State Expenditures Perspectives

PART ONE – AN OVERVIEW OF STATE EXPENDITURES

This chapter provides a high level categorization of total proposed spending in the 2013 biennium. The total budget is comprised of four appropriation categories: 1) the general operations of state government (predominantly requested in the general appropriations act (HB 2); 2) capital projects; 3) statutory appropriations and transfers; and 4) miscellaneous appropriations. This chapter includes the following:

- The big picture – proposed spending by fund source/function
- A further examination by appropriation category
- Proposed budget for the general operations of state government (HB2)
- Long Range Planning projects
- Statutory appropriations and transfers
- Miscellaneous expenditures (cat and dog bills)
- A historical perspective on general fund spending

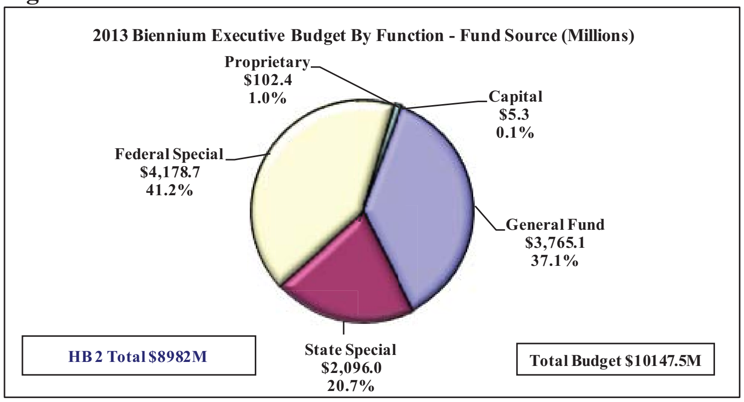
The following chapter, Part Two of state expenditure perspectives, will discuss the specifics of major expenditure proposals in the executive budget.

THE BIG PICTURE – PROPOSED SPENDING ALLOCATION BY FUND SOURCE/FUNCTION

EXECUTIVE PROPOSED SPENDING BY FUNDING SOURCE

Figure 1 shows the executive proposal allocated by funding source. Federal funds comprise the largest share. Because federal funds grow at a higher rate than general fund in the proposed budget, its share of the total has grown slightly from the 2011 biennium.

Figure 1



EXECUTIVE PROPOSED SPENDING BY FUNCTION

Figures 2 and 3 show the executive budget by function for the general operations of state government and by appropriation type for the remaining budget items. Figure 2 shows the total executive budget from all fund sources. As shown in Figure 2, K-12 (public) education, human services, and "other agencies" (primarily due to transportation and various environmental and wildlife expenditures), consume the largest share of the total funds budget at 79%. Statutory appropriations and transfers are 11% of total expenditures.

Figure 2

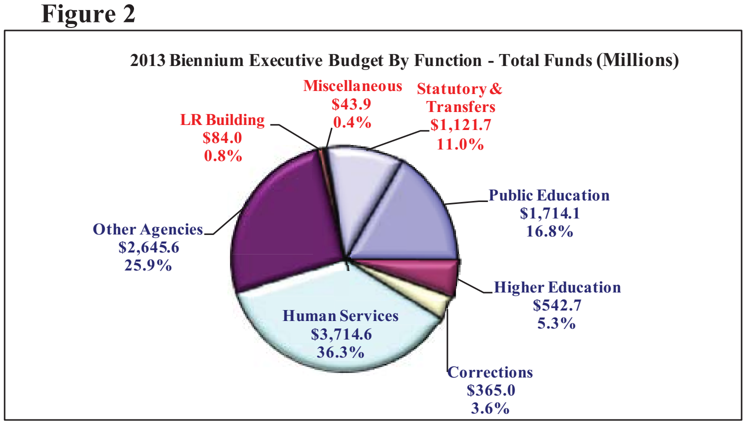
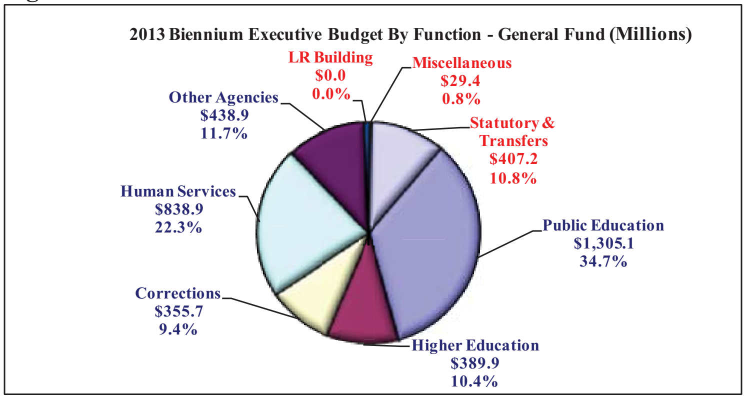


Figure 3 shows the general fund budget proposed by the executive. As shown, the primary activities of state government – education, human services, and corrections – are almost 77% of all general fund expenditures. Statutory appropriations and transfers are almost 11% of general fund expenditures.

