requiring the Governor to delay the supplemental transfer request until June 10, 2018. More information may be found at <http://leg.mt.gov/content/Committees/Administration/Finance/2018-19/Report-Pages/May-2018.asp>

### Other Budgetary Changes

In addition to the fiscal year transfer supplemental request, the executive made a number of other budgetary changes. The following discusses the program transfers, operating plan changes, personal services contingency transfers, and transfers of biennial authority between fiscal years for each section in HB 2.

### ***Section A, General Government***

#### Governor's Office

The Governor's Office transferred \$6,500 in general fund appropriation authority for operating expenses from the Executive Office Program to the Office of Indian Affairs to realign State Information Technology Services Division (SITSD) information technology line item appropriations. The legislature required the executive to establish line item appropriation authority for SITSD services when establishing the budget. As this was the first biennium of the requirement, the Governor's Office needed to adjust the appropriation authority with the programs where these expenditures will occur.

#### Department of Revenue

A program transfer moved \$173,030 of general fund and 2.00 FTE out of the Citizen Services & Resource Management Division and into the Director's Office. The change was made to align with bankruptcy attorney work in the Director's Office.

Operating plan changes within the Director's Office and the Property Assessment Division moved \$11,000 in general fund operating expense authority from each program to equipment authority for the purpose of

purchasing printers. In addition, the Liquor Control Division moved \$3,750 in enterprise fund operating expense authority to transfer-out authority for the purpose of sending funds to Architecture and Engineering Division within the Department of Administration for the liquor warehouse project.

#### Department of Commerce

The Montana Office of Tourism and Business Development transferred \$50,000 in general fund for a restricted biennial appropriation for Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) grants from FY 2019 to FY 2018. This transfer was made because the demand for grants from the SBIR/STTR program are higher than anticipated in FY 2018.

#### Department of Labor & Industry

The Workforce Services Division, Unemployment Division, and Employment Relations Division transferred \$25,000 in state special revenue and \$67,700 in federal special revenue funds, mostly in personal services, to the Office of Administrative Hearings (OAH) in the Commissioner's Office / Centralized Services Division. This program transfer was made to increase state special revenue in OAH because wage and hour cases have increased and to provide federal special revenue for unemployment insurance hearings.

An additional program transfer moved 2.00 FTE from the Workforce Services Division to the Business Standards Division. This transfer was made for the Prescription Drug Monitoring Program and business systems analyst positions.

#### Department of Military Affairs (DMA)

The Veterans Affairs Program transferred \$100,000 in state special revenue funding from grants to personal services and operating expenses. This operating plan change was made to fund Veterans Service Program outreach operational expenses. In addition, the Army National Guard Program transferred \$35,000 in general fund from operating expenses to transfers. This operating plan change allows the DMA to reimburse the Architecture and Engineering Division in the Department of Administration for the Womack latrine storage project.

A program transfer moved \$60,000 in general fund for operating expenses from the Army National Guard Program to personal services in the Director's Office. The transfer was to manage the impacts of 17-7-140, MCA budget reductions implemented by the Governor.

### ***Section B, Department of Public Health and Human Services***

The Director's Office, Child Support Enforcement, Business and Financial Services, Quality Assurance, and Health Resources Divisions transferred \$138,584 in personal services, \$200,000 in operating expenses and \$4,390,000 in benefits and claims general fund appropriation authority to the Disability Employment and Transitions, Child and Family Services and Management and Fair Hearings Divisions. The transfer to the Management and Fair Hearings Division also included 1.00 FTE for a strategic analyst position.

State special revenue of \$158,800 in personal services, \$70,950 in operating expenses, and \$105,250 in benefits and claims were transferred from the Human and Community Services and Public Health and Safety Divisions to the Director's Office, Child Support Enforcement, and Business and Financial Services Divisions.

Federal special revenue from the Director's Office, Business and Financial Services and the Health Resources Divisions transferred \$306,767 in personal services, \$250,000 in operating expenses, and \$975,000 in benefits and claims to the Child and Family Services and Management and Fair Hearings Divisions.

According to DPHHS, the majority of the transfers were made for anticipated expenditures in the divisions receiving the authority.

Operating plan changes included:

- Addictive and Mental Disorders Division transferring \$274,000 in benefits and claims to transfers out in federal special revenue for the chemical dependency block grant from the Department of Corrections and the Office of the Public Defender
- Developmental Services Division (DSD) transferring \$509,000 in benefits and claims to operating expenses in the general fund. According to DSD this is to record costs in the appropriate account category
- Medicaid and Health Services Management Division transferring \$256,606 in operating expenses in the federal special revenue, \$64,282 to personal services, \$184,273 in grants, \$5,051 in benefits and claims, and \$3,000 in transfers out for the Refugee Cash and Medical Assistance Program and the Refugee Social Service Program

Other adjustments included:

