

The Legislative Fiscal Division Presents an Agency Profile of:

The Department of Commerce

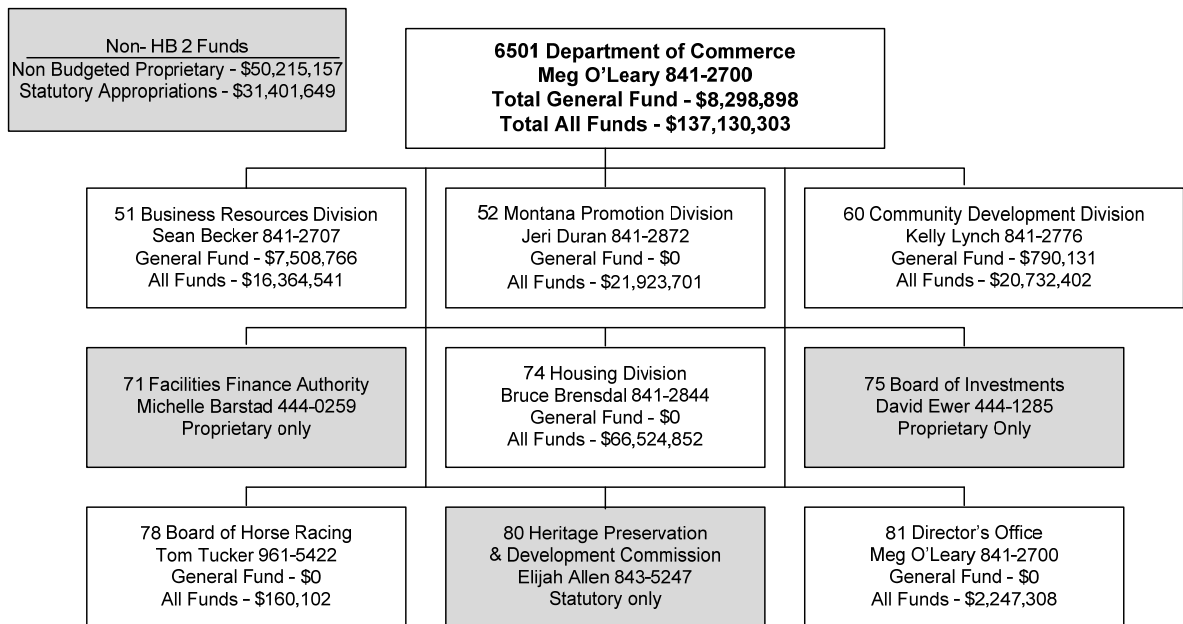
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Agency Description

Definition of Terms

The Department of Commerce (DOC) works with economic and community development organizations, businesses, communities, governmental entities, tribal governments, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing, and facilities.



How Services are Provided

The Department of Commerce provides these services through a structure consisting of nine divisions performing the following functions:

- 1) Business Resources Division - works closely with the private sector, local communities, economic development organizations, and state and federal government agencies to improve the economy of Montana through business creation, expansion, and retention efforts by providing:
 - Business technical assistance through the Small Business Development Center and trade and international relations
 - Information provided by the Census and Economic Information Center
 - Economic development assistance to Montana's 11 Indian tribes through the State Tribal Economic Development Commission
 - Research for commercialization of businesses in Montana using the Board of Research and Commerciali-

How Services are Provided, cont.