Figure 3



A FURTHER EXAMINATION – THE EXECUTIVE BUDGET PROPOSAL BY APPROPRIATION CATEGORY

This section proves further detail on the executive budget proposal, broken down by each of the functional and appropriation source categories shown in Figures 2 and 3. Almost 88% of the total executive budget is contained in HB 2, the general appropriations act, which includes the general operating budget of state agencies. These proposals are summarized by programmatic function shown in Figures 2 and 3 (public and higher education, corrections, human services, and other) beginning on page 78. Long-range planning is summarized on page 58 and in Section F of Volume 7. Statutory appropriations are discussed further beginning on page 62. “Miscellaneous Expenditures”, which includes the pay plan bill and all bills other than HB 2, are listed beginning on page B-26.

PROPOSED BUDGET IN HB 2 – GENERAL OPERATIONS OF STATE GOVERNMENT

HB 2 contains almost 88% of the total budget proposals in the executive budget. Figure 4 shows the allocation of total or all funds for ongoing and one-time-only expenditures in HB 2, by function, with education and human services accounting for about two-thirds of the total. Just over half of the expenditures in “Other Agencies” are for the Department of Transportation.

Figure 4

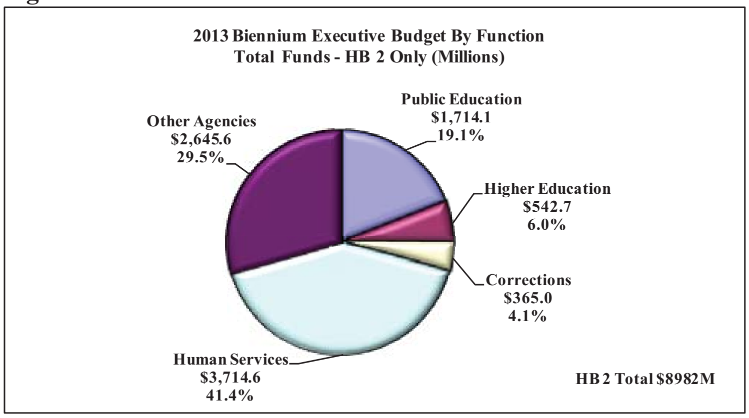
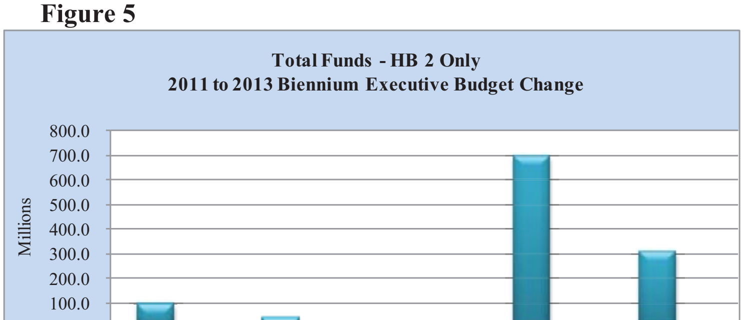


Figure 5 shows the increase from the 2011 biennium to the 2013 biennium proposed executive budget for ongoing expenditures of all funds, by function. As shown, increases are dominated by human services and "Other Agencies", which is comprised of all state government except education, human services, and corrections. The major increase in those agencies is in transportation funding due to projected increased federal grant levels and a requested increase in the 100% state funded program. Human services increase due primarily to caseload and utilization increases, including in Medicaid, Healthy Montana Kids, and SNAP (food stamps).

Figure 5



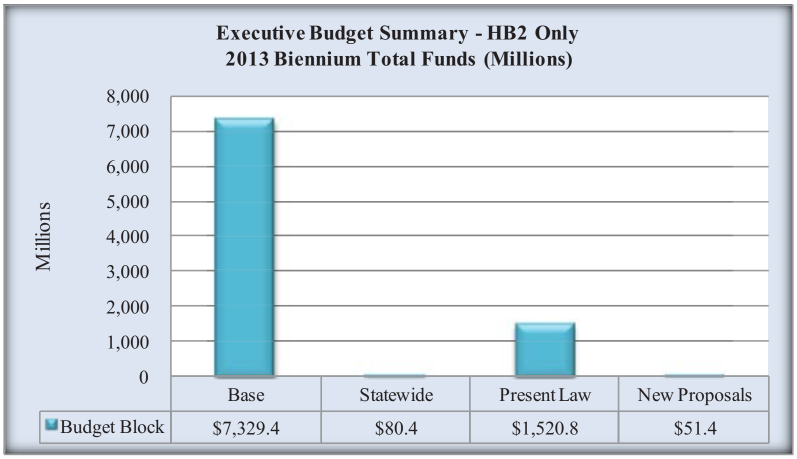
	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$96.1	$37.6	$21.0	$696.7	$309.6
% Change	5.94%	7.44%	6.10%	23.09%	13.25%

Present Law vs. New Proposals

Figure 6 shows the allocation between present law increases and new proposals for all funds in HB 2. Please note that these increases are from the doubled FY 2010 base, rather than from the 2011 biennium.