- Developmental Services Division moving \$2.5 million in general fund from personal services to benefits and claims to provide services to individuals served or who would be otherwise served at the Montana Developmental Center
- Addictive and Mental Disorders Division transferring \$2.8 million in general fund from benefits and claims in the Mental Health Bureau, \$1.2 million to personal services and \$1.6 million to operating expenses to cover an anticipated shortfalls in the Montana State Hospital
- Child Support Enforcement Division transferring 10.00 FTE and personal services of \$305,540 in general fund and \$594,086 in federal special revenues to the Director's Office for a reorganization of DPHHS's legal functions. In addition, 5.00 FTE and related personal services, \$122,218 in general fund and \$237,247 in federal funds, were transferred to the Management and Fair Hearings Division due to a reorganization of law judge legal functions. Operating expenses of \$19,040 in general fund and \$36,960 in federal funds were also transferred
- Human and Community Services Division transferred \$133,500 in grants and \$44,500 in benefits and claims in the federal special revenue appropriations to equipment and intangible assets for a one-time purchase of equipment. A semi-truck used to distribute food to the Indian reservations in Montana, Wyoming, and Utah had an engine failure that was not cost effective to repair. The federal grant administrator approved the reallocation of the federal funds

## ***Section C, Natural Resources and Transportation***

### Department of Environmental Quality

The Air Energy and Mining Division (AEMD) transferred \$125,000 in operating expense in state special revenue authority to the Central Management Program to support the Public Water Supply Bureau. AEMD also transferred \$60,000 in personal services and \$10,000 in operating expenses in federal special revenue to the Central Management Program to support the attorney pool.

Operating plan changes in the federal special revenue appropriation within the Water Quality Division transferred \$17,914 from operating expenses to equipment and intangible assets to purchase water meters.

### Department of Transportation

The Rail Transit and Planning Division transferred \$19,382 in state authority to federal authority in grants.

### Department of Natural Resources and Conservation (DNRC)

The Director's Office transferred \$64,817 in general fund, \$37,485 in state special revenue, and \$20,121 in federal special revenue for operating expenses to the Oil and Gas Conservation, Conservation and Resource Development, Water Resources and Forestry, and Trust Land Divisions for recurring SITSD charges based on actual monthly charges.

The Forestry and Trust Lands and the Conservation and Resources Divisions transferred \$214,862 in personal services and \$155,563 in operating expenses from the general fund and \$184,575 in personal services, \$3,012 in operating expenses in state special revenue to the Director's Office. The Forestry and Trust Lands Division also transferred \$10,000 in personal services and \$1,944 in operating expenses from the general fund to the Conservation and Resources Division. The transfers were made to cover shortfalls due to budget reductions implemented under 17-7-140, MCA and other reductions proposed by the executive and adopted by the 2017 Legislature during the regular session.

The Water Resources Division implemented an operating plan change to transfer \$122,433 from operating expenses to personal services in the state special revenue appropriation authority to cover personal services due to the appropriation rebase proposed by the executive and adopted by the legislature.

The Director's Office received \$23,100 in state special revenue and \$50,000 in federal special revenue for personal services contingency appropriation authority from the Office of Budget and Program Planning (OBPP) to address projected shortfalls in personal services authority. It should be noted that OBPP has not yet reduced its appropriation for this transaction.

#### Department of Agriculture

The Agriculture Development Division transferred \$23,935 of state special appropriation authority from operations to equipment and intangible assets to allow for a purchase of equipment.

### ***Section D, Judicial Branch, Law Enforcement, and Justice***

#### Judicial Branch

The Supreme Court Operations Program implemented an operating plan change moving \$112,610 from grants to personal services in the general fund to support 3.00 modified FTE for developing a pretrial prerelease program. This operational change supports the requested modified FTE which in turn would provide a director and coordinating staff for the legislative mandate.

The District Court Operations Program (DCOP) transferred \$500,000 from personal services to operating expenses in the general fund. This budget change was a house adjustment involving the special session and placement of funds supporting district courts in the budgeting system. The agency moved appropriation authority into operating funds as a realignment. DCOP also transferred \$29,256 in general fund authority from operating expenses to personal services to establish funding for 1.00 modified FTE for a court reporter in the 5<sup>th</sup> Judicial District. Previously DCOP has used contracted positions. According to the Judicial Branch, the change from contracted services to an employee is for cost saving efficiencies.

The District Court Operation Program increased authority for the state special revenue involving criminal surcharge revenues authorized in 3-1-318, MCA by \$726,955. This budget change increases state special revenue budget authority for the Court Appointed Special Advocates (CASA) Program. During the 2017 regular session, the Judicial Branch was appropriated \$830,000 in general fund and \$100,000 in state special revenue as provided in 3-1-318, MCA. However, HB 2 language directed the agency to reduce the general fund expenditures by a like amount if the state special revenues provided by 3-1-318, MCA exceeded \$100,000. The November 2017 Special Session reduced \$800,000 of general fund supporting the CASA Program leaving \$30,000 in general fund authority.

#### Department of Justice

The Motor Vehicle Division transferred \$225,000 in general fund operating expense authority to the Forensic Services Division. The funding shift supports higher expenditures for operating expenses in the Forensic Services Division.



The Motor Vehicle Division also implemented an operating plan change moving state special revenue appropriation authority from debt service to personal services, equipment and intangible assets and local assistance. The change allows for the continuation of modified FTE on the Drivers Modernization Project and supports vehicle services related to the MERLIN project. The Drivers Modernization Project has ongoing operating and maintenance needs and is not yet complete. This adjustment helps address these project needs.

