

Exhibit No. 2

Date 3-26-07

Bill No. HB 818; HB 819; HB 820

**Legislative Fiscal Division  
Budget Balancing Issues**

**millions**

Legislative Action to Date

Gen. Fund Status Sheet Balance (3/23)	\$217
Stabilization Fund Balance (SB 137)	\$288
Total remaining in Treasury (GF)	<u><u>\$505</u></u>

Major proposals not in Legislative Action to Date (GFSS)

Budget Bills Below Exec Proposal \$239 Budget Bills

Major Bills Not reflected in GF Status Sheet Totals

In "Potential" Column on GFSS:

- Governor's Tax Rebate	\$100	HB 139	Gov.
- K-12 Funding (Duplicative, would go in Budget Bill)	\$137	SB 152	Gov.
- Mineral Royalties purchased w/coal tax loans	\$41	SB 55	Gov.
- Permanent Tax Reductions	\$231	HB 678	
- Other, incl. other tax bills (some duplicative)	<u>\$77</u>		

Total in "Potential" column \$586

Not on status sheet - no legislative action to date

- Pension Funds Actuarial	\$100	HB 63	Gov.
- Capital Projects	<u>\$150</u>	+ HB 5/14 (830)	Gov.

Total (not all-inclusive) \$250 +

Budget Considerations

Amount to leave for ending fund balance reserve, stabilization fund?

Governor Proposes:

- Ending Fund Balance Reserve, \$100 million
- Stabilization Fund SB 137
- Maximum \$1.8 Billion ongoing costs (rev/exp), FY 2009
- OTO expenditures maximum of \$500 M (structural balance)

## Budget Issues

### Budget Management

- Fund Balance Reserve (fiscal safety net)
- Structural Balance (ongoing revenues exceed ongoing exp.)
- Budget Sustainability - Long-term
- Stabilization Account

### Budget Challenges

- K-12 adequately Funded? (Courts: inadequate funding)
- College affordability/tuition costs
- Health Care: Access/Cost control
- Public Safety - adequate funding for corrections system
- State employee compensation - retain quality workforce
- Pension plans actuarially sound?
- State infrastructure deferred maintenance backlog
- Reductions in federal funds support
- Control over spending increases
- Tax policy issues (rebates, permanent changes, etc)

## PROJECTED GENERAL FUND BALANCE

Figure 14 shows the detailed general fund balance sheet based on present law revenues and disbursements, followed by a sub-table that shows the balance when the executive's new proposals are included.

Figure 14

2007 and 2009 Biennium General Fund Balance Based on Present Law (In Millions)						
	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated 2007 Biennium	Estimated 2009 Biennium
<b>Beginning Fund Balance</b>	<b>\$299.792</b>	<b>\$408.580</b>	<b>\$530.778</b>	<b>\$724.198</b>	<b>\$299.792</b>	<b>\$530.778</b>
<b>Revenues</b>						
Current Law Revenue	1,708.166	1,762.355	1,797.764	1,875.209	3,470.521	3,672.973
<b>Total Funds Available</b>	<b>\$2,007.958</b>	<b>\$2,170.935</b>	<b>\$2,328.542</b>	<b>\$2,599.407</b>	<b>\$3,770.313</b>	<b>\$4,203.751</b>
<b>Disbursements</b>						
General Appropriations	1,441.188	1,303.427	1,447.423	1,447.423	2,744.615	2,894.846
Statutory Appropriations	120.226	151.420	148.719	148.864	271.646	297.583
Miscellaneous Appropriations	1.521	65.059			66.580	
Non-Budgeted Transfers	24.277	29.195	9.126	9.310	53.472	18.436
Continuing Appropriations		46.074			46.074	
Supplemental Appropriations		76.425			76.425	
Language Appropriations	0.706	0.636			1.342	
Feed Bill Appropriations		8.633	2.280	8.740	8.633	11.020
Anticipated Reversions	(21.179)	(27.297)	(3.204)	(4.344)	(48.476)	(7.548)
<b>Total Disbursements</b>	<b>\$1,566.739</b>	<b>\$1,653.572</b>	<b>\$1,604.344</b>	<b>\$1,609.993</b>	<b>\$3,220.311</b>	<b>\$3,214.337</b>
<b>Adjustments</b>	(32.639)	13.415			(19.224)	
<b>Unreserved Ending Fund Balance</b>	<b>\$408.580</b>	<b>\$530.778</b>	<b>\$724.198</b>	<b>\$989.414</b>	<b>\$530.778</b>	<b>\$989.414</b>
<b>Net Operations</b>	<b>\$141.427</b>	<b>\$108.783</b>	<b>\$193.420</b>	<b>\$265.216</b>	<b>\$250.210</b>	<b>\$458.636</b>
<b>New Executive Initiatives Not Included Above</b>						
<b>Revenue Initiatives</b>						
Dept. of Revenue Additional Auditing			5.159	10.202		15.361
Dept. of Revenue Compliance Legislation			28.946	28.266		57.212
Governor's Rebate Initiative			4.022			4.022
<b>Total Revenue Initiatives</b>			<b>\$38.127</b>	<b>\$38.468</b>		<b>\$76.595</b>
<b>Disbursement Initiatives</b>						
Additional Present Law			37.161	72.320		109.481
New Proposals			104.794	84.653		189.447
Pay Plan Proposal			20.149	38.456		58.605
Long Range Planning			91.227	79.995		171.222
Tax Modifications			133.809	15.000		148.809
Retirement Systems			114.366	14.965		129.331
Emergency Statutory Appropriation			9.000			9.000
Miscellaneous Other Proposals			24.580	3.304		27.884
<b>Total Disbursement Initiatives</b>			<b>\$535.086</b>	<b>\$308.693</b>		<b>\$843.779</b>
Big Sky Savings Account				122.230		122.230
<b>Potential Ending Fund Balance With Reserves</b>	<b>\$408.580</b>	<b>\$530.778</b>	<b>\$227.239</b>	<b>\$100.000</b>	<b>\$530.778</b>	<b>\$100.000</b>