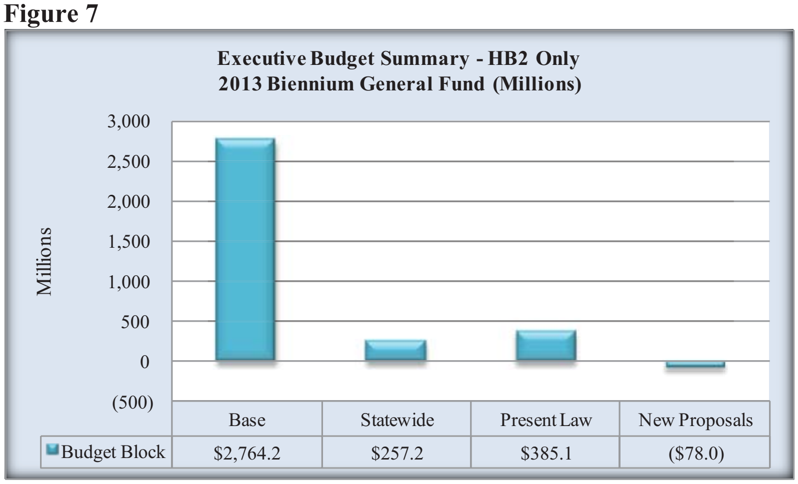
Over 81% of proposed expenditures are for the base, with almost 97% of the net increase in statewide and other present law adjustments.

Figure 6



The split is even more striking with general fund, where base expenditures are over 83% of the total executive budget. Present law as a percentage is over 100% of the change, as general fund for new proposals is actually a negative $78.0 million.

Figure 7



Significant present law increases include:

- K-12 inflation and maintenance of FY 2011 entitlements
- Medicaid caseload and utilization increases
- Corrections population increases and facility conversion and expansion to house the additional secure care and community populations
- Statewide present law adjustments

For additional detail, see page B-1 in Appendix B.

Reductions in general fund new proposals include:

- An ongoing reduction in general fund personal services for most agencies of 4%
- Continuance of FY 2011 reductions made by the Governor under 17-7-140, MCA
- Funding switches for the Quality Educator and school facility programs in the Office of Public Instruction (OPI)
- Developmental disabilities refinancing in the Department of Public Health and Human Services

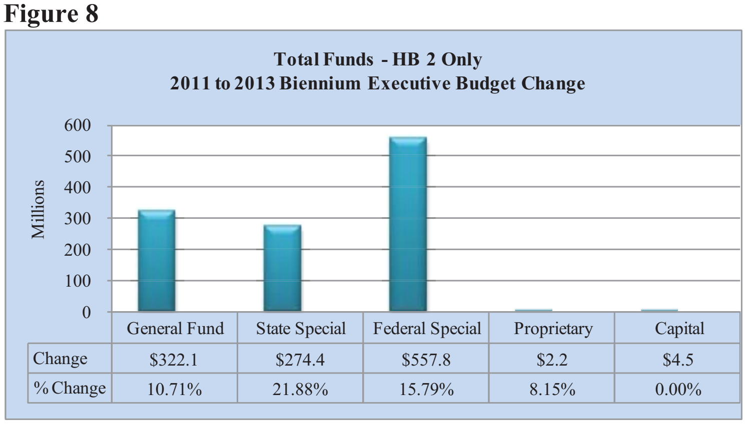
Among the limited positive new proposals are the following:
- Funding of most economic development programs supported in the 2011 biennium by one-time-only appropriations in the Department of Commerce
- Increased funding in the Montana University System, including the community colleges
- Special education and the digital academy in OPI

For additional detail, see page B-3 in Appendix B.

TYPE OF FUNDING

Expenditure proposals are also shown by type of funding. The largest source of funding for state government is federal funds, which has the largest growth at $557.3 million or 15.8% from the 2011 biennium level.

Figure 8



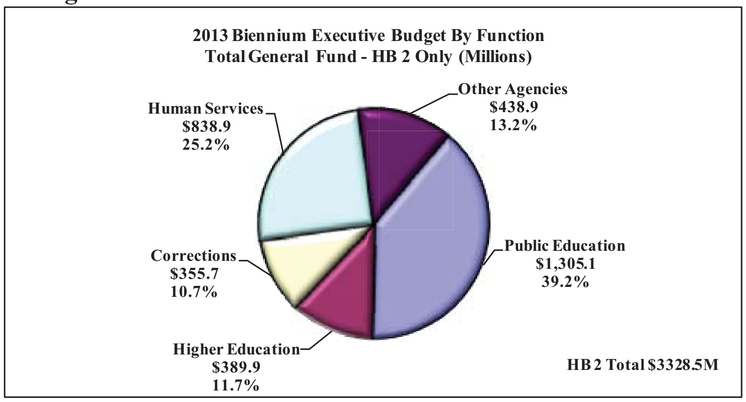
	General Fund	State Special	Federal Special	Proprietary	Capital
Change	$322.1	$274.4	$557.8	$2.2	$4.5
% Change	10.71%	21.88%	15.79%	8.15%	0.00%

Executive Proposed General Fund Spending

Background

General fund comprises $3,328.5 million or 37.1% of total proposed HB 2 funding ($3,337.7 million or 37.2% ongoing general fund), and is used for a wide variety of programs, although education, human services, and corrections dominate expenditures, as shown in the following figure.

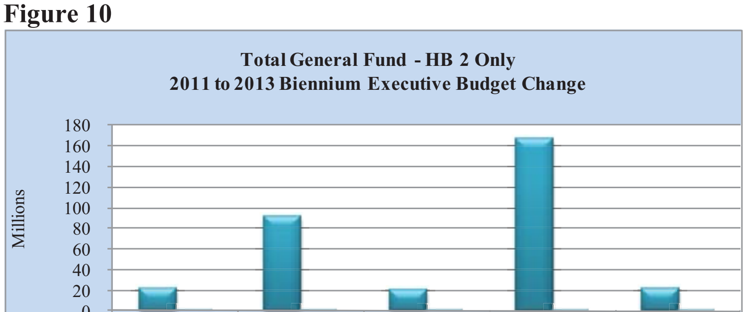
Figure 9



Proposed Spending

General fund would increase by $322.1 million or 10.7% from the 2011 to the 2013 biennium ($331.2 million or 11.0% ongoing general fund).