#### Office of the Public Defender

The Centralized Services Division transferred \$19,294 in general fund operating expense authority to the Public Defender Division (PDD) to cover costs related to adding employees and leased space. In addition, the PDD moved an office to a new location. The Conflict Coordinator Division transferred \$8,570 in general fund personal services to the Centralized Services Division to assist with workload.

PDD transferred \$18,544 in general fund authority from equipment and intangible assets to operating expenses. The change was facilitated by the fact that capital assets that were planned to be purchased were determined not necessary.

#### Department of Corrections

The Probation and Parole Division transferred \$2.0 million in general fund operating expenses authority to the Secure Custody Facilities Division. In the first half of the FY 2018, \$8.0 million was transferred from the Secure Custody Facilities Division to Probation and Parole Division to pay county jail holds. Since that time, it was determined that excessive funding was moved with the earlier transfer. The subsequent transfer of \$2.0 million moved some of the appropriation authority back to support the Secure Custody Facilities Division.

There was one reorganization this budget period in the Department of Corrections. This budget change moved 14.00 FTE from the Secure Custody Facilities Division to the Montana Correctional Enterprises Program. This change combined two programs that had similar directives involving training for inmates. The move takes advantage of a retirement and the combining of the two programs into one. The Department of Corrections anticipates this will provide efficiencies.

### ***Section E, Education***

#### Office of the Commissioner of Higher Education (OCHE)

OCHE had one budget change during this reporting cycle. The budget modification was an operating plan change moving \$9,185 in general fund appropriation authority from personal services to transfers out in order to establish a memorandum of understanding (MOU) between OCHE, the Governor's Office, and the Department of Labor and Industry. The MOU is to establish the joint employment of a policy advisor position.

#### School for the Deaf and Blind

The Education Program transferred \$24,000 in general fund personal services authority distributing it between operating expenses in the other 3 programs: \$4,000 in Administration Program, \$10,000 in General Services Program, and \$10,000 in Student Services Program to cover shortfalls projected for fiscal year end.

The General Services Program had an operating plan change in general fund authority that moved \$6,400 from personal services to equipment and intangible assets to purchase a car from state surplus for the Driver's Education Program.

#### Montana Arts Council (MAC)

The Promotion to the Arts Program transferred general fund authority of \$29,000 from personal services to operating expenses. The change was made to adjust the general fund reductions for 17-7-140, MCA implemented by the Governor. According to MAC they have a better projection of how the Governor's cuts

should have been allocated after reviewing 10 months of actual expenditures and having additional unexpected vacancy savings.

#### Montana State Library (MSL)

MSL had two operating plan changes during this reporting period. One operating plan change added 0.50 modified FTE for grant activities. The other operating plan change moved \$40,000 in federal appropriation authority for grants to personal services under the federal Montana Land Information Advisory Council grant to cover personal services costs associated with accrued leave balances.

#### Montana Historical Society (MHS)

The Museum Program had a program transfer to move \$1,500 in state special revenue authority operating expenses to the Administration Program. This modification aligns expenditures to the correct fund and program for Senate art purchases. In addition, several programs transferred enterprise fund authority including:

- \$26,500 in personal services from the Administration Program to the Publications Program
- \$13,000 in operating expenses each from the Publications Program and State Historic Preservation Office, \$22,500 to the Administration Program and \$3,500 to the Education Program

The Administration Program received \$52,000 in general fund personal services contingency authority from the Office of Budget and Program Planning to address projected shortfalls in personal services. It should be noted that OBPP has not yet reduced its appropriation for this transaction.

### **Section F, Long-Range Planning**

Further updates on Section F, Long-Range Planning will be provided in the FY 2018 year end budget status report.

## **HB 2 GENERAL FUND EXPENDITURES BY AGENCY**

The budget reductions implemented during the special session impacted the level of HB 2 expenditures in most state agencies. The following sections discuss FY 2018 expenditures for general fund and total state resources when compared to the May modified budget.

Figure 1 illustrates the budgeted and actual expenditures of general fund for HB 2 through the end of May. The budgeted number reflects the modified budget previously discussed. A summary of expenditures by agency and program can be found in the agency narratives and Appendix A along with related budget modifications.

Through May, state agencies expended 85.4% of HB 2 general fund appropriations of the May modified budget leaving \$282.9 million or 14.6% in general fund appropriations for the last remaining month of the fiscal year.