## **EXECUTIVE BUDGET ONE-TIME VS ON-GOING**

The executive budget proposes to use one-time general fund revenues on one-time expenditures. One-time revenue for the 2007 biennium can be simply defined as the projected ending fund balance for the 2007 biennium (\$530.8 million). Since revenues exceeded the legislative adopted budget in the 2007 biennium, these excess monies should not be used in the 2009 biennium for on-going services. If they are, a structural imbalance is created where on-going disbursements exceed on-going revenues. The executive budget proposes to use \$499.4 million of general fund monies for one-time only initiatives.

As Figure 9 shows, the executive budget proposes using \$499.4 million of general fund revenue for one-time expenditure initiatives during the 2009 biennium. Figure 9 also shows the recommended one-time expenditures by three categories, "HB 2 Present Law Adjustments", "HB 2 New Proposals" and "Other New Initiatives". As stated in the executive budget, "These expenditures are primarily a down payment on our future as Montanans. We have tax rebates, paying down debt, "fixing the roof", and investments in buildings, technology, and our parks."

Figure 9  
(continued on next page)

Executive Budget One-Time Only Initiatives - 2009 Biennium			
Description of Initiative	Proposed Fiscal 2008	Proposed Fiscal 2009	Biennium Total
<b>HB2 Present Law Adjustments</b>			
PL 00003 Re-authorize Governor's Residence OTO Appropriation	\$25,000	\$25,000	\$50,000
PL 00006 Governor's Office OTO Partial Reauthorization	15,000	15,000	30,000
PL 00006 MWP Security/Training Equip. (OTO)	152,915	-	152,915
PL 00009 Aircraft Engine Overhaul Contingency OTO	429,000	-	429,000
PL 00110 Major Litigation - OTO	250,000	250,000	500,000
PL 00116 Correctional Staff Scheduling Software - OTO	247,000	27,800	274,800
PL 00117 Commissary, Inmate Banking, Rest. Software OTO	125,000	17,500	142,500
PL 00118 MSP fiber plant upgrade OTO	350,000	26,750	376,750
PL 00308 SABHRS Readiness Assessment (Biennial/OTO)	70,000	-	70,000
PL 00501 PHYCF Safety & Security Replacement Needs OTO	161,000	-	161,000
PL 00502 RYCF Safety/Security Replacement Needs OTO	60,100	-	60,100
PL 00503 PHYCF Replace Gym Floor OTO	140,000	-	140,000
PL 00506 PHYCF Laundry OTO	50,900	-	50,900
PL 00701 Compliance - Legal	23,550	-	23,550
PL 00802 Reappraisal - GIS Staff-OTO	595,595	208,499	804,094
PL 01000 Moving Expenses (OTO)	30,000	-	30,000
PL 01001 Business Process Improvement OTO	1,000,000	800,000	1,800,000
PL 01011 Fulfill Statutory Responsibilities	679,700	125,000	804,700
PL 01502 E-Government IT-OTO	51,894	49,250	101,144
PL 01803 Continuation of OTO - Medicaid Fraud Unit Increase	25,404	25,902	51,306
PL 02103 CSD Equipment IT OTO	30,000	-	30,000
PL 02104 GIS Enterprise Equipment IT OTO	105,000	25,000	130,000
PL 02301 SABHRS Readiness Assessment (Biennial/OTO)	200,000	-	200,000
PL 03006 MSP One Time Only Supplies OTO	496,503	-	496,503
PL 03010 MSP Replacement Equipment - OTO	162,500	216,000	378,500
PL 03013 MSP Staff Transportation - OTO	161,223	-	161,223
PL 03508 Forestry Equipment Replacement IT OTO	30,600	12,500	43,100
PL 04008 Accelerated Remediation Selected CECRA Sites OTO	1,000,000	1,000,000	2,000,000
PL 05006 Air Resources Bureau Relocation-RST/OTO/BIE	13,390	13,520	26,910
PL 05101 BRD New Worker Training HB0002- OTO	3,997,361	3,997,450	7,994,811
PL 05103 BRD Main Street HB0002- OTO	123,496	123,548	247,044
PL 05104 BRD Made In Montana HB0002- OTO	100,000	100,000	200,000
PL 05105 BRD Tribal Economic Development HB0002 - OTO	798,496	798,548	1,597,044
PL 05106 BRD Montana Capital Investment Board HB0002- OTO	296,936	73,210	370,146