- 2) Montana Promotion Division - marketing and promotion of Montana tourism and film industry
- 3) Community Development Division – supports community infrastructure development and provides technical assistance through seven programs:
 - Community Development Block Grants (CDBG) - federal funded grants to local governments for community development, housing, and public facility projects
 - Treasure State Endowment Program (TSEP) - state funded grants to local governments, water and sewer districts, and tribes infrastructure projects, planning and emergency grants; grants are awarded by the Legislature
 - Quality Schools Grant Program – state funded grants to K-12 public school districts for school facility projects, planning, and emergency grants; grants are awarded by the Legislature
 - Coal Board - state funded grants to local governments, tribes, school districts, and special districts to remediate effects of coal mining on communities in designated coal development areas
 - Hard Rock Mining Impact Board - technical assistance, analysis, mitigation and mediation services to local governments and hard rock mining developers where potentially adverse public fiscal impacts from large-scale development are identified
 - Montana Main Street – state funded grants and technical assistance to non-profit organizations and local governments for downtown revitalization and historic preservation
 - HOME - The HOME program is a federally funded block grant program administered by the Housing Division to create affordable housing for low-income households (\$3 million of grants annually)
 - Community Technical Assistance Program (CTAP) - technical assistance in land use and planning to local governments and the public and private sector for the purposes of aiding and encouraging orderly, productive, and coordinated development of the communities of the state
- 5) Facilities Finance Authority – assists non-profit healthcare and human service facilities, and pre-release centers acquire low-interest and low-cost capital financing
- 6) Housing Division – supports safe and affordable housing in communities throughout Montana through rental assistance, construction financing, rehabilitation financing, and low interest mortgages. The division is funded almost exclusively with federal and proprietary enterprise funds as follows:
 - Board of Housing (BOH) – The Homeownership Programs assists low and moderate income Montanans in purchasing a home (\$50 million in mortgage financing annually) and then services those loans in Montana. Low Income Housing Tax Credits is a federal income tax credit for owners of qualifying rental housing (\$20 million in equity financing annually). The Reverse Annuity Mortgage (RAM) Program provides low income senior households affordable rates on a reverse mortgage (\$1 million of mortgage financing annually)
 - Section 8 Housing - Section 8 is financed by HUD and administered by the Housing Division. Section 8 pays a portion of the tenant's rent that they cannot afford (\$35 million of rent subsidy annually)
- 7) Board of Investments – prudently invests essentially all of State of Montana funds including daily cash amounts, trust funds, and pension monies; also provides short term investment alternative to local governments, and administers loan programs that support Montana businesses and municipalities
- 8) Montana Heritage Commission – manages and preserves historic cultural properties and artifacts for the State of Montana, notably the Virginia City and Nevada City holdings, and Reeder's Alley in Helena
- 9) Directors Office – The Director's Office provides overall leadership, communication, and management support to agency staff, programs, bureaus, divisions, and administratively attached boards. The office provides executive, administrative, legal, and policy direction along with offering problem-solving guidance. The office also maintains a federally funded contract with the Montana Council on Developmental Disabilities.

Sources of Spending Authority

The chart below shows the sources of appropriation authority for the Department of Commerce. For a more detailed description of accounting terminology, please refer to the definition of terms. The operations of DOC are funded through a combination of proprietary, statutory, and HB 2 appropriations.

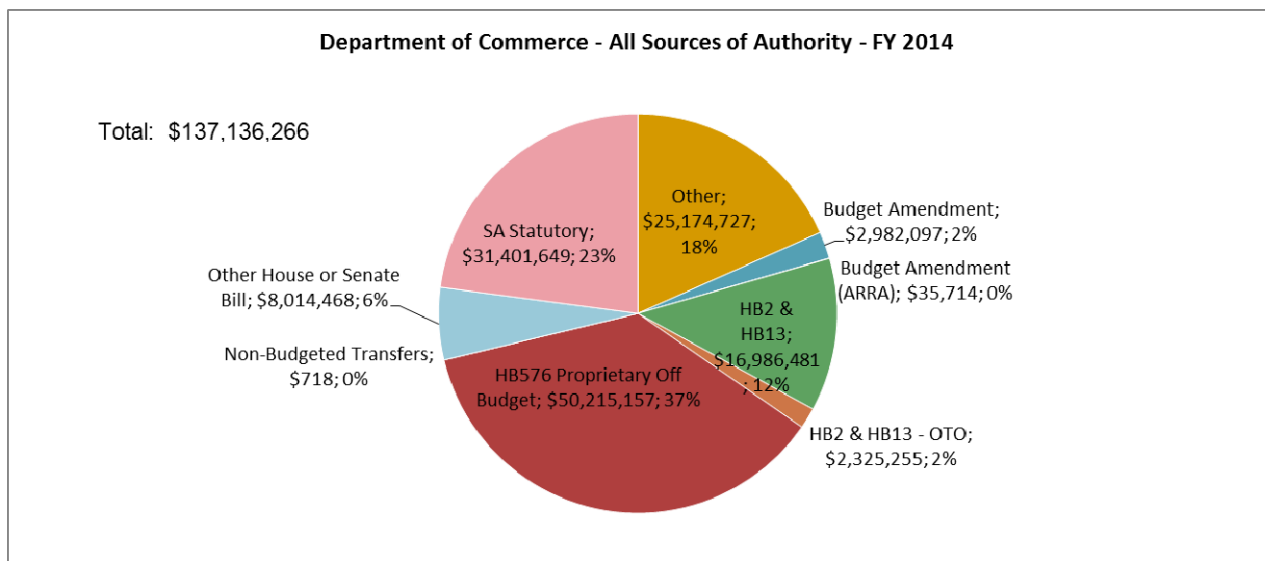
Proprietary funds include support for the Board of Housing at \$42.5 million, Board of Investments \$5.4 million, Facility Financing Authority \$0.4 million, Director's Office \$1.8 million. Statutory appropriations provide for expenditures related to:

- Big Sky economic development grants, loans, and program administration
- Research and commercialization program
- Montana Promotion Program
- Heritage preservation of Virginia and Nevada cities and Reeder's Alley

HB 2 includes support for the Business Resource and Community Development Divisions and the programs described above.

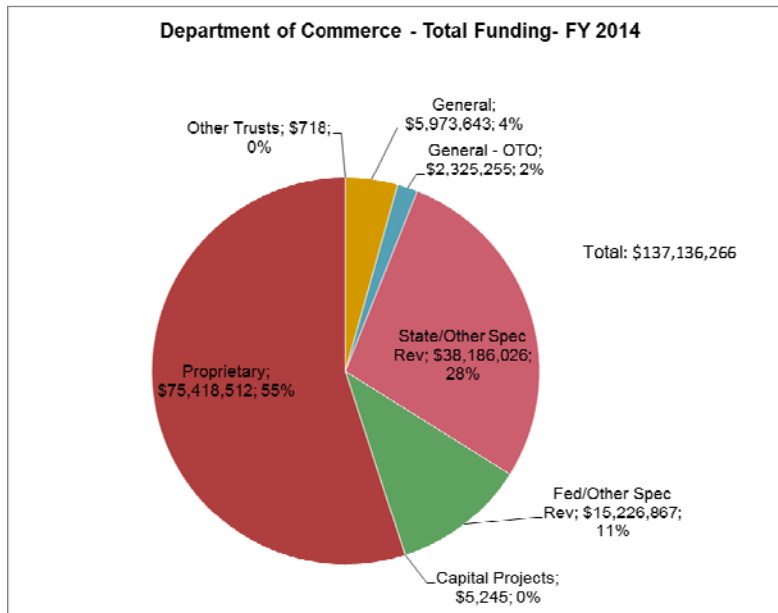
Other authority includes:

- Authority granted through appropriations included in other bills in addition to those included in HB 2
- \$23.2 million in administrative appropriations used by the Board of Housing for debt service activity
- \$1.6 million in administrative appropriations for Montana's state small business credit initiative