Figure 1

Comparison of May Modified Budget to Year To Date Expenditures FY 2018 HB 2 General Fund Only				
State Agency	May Modified HB 2 Budget	Year to Date Expenditures	HB 2 Budget Remaining	% Expended
<b>Section A - General Government</b>				
Legislative Branch	\$12,588,880	10,454,287	\$2,134,593	83.0%
Consumer Counsel	0	0	0	0.0%
Governor's Office	6,909,714	5,082,643	1,827,071	73.6%
Commissioner of Political Practices	670,126	512,764	157,362	76.5%
State Auditor's Office	0	0	0	0.0%
Department of Revenue	49,334,221	42,960,613	6,373,608	87.1%
Department of Administration	6,456,152	5,565,364	890,788	86.2%
Department of Commerce	3,264,192	2,344,187	920,005	71.8%
Department of Labor and Industry	1,566,994	1,313,450	253,544	83.8%
Department of Military Affairs	<u>5,935,830</u>	<u>4,791,628</u>	<u>1,144,202</u>	<u>80.7%</u>
Section A Total	86,726,109	73,024,936	13,701,173	84.2%
<b>Section B - Public Health &amp; Human Services</b>				
Department of Public Health and Human Services	<u>497,080,811</u>	<u>400,300,619</u>	<u>96,780,192</u>	<u>80.5%</u>
Section B Total	497,080,811	400,300,619	96,780,192	80.5%
<b>Section C - Natural Resources and Transportation</b>				
Department of Fish, Wildlife, and Parks	0	0	0	0.0%
Department of Environmental Quality	4,566,124	3,514,540	1,051,584	77.0%
Department of Transportation	0	0	0	0.0%
Department of Livestock	2,242,608	2,086,674	155,934	93.0%
Department of Natural Resources and Conservation	24,981,293	19,815,482	5,165,811	79.3%
Department of Agriculture	<u>679,829</u>	<u>635,861</u>	<u>43,968</u>	<u>93.5%</u>
Section C Total	32,469,854	26,052,557	6,417,297	80.2%
<b>Section D - Judicial Branch, Law Enforcement, and Justice</b>				
Judicial Branch	45,113,996	35,163,261	9,950,735	77.9%
Board of Crime Control	829,975	829,975	0	100.0%
Department of Justice	31,530,081	26,441,102	5,088,979	83.9%
Public Service Commission	0	0	0	0.0%
Office of the Public Defender	32,033,734	28,505,158	3,528,576	89.0%
Department of Corrections	<u>196,994,856</u>	<u>169,989,088</u>	<u>27,005,768</u>	<u>86.3%</u>
Section D Total	306,502,642	260,928,584	45,574,058	85.1%
<b>Section E - Education</b>				
Office of Public Instruction	779,283,557	682,510,814	96,772,743	87.6%
Board of Public Education	136,811	114,737	22,074	83.9%
Office of the Commissioner of Higher Education	222,857,734	201,325,709	21,532,025	90.3%
School for the Deaf and Blind	6,757,028	5,271,088	1,485,940	78.0%
Montana Arts Council	479,042	415,342	63,700	86.7%
Montana State Library	2,148,954	1,816,406	332,548	84.5%
Montana Historical Society	<u>2,645,159</u>	<u>2,423,088</u>	<u>222,071</u>	<u>91.6%</u>
Section E Total	1,014,308,285	893,877,184	120,431,101	88.1%
<b>Total</b>	<b>\$1,937,087,701</b>	<b>\$1,654,183,880</b>	<b>\$282,903,820</b>	<b>85.4%</b>

## HB 2 ALL STATE RESOURCE EXPENDITURES BY AGENCY

Figure 2 illustrates the budgeted and actual expenditures for all state resources appropriated in HB 2 through the end of May 2018. This includes general fund, state and federal special revenue, and budgeted proprietary funds. Agencies expended 85.4% of general fund, 72.8% of state special revenue, and 71.7% of federal special revenue. Further detail of specific agencies may be found in the agency narratives.