Figure 10



	Public Ed.	Higher Ed.	Corrections	Hum. Services	All Other
Change	$22.1	$91.7	$20.7	$166.3	$21.2
% Change	1.72%	30.75%	6.18%	24.72%	5.08%

Changes in general fund are due to both increases and decreases from the 2011 biennium. Significant increases and other policy proposals of the executive include:

- Replacement of certain federal American Recovery and Reinvestment Act (ARRA) funds in human services, K-12 education, and higher education
- Higher Medicaid matching rate
- Medicaid caseload and utilization increases
- K-12 inflation, restoration of at-risk payments, and maintenance of FY 2011 entitlements
- Replacement of one-time FY 2010 Otter Creek coal lease payments in K-12 education
- Correctional population increases and conversion and construction of additional secure care and community facilities
- Continuance of certain economic development programs in the Department of Commerce

- Statewide present law adjustments for fully funding personal services (offset by a vacancy savings rate), fixed costs, and inflation. This adjustment is the largest general fund adjustment for 15 of the agencies that receive general fund
-

Among the significant reductions in general fund are the following:

- Replacement of general fund with state special revenue for quality educator and school facility expenditures for K-12 education
- A 4% reduction in ongoing personal services costs funded with general fund in most agencies with general fund positions
- Continuance of certain reductions made by the Governor in FY 2011 under the provisions of 17-7-140, MCA

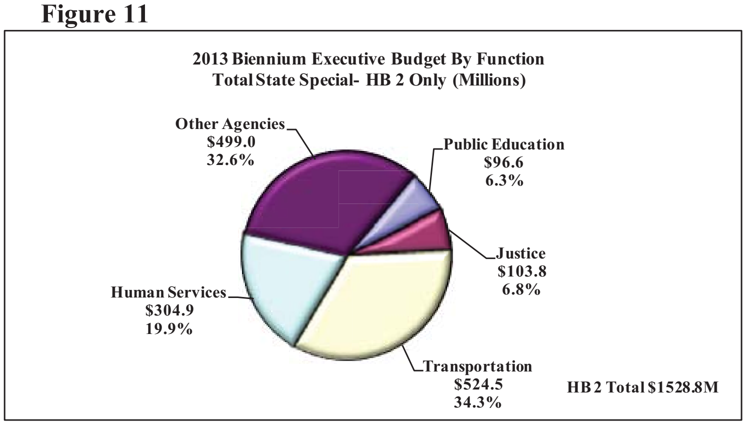
For additional detail, see page B-16 in appendix B.

Executive Proposed State Special Revenue Spending

Background

State special revenue is earmarked for specific purposes and comprises $1,528.8 million or 17.0% of total expenditures in the 2013 biennium ($1,504.3 million or 16.8% ongoing expenditures). The following shows funds by function. "Other Agencies" include transportation, environmental, and wildlife functions, each of which is significantly funded with state special revenue.

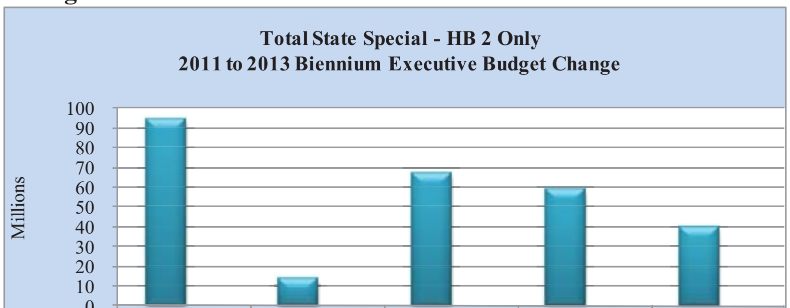
Figure 11



Proposed Spending

State special revenue funds would increase by $274.4 million or 21.9% ($249.9 million or 19.9% for ongoing expenditures) from the 2011 to the 2013 biennium.

Figure 12



	Public Ed.	Justice	Trans.	Human	All Other
Change	$94.6	$14.0	$66.9	$59.2	$39.7
% Change	4730.00%	15.59%	14.62%	24.09%	8.64%

Significant increases and other policy proposals of the executive include:

- A four-fold increase in the 100% state funded highway construction program
- Replacement of general fund on a one-time basis with Medicaid hold harmless funds
- Healthy Montana Kids caseload and hospital utilization fee authority
- Replacement of general fund for quality educator and school facility expenditures in K-12 education
- Statewide present law adjustments

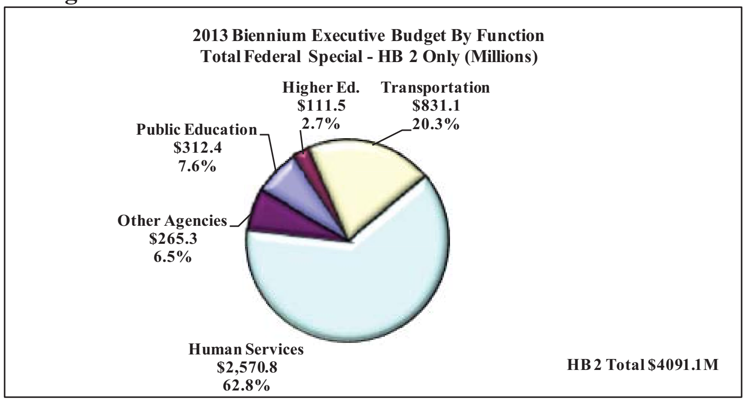
For additional detail, see page B-19 in appendix B.