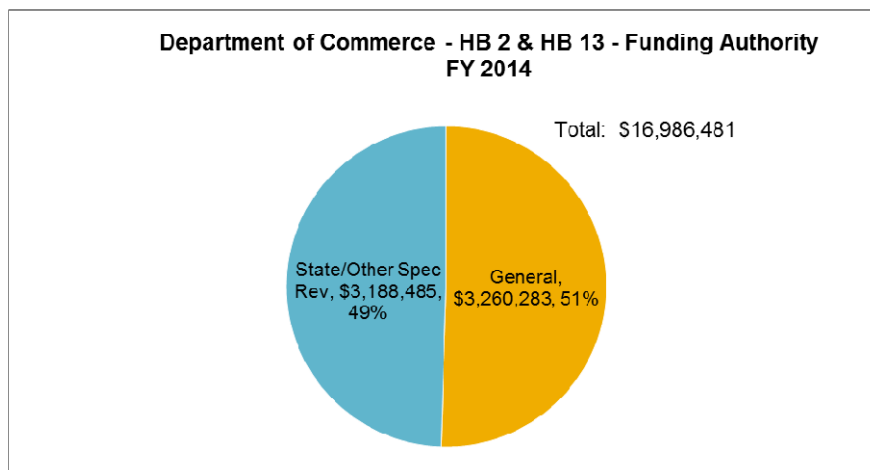


HB 2 Funding

The chart below shows the type of funds provided to Commerce in FY 2014. Proprietary funds increase over what is shown in the first chart as \$23.2 million of other authority and \$2.1 million of statutory appropriations are funded with proprietary funds. \$16.2 million of statutory appropriations for the Montana Promotions Division are supported by state special revenues derived from Lodging Use Facilities Taxes. \$7.5 million of general fund is appropriated in HB 2 and mainly supports Business Resource Division programs including one-time-only appropriations for the Indian Country Economic Development and Primary Business Training Programs. \$2.4 million of the general fund was statutorily appropriated to Commerce for the Research and Commercialization Program. The funds are transferred to a state special revenue fund that is also statutorily appropriated. Federal funds provide for the Community Development Block Grant (CDBG), Small Business Administration (SBA), and HUD Section 8 programs.



The following chart show the agency's HB 2 funding authority by fund type and all sources of its total funding authority.



HB 2 Funding, cont.

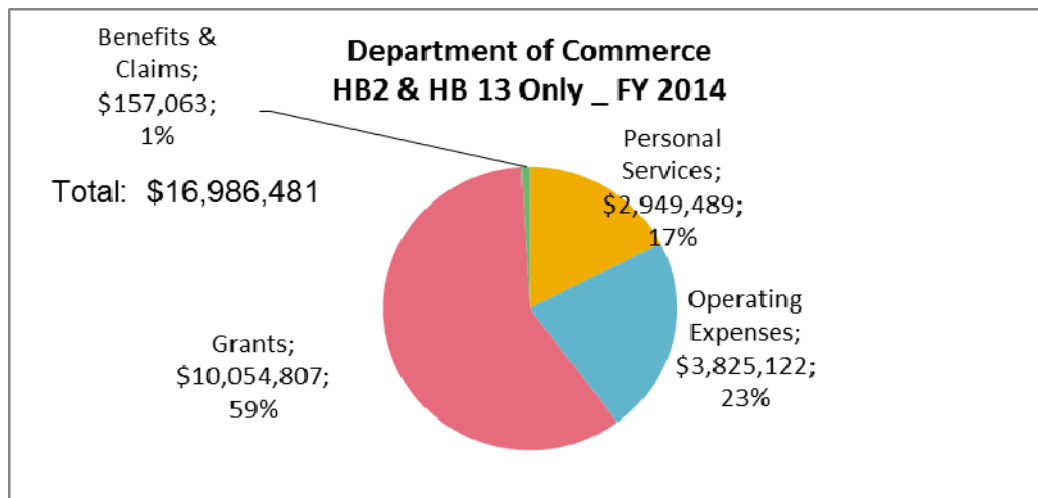
The Department of Commerce programs supported through HB 2 are funded by either general fund or state special revenues. State special revenues include:

- Authority for loans made through the Small Business Development Center to micro-business development centers
- Grant funding for Coal Board programs that fund governmental services that are a direct consequence of an increase or decrease of coal development or as the result of an increase or decrease in the consumption of coal by a coal-using energy complex
- The Treasure State Endowment Program (TSEP) is funded with interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust. 50% of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund until June 30, 2016
- The Hard-Rock Mining Impact Board is funded by a 2.5% allocation of the Metalliferous Mines License Tax.
- Private contributions to joint private/state targeted advertising campaigns support activities within the Montana Promotion Division

General fund represents 6.0% of department funding overall, and is used for the required match in the federal CDBG, SBA, and SBIR/STTR programs, to support the Trade and International Relations Bureau as well as the Census and Economic Information Center, the Community Technical Assistance program, the Indian County Economic Development Program and the Primary Business Sector Training Program.