PL 07012 Tax Gap Analysis	23,550	-	23,550
PL 07013 Citizen Services	3,925	-	3,925
PL 07019 Compliance - Audit & Collections	78,500	39,250	117,750
PL 08012 Maintain Parcel Count Caseload	94,200	31,400	125,600
<b>Total HB2 Present Law Adjustments</b>	<b>\$12,197,738</b>	<b>\$8,001,127</b>	<b>\$20,198,865</b>

Figure 9  
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<b>Executive Budget One-Time Only Initiatives - 2009 Biennium</b>			
Description of Initiative	Proposed Fiscal 2008	Proposed Fiscal 2009	Biennium Total
NP 00001 Campaign Filing, Lobbyist/Principal Systems OTO	\$123,338	\$46,575	\$169,913
NP 00006 K12 Education Data Systems	125,000	125,000	250,000
NP 00008 Database Re-Write - OTO	73,920	-	73,920
NP 00016 Storage Area Network (SAN) Replacement - OTO	160,000	-	160,000
NP 00054 Indian Ed for All Tribal History - Biennial OTO	237,500	237,500	475,000
NP 00101 Upgrade Department Server - OTO	25,000	-	25,000
NP 00106 BOPP Computer Software and a Scanner OTO	12,927	12,927	25,854
NP 00110 Electronic Storage and Workflow	136,200	143,800	280,000
NP 00110 Major Litigation - Wyoming (OTO)	3,000,000	-	3,000,000
NP 00111 Video Conferencing Expansion	54,000	-	54,000
NP 00120 Interoperable Communication Project - OTO	2,622,424	-	2,622,424
NP 00202 Free Electronic Filing	2,261,644	3,058,331	5,319,975
NP 00301 PERS Defined Contribution Transfer OTO	1,384,000	-	1,384,000
NP 00306 Fisheries Statewide Wildlife Grants	250,000	250,000	500,000
NP 00505 RYCF Commercial Kitchen OTO	35,000	-	35,000
NP 00507 State Wildlife Grants (SWG)	250,000	250,000	500,000
NP 00737 Earthquake Protection Enterprise Data Center-OTO	200,000	-	200,000
NP 01051 Improve Transferability and Student Data OTO	1,291,099	253,901	1,545,000
NP 01052 Coordinate and Enhance Distant Learning - OTO	450,000	450,000	900,000
NP 01501 Surface Transportation Litigation (OTO/Biennial)	3,000,000	-	3,000,000
NP 02007 Biofuels Testing - OTO	250,000	-	250,000
NP 02106 Upgrade GIS Hardware and Software OTO	12,000	-	12,000
NP 02501 RWRCC Contracted Services OTO	97,500	97,500	195,000
NP 03003 Noxious Weed Trust Fund OTO	5,000,000	-	5,000,000
NP 03205 Crime Lab Equipment (RST/OTO)	115,375	115,375	230,750
NP 03206 Forensic Science Lab - Records Mgmt. OTO	52,000	-	52,000
NP 03503 Fire Fighting Equipment - Rst/Bien/OTO	1,000,000	-	1,000,000
NP 03549 Woody Biomass Utilization Program - OTO	250,000	250,000	500,000
NP 04005 District Court Safety and Security Proposal - OTO	300,000	-	300,000
NP 05029 Swift Gulch Drainage System OTO/BIE	500,000	-	500,000
NP 05112 BRD - Biomedical Research Grant - Bien/OTO	2,000,000	-	2,000,000
NP 07411 HD Manufactured Home Renovation Program - OTO	3,053,837	50,407	3,104,244
NP 09053 Equip and Tech in High Demand Fields MUS & CC OTO	2,000,000	-	2,000,000
NP 09054 Wrkfce Train. in High Demand Fields MUS & CC -OTO	1,500,000	-	1,500,000
NP 09055 Research Agencies Equipment - OTO	1,000,000	-	1,000,000
NP 11038 Family Planning Waiver Implementation - OTO	348,297	347,669	695,966
NP 20011 Ombudsman Funding-Warm Hearts/Homes - OTO	300,000	300,000	600,000
NP 20908 Low Income Energy Assist. Prgm OTO	2,000,000	-	2,000,000
NP 33204 Methamphetamine Prevention - OTO	-	1,000,000	1,000,000
NP 40004 MMIS and Mental Health Systems Analysis (BIEN/OTO)	200,000	-	200,000
NP 70002 Ongoing Lab Equipment Replace & Maintenance OTO	145,000	145,000	290,000
NP 70003 WIC IT System Maintenance (BIEN - OTO)	290,000	-	290,000
NP 70107 Purchase of Tamiflu - Biennial OTO	118,000	0	118,000
<b>Total HB2 New Proposals</b>	<b>\$36,224,061</b>	<b>\$7,133,985</b>	<b>\$43,358,046</b>
<b>Total HB2 Present Law &amp; New Proposals</b>	<b>\$48,421,799</b>	<b>\$15,135,112</b>	<b>\$63,556,911</b>