Figure 2

Comparison of May Modified Budget to Year To Date Expenditures FY 2018 HB 2 - State Resources				
State Agency	May Modified HB 2 Budget	Year to Date Expenditures	HB 2 Budget Remaining	% Expended
<b>Section A - General Government</b>				
Legislative Branch	\$14,789,095	\$12,147,517	\$2,641,578	82.1%
Consumer Counsel	1,621,359	1,058,036	563,323	65.3%
Governor's Office	7,534,714	5,191,768	2,342,946	68.9%
Commissioner of Political Practices	670,126	512,764	157,362	76.5%
State Auditor's Office	8,213,426	5,994,260	2,219,166	73.0%
Department of Revenue	53,822,265	46,731,157	7,091,108	86.8%
Department of Administration	19,180,046	15,125,938	4,054,108	78.9%
Department of Commerce	30,164,659	7,414,094	22,750,565	24.6%
Department of Labor and Industry	80,066,349	59,370,437	20,695,912	74.2%
Department of Military Affairs	<u>47,997,670</u>	<u>27,075,708</u>	<u>20,921,962</u>	<u>56.4%</u>
<b>Section A Total</b>	<b>264,059,709</b>	<b>180,621,679</b>	<b>83,438,030</b>	<b>68.4%</b>
<b>Section B - Public Health &amp; Human Services</b>				
Department of Public Health and Human Services	<u>2,043,440,339</u>	<u>1,568,986,934</u>	<u>474,453,405</u>	<u>76.8%</u>
<b>Section B Total</b>	<b>2,043,440,339</b>	<b>1,568,986,934</b>	<b>474,453,405</b>	<b>76.8%</b>
<b>Section C - Natural Resources and Transportation</b>				
Department of Fish, Wildlife, and Parks	93,587,224	72,310,292	21,276,932	77.3%
Department of Environmental Quality	62,219,437	40,891,675	21,327,762	65.7%
Department of Transportation	673,116,239	469,944,710	203,171,529	69.8%
Department of Livestock	11,195,393	9,518,059	1,677,334	85.0%
Department of Natural Resources and Conservation	64,031,044	45,748,649	18,282,395	71.4%
Department of Agriculture	<u>19,144,397</u>	<u>12,548,892</u>	<u>6,595,505</u>	<u>65.5%</u>
<b>Section C Total</b>	<b>923,293,734</b>	<b>650,962,277</b>	<b>272,331,457</b>	<b>70.5%</b>
<b>Section D - Judicial Branch, Law Enforcement, and Justice</b>				
Judicial Branch	47,784,759	37,116,959	10,667,800	77.7%
Board of Crime Control	2,435,117	2,404,859	30,258	98.8%
Department of Justice	98,148,317	76,333,721	21,814,596	77.8%
Public Service Commission	3,983,726	3,196,658	787,068	80.2%
Office of the Public Defender	32,033,734	28,505,158	3,528,576	89.0%
Department of Corrections	<u>216,758,793</u>	<u>179,098,097</u>	<u>37,660,696</u>	<u>82.6%</u>
<b>Section D Total</b>	<b>401,144,446</b>	<b>326,655,452</b>	<b>74,488,994</b>	<b>81.4%</b>
<b>Section E - Education</b>				
Office of Public Instruction	958,416,211	817,663,995	140,752,216	85.3%
Board of Public Education	353,097	268,493	84,604	76.0%
Office of the Commissioner of Higher Education	314,502,388	244,405,787	70,096,601	77.7%
School for the Deaf and Blind	7,224,651	5,688,961	1,535,690	78.7%
Montana Arts Council	1,411,450	1,228,047	183,403	87.0%
Montana State Library	5,085,537	3,612,032	1,473,505	71.0%
Montana Historical Society	<u>4,908,547</u>	<u>4,247,764</u>	<u>660,783</u>	<u>86.5%</u>
<b>Section E Total</b>	<b>1,291,901,881</b>	<b>1,077,115,079</b>	<b>214,786,802</b>	<b>83.4%</b>
<b>Total</b>	<b>\$4,923,840,108</b>	<b>\$3,804,341,421</b>	<b>\$1,119,498,687</b>	<b>77.3%</b>

As reflected in Figure 2, state agency expenditures of total state resources are lower than anticipated at this point in the budget year. Based on an even rate of monthly expenditures, one could anticipate that agencies would have expended 91.7% of their budgets 11 months through the fiscal year. The following narratives discuss state agency expenditures that are significantly below or above this percentage.

## **Section A, General Government**

### ***Consumer Council***

As shown in Figure 4, Consumer Council is only 65.3% expended as of the end of May. Lower operating expenses are primarily causing the lower percentage expended. There are two contributing factors:

- The Consumer Counsel's caseloads are determined by utility filings with the Public Service Commission and budgeted using a historical average
- The Consumer Counsel received a biennial appropriation of \$150,000 for costs associated with unanticipated caseloads

The fluctuations in the Public Service Commission filings and the unexpended caseload contingency are causing operating expenses to be low.

### ***Governor's Office***

There are two divisions within the Governor's Office that have a lower percentage expended as of the end of May 2018.

- The Office of Budget and Program Planning has expended 50.1% of its HB 2 modified budget. OBPP received \$1.4 million of personal services contingency funding in SB 294. As of the end of May, none of the contingency funds have been recorded as transferred to agencies. As previously noted, the Department of Natural Resources and Conservation and the Montana Historical Society have both received contingency funding in this period. The percent expended is 83.8% in OBPP when contingency funds are excluded, which is in line with anticipated expenditures
- The Office of Indian Affairs has expended 74.2% of its HB 2 modified budget as of the end of May 2018. The lower percentage expended is due to a vacant position in the office

### ***State Auditor's Office***

The State Auditor's Office HB 2 modified budget of \$8.2 million is 73.0% expended as of the end of May 2018. Lower expenditures in the state special revenue appropriations consists of:

- The Central Management Division personal services of \$1.4 million are 70.2% expended. This lower percentage expended is due to positions temporarily being vacant
- The Insurance Division operating expenses of \$1.0 million are 72.4% expended. This lower percentage is partly due to lower contract exam costs
- The Securities Division personal services of \$1.0 million are 69.4% expended. This lower percentage expended is due to vacant positions. However, a securities examiner position has recently been filled

### ***Department of Administration***

Through the end of May, two divisions within DOA have expended more than 95.0% of their general fund appropriation for personal services with 90.4% of the budget year completed including the:

- State Financial Services Division
- State Human Resources Division

The State Financial Services Division (SFSD) is above budgeted expenditures at 92.6%. The SFSD has requested a supplemental transfer of \$200,000 in general fund from FY 2019 to FY 2018. According to DOA, SFSD will shift general fund personal services to proprietary funds, mostly to the local government services proprietary fund. The State Human Resources Division will also shift general fund personal services to proprietary funds to maintain expenditures within appropriations.

Expenditures for operating expenses are 66.6% expended for all funds in HB 2. This is mainly due to the minimal expenditures for the Firstnet grant in SITSD. This is offset by higher expenditures in the State Financial Services Division which has expended 100.7% of its authority for operating expenses as of the end of the end of May.