Expenditures

The next chart explains how House Bill (HB) 2 authority is spent. Of the total authority, 17% was spent on personal services costs and 23% on operating expenses. 59% of the funding supports grants for the Montana Council on Development Disabilities, HOME grants, Community Development Block Grant, and the Montana Coal Board. This chart matches the agency base expenditures found in the 2017 Budget Analysis.



How the 2015 Legislature Can Effect Change

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

- Grant and Loan/Financing program priorities – changes to the funding priorities have a major impact on overall expenditures. Such changes may include defining eligibility criteria, ranking criteria, identifying specific types of projects that are preferred and setting minimum or maximum amounts for grants and loans
- Economic development objectives – defining specific economic development goals that provide the agency with overall policy direction and guidance for measureable achievements
- Diversification and expansion of economic base - examining existing legislation or creating new legislation to achieve the greatest return for the public investment
- Infrastructure development priorities – changes to the funding priorities have a major impact on overall expenditures. Such changes may include defining eligibility criteria, ranking criteria, identifying specific types of projects that are preferred, and setting minimum or maximum amounts for grants and loans

Major Cost Drivers

Activity for this agency varies depending upon:

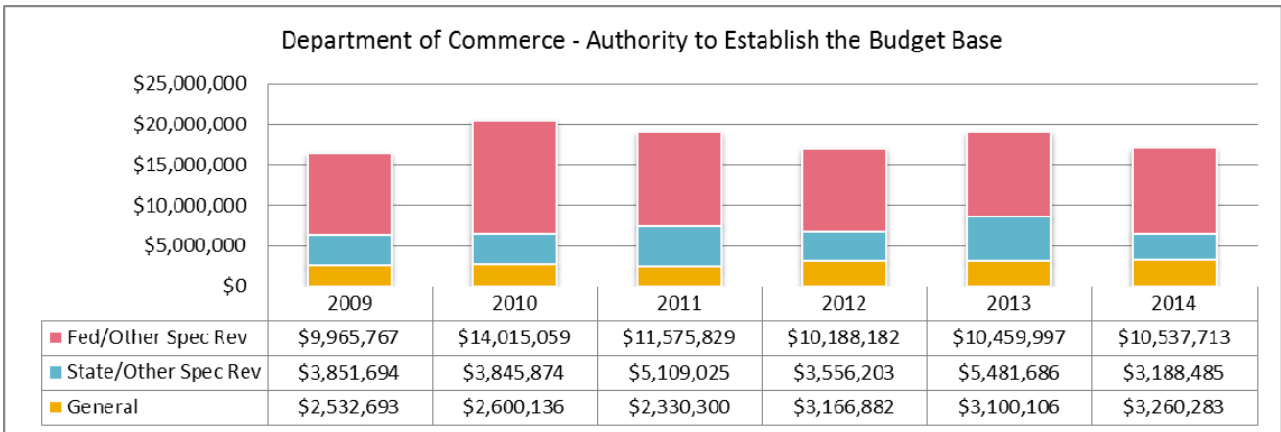
- Financing costs for investments for the Montana
- Housing market
- Level of coal mined that generates funding for projects
- Recreational and tourism activities
- Development of alternative energy technologies such as wind turbines

Element	2008	2014	Significance of Data
Research and Commercialization Funding	\$287 million	\$332 million	Cumulative level of funding provided for projects
Primary Sector Workforce Training	\$5.224 million	\$0.705 million	Awards provided to Montana businesses
Indian Country Economic Development	152	238 Indian Entrepreneur attendees 13 businesses creating retraining 20 jobs in Indian Equity Fund 32 jobs created in tribal government enterprises	Jobs created/retained/trained
Number of Nonresident Visitors	10.7 million – CY 2007	11.2 million – CY 2013	Impacts of tourism promotion
Amount of Out-of-State Tourism Dollars	\$3.1 billion – CY 2007	\$3.62 billion – CY 2013	Impacts of tourism promotion
Number of CDBG Public Facilities and Housing Grants Awarded	10	11	Fluctuations in federal funding
Amount of Single Family Mortgages	\$206.83 million	\$80.00 million	Impacts of recession on housing market
Amount of Section 8 Rental Assistance	\$35 million	\$34.0 million	Low-income assistance provided
Amount of Section 8 Housing Customers	8,401	7,100	Impacts of recession on allocations
Total Assets Invested by BOI	\$12.4 billion	\$13.9 billion	Level of the fiduciary responsibility of the board