Figure 9  
(continued from previous page)

<b>Executive Budget One-Time Only Initiatives - 2009 Biennium</b>			
Description of Initiative	Proposed Fiscal 2008	Proposed Fiscal 2009	Biennium Total
Long Range Building - Buildings	\$ 50,875,000	\$ 50,875,000	\$ 101,750,000
Long Range Building - Parks	15,000,000	-	15,000,000
Long Range Building - Information Technology	25,352,000	29,120,000	54,472,000
Cultural Arts Trust Addition	1,500,000	-	1,500,000
Emergency Statutory Appropriation	9,000,000	-	9,000,000
Teacher Retirement System	100,000,000	-	100,000,000
Military Family Relief	1,000,000	-	1,000,000
Reclamation and Remediation	2,000,000	-	2,000,000
Property Tax Reducion	98,381,000	-	98,381,000
Water Tax Repeal	20,428,000	-	20,428,000
Property Tax Reserve Fund	14,500,000	-	14,500,000
Fish for Free	391,230	391,230	782,460
Department of Revenue Tax Litigation	1,000,000	-	1,000,000
Pay Plan Proposal	75,000	0	75,000
<b>Total Other Initiatives</b>	<b>\$339,502,230</b>	<b>\$80,386,230</b>	<b>\$419,888,460</b>
<b>Total All Disbursement Initiatives</b>	<b>\$387,924,029</b>	<b>\$95,521,342</b>	<b>\$483,445,371</b>
Emergency Statutory Appropriation	16,000,000	-	16,000,000
<b>Grand Total Disbursement Initiatives</b>	<b>\$403,924,029</b>	<b>\$95,521,342</b>	<b>\$499,445,371</b>

To summarize the detail shown in Figure 9, these initiatives can be more appropriately categorized as: 1) general governmental services (HB 2 services); 2) paying off debts (retirement system); 3) addressing infrastructure needs (buildings and parks); 4) investing in information technology; 5) providing tax rebates; and 6) other. As shown in Figure 10, a majority of the funds are targeted to buildings and parks, retirement system, and tax rebates. Figure 11, shows by agency, which state agency budgets are recommended to receive one-time funding that will be included in HB 2. If the 60<sup>th</sup> Legislature accepts all of these recommendations, the legislature will still have \$29.8 million of one-time revenue for legislative consideration. These remaining one-time revenues could be used for other legislative initiatives (revenue and/or expenditure), creating a rainy day fund, or increasing the ending fund balance beyond the executive recommendation of \$100 million.

Figure 10