### ***Department of Commerce***

There are three primary areas that are contributing to the lower percentage expended in the Montana Office of Tourism and Business Development, all related to the state special revenue appropriation:

- \$168,000 for private support for promotional activities is 44.9% expended. This lower percentage is due to the seasonal nature of activities associated with this account.
- \$380,000 for the microbusiness loan account has not been expended. All funds are currently dispersed, thus the account has nothing to distribute. Increasing interest rates could result in funds reverting back to the account prior to fiscal year end and may require the use of the appropriation to redisperse the funds
- \$947,000 for the Primary Sector Training Program is 20.9% expended. Actual grant expenditures total \$90,000. Grants are disbursed on a reimbursement basis that is based on performance. There is an additional \$711,000 that has been obligated but is not yet disbursed to grantees because of grant reimbursement process. Any funds not reimbursed will be accrued at the end of the fiscal year

The Community Development Division low percentage expended is primarily related to Coal Board grants, Community Development Block grants and HOME grants. The Coal Board has expended 2.9% of its \$3.4 million of its appropriations for grants. However, the Coal Board has awarded grants totaling \$3.0 million. Community Development Block Program grant appropriations of \$6.8 million and HOME grant appropriations of \$7.9 million are less than 1.0% expended. Current obligations total \$9.1 million for these two grant programs and valid obligations will be accrued at the end of the fiscal year. Additionally, several factors contribute to lower expenditures from these two grants, which include:

- The actual amount of federal funds received fluctuates
- The timing of the federal funds awarded can be outside of the state fiscal year
- The rate at which individual projects expend funds can vary

The Housing Division expended 31.1% of its HB 2 modified budget as of the end of May 2018. The Shelter Plus Care Program is contributing to the lower percentage expended. The Housing Division was awarded a grant to address chronic homelessness in scattered sites in Cascade, Flathead, and Yellowstone counties. The program is in the process of being closed out (October 2018) which is causing the decline in expenditures.

### ***Department of Labor and Industry***

The Workforce Services Division expended 66.7% of its HB 2 modified budget as of the end of May 2018. Factors contributing to the lower percentage expended includes a decline in federal revenues and the closure of seven job services offices. The closure of these offices caused personal services and operating expenditures to be lower.

The Commissioner's Office / Centralized Services Division expended 71.4% of its HB 2 modified budget as this point in the fiscal year. The lower percentage expended is mainly in the Commissioner's Office and primarily due to vacant positions and the timing of operating expenses. The department is anticipating contract and other expenses to occur closer to the end of the fiscal year which will increase expenditures.

The Business Standards Division has expended 74.2% of its HB 2 modified budget as of the end of May 2018. The division has contingency funds that covers legal, investigatory, or compliance costs that are above anticipated budgets. This funding was not expended as of the end of May 2018. Additionally, the division reorganized by combining the Building Codes Bureau and the Weights and Measures Bureau which has slightly decreased personal services expenditures. Finally, a lag in SITSD billing has also contributed to the lower percentage expended in the division.

The Office of Community Services expended 75.6% of its modified HB 2 budget as of the end of May 2018. Several larger grantees are not active in the winter but will start activities and drawing project funds in the spring months so expenditures are expected to increase.

### ***Department of Military Affairs***

There are four divisions within the Department of Military Affairs that have a lower percentage expended as of the end of May 2018:

- The Scholarship Program has expended 55.2% of its \$187,000 HB 2 modified budget. This lower percentage expended is due to scholarship requests not coming in at a steady pace. This appropriation is biennial so any unexpended appropriation will carry forward into FY 2019
- The Army National Guard has expended 58.4% of its \$18.1 million HB 2 modified budget. Most of the funding for this program is associated with maintenance and construction projects. The department anticipates that projects will increase in number and productivity during the upcoming spring and summer months
- The Air National Guard has expended 80.6% of its \$5.1 million HB 2 modified budget. This slightly lower percentage expended is due to the retirement of a staff member responsible for procurements. There is a new staff member covering these duties and the department is expecting expenditures to be close to the budgeted amount by the end of the fiscal year
- Disaster and Emergency Services has expended 33.5% of its \$16.9 million HB 2 modified budget. The lower percentage expended is due to the department receiving authority for the entirety of grants received. Since these grants are expended over several fiscal years, budgeted authority is typically higher than expenditures

### **Section B, Department of Public Health and Human Services (DPHHS)**

Most DPHHS divisions are well below the 91.7% expenditure that would be expected at this point in the fiscal year. Some of this lower than expected expenditure is related to a lag in Medicaid charges and payments (especially in the Health Resources Division). DPHHS divisions with low fiscal year expenditures relative to other agencies are expected to spend the rest of their remaining budget by fiscal year end, although it is possible that some federal authority may not be spent if matching state dollars are not available. Spending rate in the Child and Family Services Division is high relative to other divisions; this is related to the high child welfare caseload levels and corresponding higher expenditures for foster care, guardianship, adoption, and child protection workers.

### **Section C, Natural Resources and Transportation**

#### ***Department of Environmental Quality***

Through May, the agency has expended 65.7% of the FY 2018 appropriation, which compares to an average expenditure of 64.7% through May in the previous five years. In the last month of the year, the agency typically will expend 20% of the annual budget through accruals for activities during the year not yet invoiced.