Funding/Expenditure History

The following chart shows historical changes to the agency's base budget authority. Major reasons for changes are:

- Fluctuations between odd and even years due to the biennial appropriation of several funds
- Increased federal authority for Community Development Block Grants



Major Legislative Changes in the Last Ten Years

Changes to Department of Commerce Organization

The 2003 Legislature established the Office of Economic Development within the Office of the Governor, and reorganized the Department of Commerce by transferring several programs and divisions to other agencies.

Montana Heritage Commission

The 2003 Legislature continued the statutory transfer of \$400,000 of lodging facility use tax revenue into the Montana Heritage preservation and development account.

The 2007 Legislature indefinitely extended the allocation of lodging facility use tax (bed tax) to the Montana heritage preservation and development account for the benefit of supporting facilities and programs at Virginia City and Nevada City. Each year, \$400,000 of this tax is allocated to the Montana heritage preservation and development account.

The 2007 Legislature included funding for two projects within the Department of Commerce:

- \$2.0 million from the long-range building fund for preservation and improvements at Virginia and Nevada Cities, Montana
- \$0.5 million from the general fund for the Cowboy Hall of Fame

Workforce Training

The 2005 Legislature established the Primary Sector Business Workforce Training Act. HB 564 provides for a seven member loan review committee to make grants to qualifying primary sector businesses to pay for employee education and training by eligible service providers, and provides temporary funding for workforce training grants through Board of Investment loans.

The 2005 Legislature transferred the New Worker Training Program from the Governor's Office of Economic Opportunity to the Department of Commerce and revised the programs funding mechanism. The legislature approved the transfer of 2.00 FTE and appropriated \$2.8 million of one-time-only (OTO) state general fund over the 2007 biennium in HB 2 for the New Worker Training Program.

Major Legislative Changes in the Last Ten Years, cont.

The 2007 Legislature revised the amount of workforce training funding from the Big Sky Trust Economic Development program for each expected job from \$5,000 to \$7,500 for high poverty counties. The bill also allows more advantageous match requirements for loans and grants under the program for high poverty areas.

Infrastructure

The legislature appropriates state special revenue to the Treasure State Endowment program (TSEP) to finance infrastructure grants during most sessions.

The 2009 Legislature created the Quality Schools Facility Grant Program, provided an account for future funding, required the deposit of specific revenues in to the account, created an initial appropriation of \$12.0 million over the 2011 biennium, and created a statutory appropriation of \$1.0 million annually for school technology specific purposes.

Job Creation

The 2005 Legislature established the big sky economic development fund, a sub fund within the permanent coal severance tax trust with an initial infusion of \$20 million.

The 2007 Legislature increased the allocation of coal severance tax trust funds available for value-added and infrastructure loans made pursuant to 17-6-309(2), to enhance economic development and create jobs in the basic sector of the economy. The total allocation for infrastructure loans increased from \$50 million to \$80 million and the total allocation for value-added loans increased from \$50 million to \$70 million.

The 2009 Legislature reallocated 2.9 percent of coal severance tax revenue from the general fund to the oil, gas, and coal natural resources account. This change doubles the current allocation for a period of four years beginning in FY 2010 and continuing through FY 2013.

Tourism and promotion

The 2005 Legislature established the Big Sky on the Big Screen Act. HB 584 requires production companies to apply to the Department of Commerce for state certification of a production in order to qualify for the tax credits enumerated in the bill. The application fees established in the bill are deposited in a state special revenue account and statutorily appropriated in an equal amount to the Department of Commerce and the Department of Revenue.

Lumber industry

The 2009 Legislature created the Distressed Wood Products Industry Revolving Loan Program and a statutory appropriation to the department for the purposes described in the bill.

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

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