Executive Proposed Federal Funds Spending

Background

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. The proposed executive budget has a total of $4,091.1 million or 45.5% of total expenditures in the 2013 biennium ($4,090.6 million for ongoing expenses, or 45.6% of the ongoing HB 2 total). Two agencies, Health and Human Services (DPHHS) and Transportation, account for over 83% of the total funding.

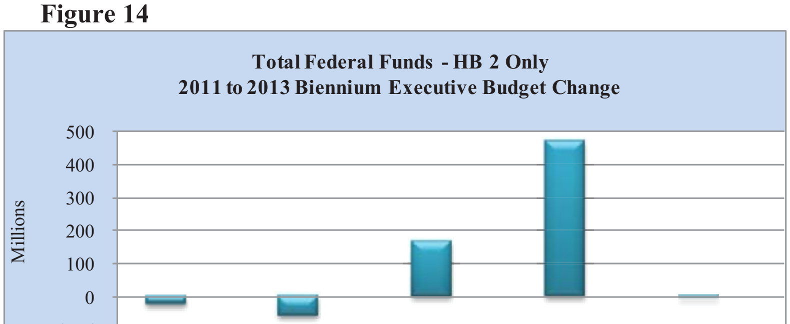
Figure 13



Proposed Spending

Federal funds for ongoing expenditures would increase by $557.9 million or 15.8% between the 2011 and the 2013 biennia ($557.3 million or 15.8% for ongoing expenditures). DPHHS would receive over 84% of this increase, primarily for maintenance of current programs, partially offset by a reduction due to the end of the enhanced FMAP as part of the federal stimulus and an increase in the state's share of Medicaid costs. Transportation is another 30% of the increase, giving those two agencies over 114% of the total increase in federal funds.

Figure 14



	Public Ed.	Higher Ed.	Trans.	Human	All Other
Change	($20.7)	($57.5)	$167.1	$471.2	($2.2)
% Change	-6.21%	-34.02%	25.17%	22.44%	-0.82%

Significant increases and other policy proposals of the executive include:

- Human services caseload and utilization increases, including Medicaid and SNAP (food stamps), partially offset by a higher state Medicaid match
- Increased federal transportation funding

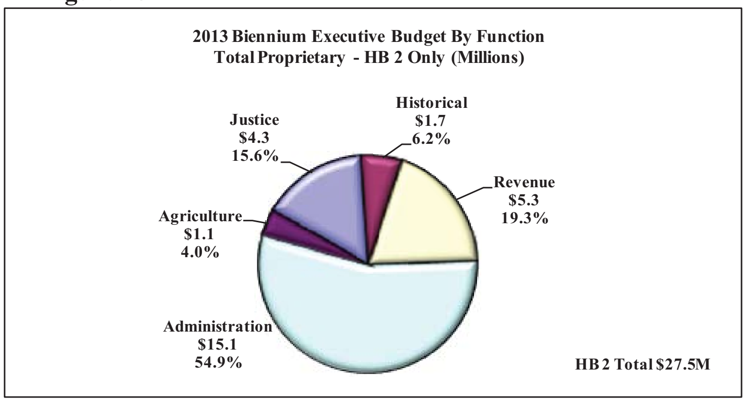
These increases are partially offset by replacement of one-time federal enhanced Medicaid match funding and other federal stimulus funds in DPHHS, OPI, and higher education.

For additional detail, see page B-21 in appendix B.

Executive Proposed Proprietary Funds Spending

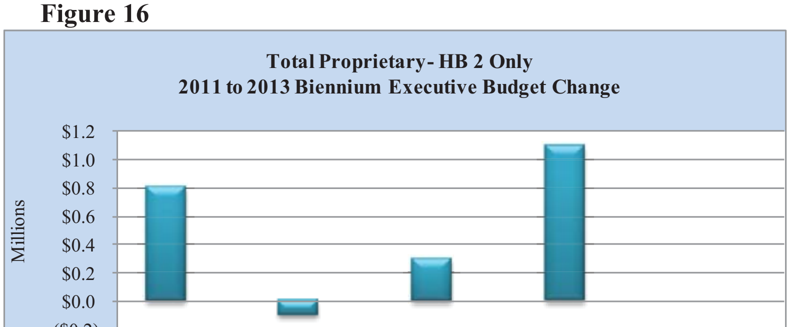
Most expenditure of proprietary funds is made in the Departments of Administration, Revenue, and Justice.

Figure 15



Proprietary funds would be increased by $2.1 million, or 8.3% from the 2011 to the 2013 biennium, primarily because of increases in the Department of Administration.

Figure 16



	Justice	Historical	Revenue	Admin.	Agriculture
Change	$0.8	($0.1)	$0.3	$1.1	$0.0
% Change	22.86%	-5.56%	6.00%	7.86%	0.00%

Please note that these totals are only the portion of proprietary funds appropriated in HB 2, which is only a small fraction of the total. The remaining proprietary funds do not require an appropriation in HB 2. Rather, the legislature establishes the maximum rates the proprietary-funded programs may charge those who utilize the services. If only non-budgeted proprietary funds are included, the increase would total $136.6 million or 8.5%. Major changes (with the exception of the State Fund, which is a quasi-independent entity) proposed by the executive include various programs in the Department of Administration and health and workers' compensation insurance in the Montana University System.