#### ***Department of Transportation***

Through May, MDT has expended 69.8% of the HB 2 modified budget authority, leaving a balance of \$203.2 million of authority for the remaining month. This level of expenditures are due to several factors including:

- Expenditures of 80.9% of budget in the General Operations Program are the greater than expenditures in other programs and are explained by fixed costs expenses
- The Maintenance Program has expended 75.4% of the total budget through May. The impacts of a severe winter have increased expenditures in the program while the expenditures of the state funded Construction Program, budgeted at \$6.5 million, have been unusually low at 25.1%
- In the Aeronautics Program budget, the costs of airport projects in HB 2 (over \$1.0 million of authority) are budgeted in the first year of the biennium and any unused authority will be continued into FY 2019. This lends the appearance of unusually low spending in FY 2018

## ***Department of Natural Resources and Conservation (DNRC)***

Through May, DNRC has expended 71.4% of the FY 2018 appropriation, which compares to an average expenditure of 73.7% in for the same period in the previous five years. Year to date 79.3% of the general fund has been expended, this compares to an expenditure rate in the previous five year of 82.1%. In the last few months of the fiscal year, DNRC typically has higher monthly expenditures for year end accruals for contracted work on state water projects, maintenance on state trust lands, contracts related to aquatic invasive species control as well as other activities. In the previous five years the agency typically expends 97.2% of the general fund by year end and 90.5% of the total budget.

## ***Department of Agriculture (DOAg)***

Through May, the DOAg has expended 65.5% of the HB 2 appropriation, over the last five years the agency has expended an average of 67.2% of the appropriation in the first eleven months. The Agricultural Development Division (ADD) typically awards half of its grants in the final month of the fiscal year, in the past five years ADD expends 25% of the division budget in the last month of the year.

## **Section D, Judicial Branch, Law Enforcement, and Justice**

### ***Judicial Branch***

The HB 2 modified budget as of the end of May is 77.7% expended in the Judicial Branch. In the Supreme Court Operations Program expenditures are 65.4%. Although this seems to be low, this is normal for this point in time. The main reason for this is the way funding for the Juvenile Delinquent Intervention Program (JDIP) is handled. As outlined in 41-5-2011, MCA, unexpended funds from the judicial districts and the cost containment pool are transferred at the end of the fiscal year to a state special revenue fund. Typically, the average transfer is approximately \$3.4 million. The agency expects the same or slightly less for fiscal transfers in FY 2018. If the \$3.4 million is accounted for, the program would be at 84.9% for expenditures. Additionally, there is approximately \$0.6 million set aside for the pre-trial program. Although memos of understanding with pilot counties have been made, expenditures from those counties have not started. The Judicial Branch anticipates these expenditures will be made in the next month.

### ***Department of Justice***

Expenditures for the Department of Justice are 77.8% expended through the end of May. Delays in invoicing have had some impact on expenditures.

## **Section E, Education**

### ***Board of Public Education (BPE)***

As of the end of May BPE has expended 76.0% of its budget. This level is slightly higher than in previous years due to budget reductions.

### ***Commissioner of Higher Education (OCHE)***

Overall, OCHE has expended 77.7% of their FY 2018 HB 2 budget. General fund is 90.3% expended which would be anticipated at this point in the fiscal year. The majority of expenditures are in line with previous years with a few exceptions primarily due to timing of activities.

The Improving Teacher Quality program is a grant funded program through the Department of Education. The federal grant has not been renewed for post-secondary education. It is in its final months of operation and will come to an end December 31, 2018.



The lower expenditures in Educational Outreach & Diversity program is normal and due to timing of grant activities.

Tribal College Assistance is fully expended. The tribal colleges experienced higher enrollment of non-beneficiary students this academic year. Due to the increase of 55.33 FTE, the reimbursement rate of the non-beneficiary students was reduced to \$2,833.82 per student. This is a decrease from the statutory maximum of \$3,280.

The Guaranteed Student Loan (GSL) program has only expended 35.2% of its budgeted federal spending authority as this program continues to transition. GSL has not issued loans since July 2010 and has been managing the existing loan portfolio. As of October 1, 2017, GSL transferred their portfolio to a federally approved loan servicing provider. As required by the Department of Education, OCHE was required to return \$6.6 million of the federal funds provided for loan servicing. Program 12 will continue to offer other student financial aid-related activities for the benefit of students as determined by the Board of Regents in future years.

Board of Regents has expended \$63,718 or 94.6% of their budget. This is due to additional activities this year requiring Regent participation, such as the University of Montana President search and additional planning meetings to manage the reductions due to session and special session.

### ***School for the Deaf and Blind***

The School for the Deaf and Blind has expended 78.7% of their HB 2 modified budget through the end of May. Personal services expenditures have gradually been decreasing in recent years. The school has difficulty filling all vacancies due to the specialized nature of the positions and relative location of the school.

### ***Montana State Library (MSL)***

General fund expenditures for MSL are slightly lower than anticipated due to timing of the heritage contract payments. The heritage contract provides for historic preservation of oral history.