Volumes 3 through 7 of the LFD 2013 Biennium Budget Analysis contain discussion of all non-budgeted proprietary funds in the relevant agencies.

EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

BACKGROUND

The Long-Range Planning Subcommittee (LRP) analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology.

GOVERNOR'S PROPOSAL

The executive budget proposes total funds spending of $104.1 million for the LRP budgets. In the 2013 biennium, the legislature will be considering proposals for nine LRP programs, of which four are not funded in the executive budget. The LRP programs include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state-owned lands and buildings
- State Building Energy Conservation Program – energy efficiency improvements to state-owned buildings
- Long-Range Information Technology Program – major information technology build out and upgrade
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program – water conservation grants and loans to local governments
- Reclamation and Development Grant Program – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program – arts and historical grants
- Quality School Facility Program – a newly proposed grant program authorizing grants for major maintenance of K-12 school facilities

The figure below provides a summary of the proposed appropriations for the LRP programs included in the executive budget. The appropriations shown have been adjusted to agree with the executive budget revisions of December 15, 2010.

Figure 17

Long-Range Planning Budgets 2011 Biennium (Dollars in Millions)							
			Appropriations				
Program	Capital Project	State Special	Federal Special	Proprietary	Authority Only	Bonds / Loans	Total
Long-Range Building Program	$2.42	28.59	16.89	0.25	14.34	0.00	62.48
State Building Energy Conservation Program[1]							0.00
Consolidated IT Long-Range Building Program[1]							0.00
Treasure State Endowment Program - Grants[2]		1.00					1.00
Treasure State Endowment Regional Water Projects[1]							0.00
Renewable Resource Grants		7.21					7.21
Renewable Resource Loans						13.72	13.72
Reclamation & Development Grants		6.85					6.85
Cultural & Aesthetic Grant Program		0.72					0.72
Quality School Facility Program		12.07					12.07
Total Long-Range Planning Recommendations	$2.42	56.45	16.89	0.25	14.34	13.72	104.06

[1] Programs with no project appropriations recommended in the executive budget proposal for the 2013 biennium

[2] TSEP has no appropriation for local government grants in the executive budget proposal for the 2013 biennium, but does have appropriations for planning and emergency grants

The LRP budgets include total funds appropriations of $104.1 million for the 2013 biennium. This is 75.8% less than the total funds appropriations of the 2011 biennium. A small portion of the decrease is due to the 2011 biennium general funds that were "freed-up" through the addition of federal stimulus funds for programs that were typically supported by general fund. In 2009, the legislature made a policy decision that it would be prudent to expend these "one-time only" freed-up dollars for projects of a one-time only nature. In the 2013 biennium, when funds are tight, the executive budget does not recommend general fund support of the LRP programs. Additionally, $22.0 million of the federal funds appropriated in the 2011 biennium can be directly traced to funding from the American Recovery and Reinvestment Act of 2009 (ARRA) as appropriations to the State Building Energy Conservation Program (SBECP). After adjusting for these two inputs to the 2011 biennium budget, the change to LRP budgets represents a reduction of $229.5 million, or 68.8%, of the LRP budget traditional funds.

As mentioned above, the executive budget will not support any of the LRP programs with general fund transfers in the 2013 biennium and most of the programs will have a smaller budget than in the 2011 biennium. Additionally, many of the programs are recommended for significant reductions, and in some cases (four programs) the dedicated program funds are recommended to be transferred to the general fund. In short, the executive theme for LRP budgets in the 2013 biennium is significant reduction. The figure below shows the various proposals for "enhancement of the general fund" through the LRP budgetary funds. The general fund will benefit by $70.5 million if the legislature agrees with all the executive proposals.

Figure 18

General Fund Enhansements from LRP Programs			
Program	Description	Action	General Fund Impact
LRBP	Project reduction / elimination	Transfer of Funds	$10,685,622
LRBP	Program funds reduction	Transfer of Funds	1,000,000
LRITP	Project reduction / elimination	Transfer of Funds	10,737,033
TSEP	Program funds reduction	Transfer of Funds	17,614,270
TSEPRW	Program funds reduction	Transfer of Funds	4,823,825
QSFP	Temporary funding reduction	Statutory change	8,470,261
QSFP	Debt-service funding switch	Legislative change	17,172,000
	Total Proposed Enhancements from LRP Programs		$70,503,011

Issues for Legislative Consideration

The issues related to the LRP budget focus mainly on the lack of information provided in the executive budget (along with the changes in appropriations anticipated in the December 15, 2010, executive budget revisions) and the reductions of program funding. The executive proposal will require significant amounts of legislative time and energy if any changes are desired. Additionally, because the LRP dollars often go out to the state in the form of various types of construction projects, the reductions may impact the state economy.

Undeveloped Budget Proposals

By statute (Title 17, Chapter 7), the executive is required to submit a budget proposal to the Legislative Fiscal Analyst on November 15 (of the year prior to the start of the legislative session). According to 17-7-123, the proposal should include "…balanced financial plan for funds subject to appropriation". The executive recommendation of November 15, 2010, for several of the LRP budgets did not include information on the appropriations or a full picture of the transfers that would be recommended. Consequently, to determine the level of appropriation and the status of the state special revenue fund, the Legislative Fiscal Division (LFD) was required to extract information from the related bill drafts. In such cases, staff is faced with the challenge of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is intended to be the executive budget proposal.

The executive budget revision of December 15, 2010, contained a number of changes related to the transfers of funds from the LRP budgets. Among the changes were a reduction of the transfer of TSEP funds to the general fund (expected to be changed from $18.5 million to $17.6 million) and a new transfer of LRBP funds ($1.0 million from the LRBP capital projects fund). The LFD was not informed of the changes, but learned of them when the program bills were introduced to the public. The information was then confirmed in the executive budget revision.

The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it can be difficult for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

Reduction of Funding

The executive budget proposes significant reductions to the various LRP programs and in some cases the transfer of funds from the statutory dedicated use to support (or enhance) the general fund. The legislature will be required to analyze the full spectrum of budget policies to make changes to the executive budget proposal. For example, if the legislature should choose to fund the TSEP local government grants, they will need to be prepared to find other sources of revenue (other program reductions or tax increases) to replace the funds that are proposed to be transferred to the general fund. Requiring these actions bears significant policy implications and will require a great deal of legislative time and effort.

Reduction of LRP Budgets May Negatively Impact the Montana Economy

LRP projects help to bring money and jobs to the Montana economy. Most of the programs support the construction industry by pushing building dollars out into the state. With actual reductions of $71 million in LRP programs, the impact to the economy could be significant. Often the LRP budgets directly leverage federal and local funds for projects, expanding the full economic impact of the projects. As such, the policy decision of not funding or reducing funding to these projects may have a significant impact on the state economy.

All state spending impacts the economy, but with consideration of the potential for matching dollars for LRP projects, the economic impact could be greater than, for example, reducing other state services. In an economy where unemployment is unusually high and spending is inhibited, the legislature will need to seriously consider the executive proposals for LRP reductions.

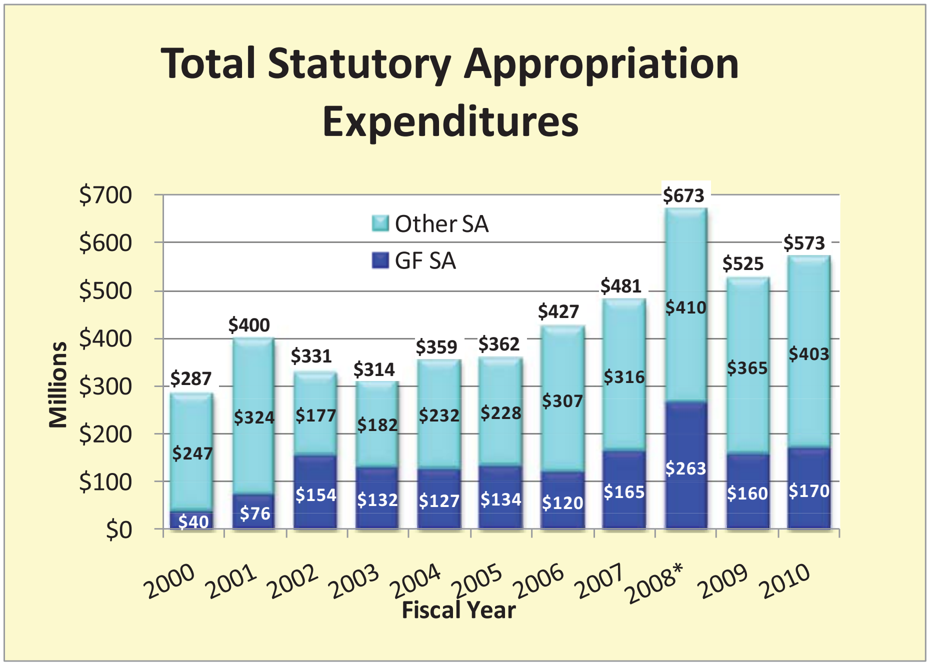
STATUTORY APPROPRIATIONS

GENERAL FUND

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanouve sponsored legislation that required all valid statutory appropriations to be contained in a list in 17-7-502, MCA. That list provides statutory citations for each statutory appropriation. Although there are currently 93 sections listed containing 96 separate statutory appropriations, each appropriation listed in statute could have multiple appropriations established on the state accounting system. Of the 96, 29 statutorily appropriate general fund. In 1993, Senator Grosfield successfully sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee (this requirement was removed by the 2001 legislature). Following some tough budget sessions ($156.1 million of general fund budget balancers were enacted in the three special sessions in 1992 and 1993), Senator Grosfield and other legislators were frustrated with the difficulty in reducing statutory appropriations. They were also concerned with the unfairness this caused when HB2 appropriations had to absorb a larger portion of the reductions.

Statutory appropriations are intended for only limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA. In FY 2010, a total of $572.7.0 million was spent with statutory appropriations (Figure 19). The general fund expenditures were $169.8 million. Total expenditures since FY 2000 were $4.7 billion, of which $1.5 billion was general fund. In the executive budget, there are approximately 80 FTE funded with statutory appropriations with 57 FTE in the Department of Commerce and 16 FTE in the Department of Fish Wildlife and Parks at the cost of $4.1 million each year.