The expenditures in state special revenue are lower than would be anticipated at this time. There was a delay in the natural resource information system contract to begin projects causing the increased budget balance. These funds will begin to align with projections as the projects get underway. Additionally, the heritage contract is partially funded with state special revenue and is causing the expenditures to appear low since payments are still outstanding.

Of the grants awarded, only 28.8% has been expended of their FY 2018 budget. This is as anticipated for the agency since only a portion of the grant funding has been committed to projects at this time. Grant expenditures are dependent on the awarding of projects and the timing of each one.

## **STATUTORY APPROPRIATIONS**

The HELP Act is the largest DPHHS program funded with statutory appropriations; \$564.1 million in FY 2018, or 86.4% of total DPHHS statutory authority. HELP Act funding is largely concentrated in three DPHHS divisions: the Health Resources Division has \$476.0 million in statutory authority for the HELP Act, while the Senior and Long-Term Care Division has \$9.4 million and the Addictive and Mental Disorders Division has \$39.9 million. DPHHS increased the statutory appropriation for the HELP Act by \$2.3 million general fund authority and \$134.2 million federal special revenue authority.

# STATUTORILY REQUIRED REPORTS

## BUDGET AMENDMENT ACTIVITY

As of May 31, 2018 the Legislative Fiscal Division received notification of 23 budget amendments impacting the 2019 biennium and certified by the Governor since February 28<sup>th</sup>.

These amendments increase total funds by \$18.1 million in FY 2018. An additional 2.05 FTE in FY 2018 and 7.00 FTE in modified positions in FY 2019 have also been added. One amendment transfers existing authority between expenditure categories or between organizational units and one extends previously approved amendment authority. The following figure summarizes the budget amendments certified by the Governor from the period March 1, 2018 through May 31, 2018.

Budget Amendment Summary (since last LFC meeting)		
Component	FY 2018	FY 2019
Number of Amendments	23	0
FTE Added	2.05	7.00
State Special Revenue	\$0	\$0
Federal Revenue	18,043,342	0
Proprietary Fund	66,000	0
Total Revenue	\$18,109,342	\$0

Each amendment, along with a brief explanation, is summarized in [Appendix C](#). Staff has reviewed the amendments and has raised no statutory concerns with any amendment.

The following figure summarizes the budget amendments that were certified for the 2019 biennium. The various approving authorities have added a total of \$121.8 million primarily in federal special revenue in the 2019 biennium.

Budget Amendment Cumulative Summary 2019 Biennium				
LFC Meeting	Number of	Biennial		
2019 Biennium	Amendments	FY 2018	FY 2019	Total
September 30, 2017	38	\$20,973,751	\$266,447	\$21,240,198
November 30, 2017	44	58,950,778	0	58,950,778
February 28, 2018	57	23,777,650	0	23,777,650
May 31, 2018	23	18,109,342	0	18,109,342
Total	162	\$121,811,521	\$266,447	\$122,077,968

The following figure reflects the additional budget authority provided to each agency through the budget amendment process in the 2019 biennium compared to the FY 2018 HB 2 May modified budget reflected in Appendix A.

**Budget Amendment Authority Comparison  
with HB 2 Total Funds  
By State Agency**

State Agency	FY 2018 Budget HB 2	Budget Amendment	% of Modified Budget
Department of Agriculture	\$19,144,397	\$1,778,618	9.29%
Department of Commerce	30,164,659	526,818	1.75%
Department of Corrections	\$216,758,793	5,285,466	2.44%
Department of Environmental Quality	62,219,437	1,548,000	2.49%
Department of Fish, Wildlife, and Parks	93,587,224	18,628,152	19.90%
Department of Justice	98,148,317	1,024,896	1.04%
Department of Labor and Industry	80,066,349	2,336,575	2.92%
Department of Livestock	11,195,393	365,322	3.26%
Department of Military Affairs	47,997,670	281,000	0.59%
Department of Natural Resources and Conservation	64,031,044	14,046,441	21.94%
Department of Public Health and Human Services	2,043,440,339	12,717,318	0.62%
Department of Revenue	53,822,265	410,903	0.76%
Department of Transportation	673,116,239	35,321,671	5.25%
Judicial Branch	47,784,759	1,361,039	2.85%
Montana Arts Council	1,411,450	71,257	5.05%
Montana State Library	5,085,537	140,000	2.75%
Montana Historical Society	4,908,547	610,318	12.43%
Office of Public Instruction	958,416,211	25,357,727	2.65%
<b>Total</b>	<b>\$4,511,298,630</b>	<b>\$121,811,521</b>	<b>2.70%</b>

## OPERATING PLAN CHANGES AND PROGRAM TRANSFERS

OBPP submitted a total of 12 operating plan changes and program transfers that met statutory criteria for LFC review and comment. Staff have reviewed the budget changes. Staff have raised no issues with the proposed changes. A summary of the changes from OBPP can be found in [Appendix D](#).

## OTHER AGENCY REPORTS

Other agency required reports have been received and are posted on the LFC website. The required reports can be found on the LFC webpage at: <http://leg.mt.gov/css/Committees/Administration/Finance/2018-19/Report-Pages/Dec-2017.asp>