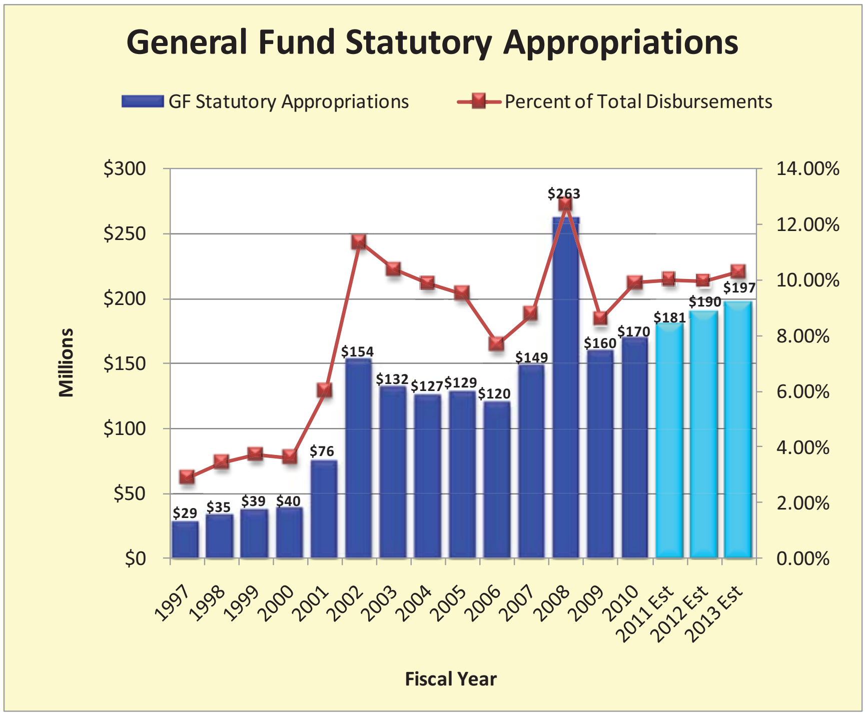
Figure 19



*Excludes $1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

The significance of statutory appropriations lies not in the number of them, but rather in the amount of money authorized to be spent and whether the authorizations still reflect the priorities of the current legislature. All statutory appropriations are available for the legislature to review, prioritize, and change if desired. Figure 19 illustrates the amount of general fund spent through statutory appropriations from FY 1997 through FY 2010 and estimated amounts for FY 2011 to FY 2013. From FY 1997 to FY 2010, general fund expenditures from statutory appropriations increased $141.1 million and, in FY 2010, comprised 9.9% of all general fund expenditures. The increase in FY 2001 is largely due to payment of wildfire costs incurred during the summer of 2000. The initiation of the local government entitlement program in FY 2002 (enacted by HB 124 in the 2001 session) accounts for most of the large increase shown in FY 2002. FY 2008 was an unusual year in that $94.6 million was spent to provide one-time tax rebates (HB 9 in the 2007 May special session). For the 2013 biennium, $386.8 million general fund is expected to be spent with statutory appropriations, an increase of $36.2 million over the estimated $350.6 million to be spent in the 2011 biennium.

Figure 20



*Excludes $1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

Figure 20 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet for FY 2011-2013. The largest single statutory appropriation of general fund occurs under 15-1-121, MCA. Under this statute, $212.7 million is expected to be spent for entitlement payments to local governments and tax increment financing districts in the 2013 biennium. Since statute allows annual increases based on averages of Montana's gross state product and personal income, the amount has grown at an average annual rate of 3.4 percent from FY 2003 to FY 2013. Other large statutory appropriations of general fund in the 2013 biennium include:

- $106.7 million of transfers to retirement funds (Title 19, MCA)
- $32.7 million to service the debt on bonding issues approved by past legislatures (17-7-502, MCA)
- $16.5 million for emergencies or disasters declared by the governor or the president of the United States
- $6.1 million of coal trust interest (that is deposited to the general fund) to fund economic development programs (15-35-108, MCA). The statutory appropriations increase to $12.0 million after FY 2013.

Figure 21

General Fund Statutory Appropriation Estimates
Fiscal Years 2011-2013
(Millions)

MCA Cite	Bill/Purpose	Legislative Session	Fiscal 2011	2013 Biennium Fiscal 2012	Fiscal 2013	Total
Retirement						
19-3-319	Local Government PERD 19-3-319	1985	$1.106	$1.239	$1.389	$2.628
19-6-404(2)	HB 102-MVD retirement transfer	2005	1.460	1.641	1.845	$3.486
19-6-410	HB 102-MHP retirement transfer	2005	0.307	0.313	0.319	$0.632
19-9-702	Ins Prem Tax-Fire/Polic Ret 19-9-702-SA	1997	11.660	12.496	13.391	$25.887
19-13-604	Prem Tax-Fire/Pol 19-13-604-SA	1997	11.879	12.915	14.041	$26.956
19-17-301	Prem Tax-Fire/Pol 19-17-301-SA	1985	1.572	1.572	1.572	$3.144
19-18-512(1)	Prem Tax-Fire/Pol 19-18-512-SA	1985	0.369	0.369	0.369	$0.737
19-19-305(1)	Prem Tax-Fire/Pol 19-19-305-SA	1985	0.296	0.296	0.296	$0.593
19-19-506(4)	Prem Tax-Fire/Pol 19-19-506-SA	1985	0.019	0.019	0.019	$0.039
19-20-604	Teachers GABA 19-20-604	1985	0.847	0.890	0.934	$1.824
19-20-607	HB 63 - Teachers' retirement system	2007	17.257	18.120	19.026	$37.146
19-21-203	HB 95 - Increase MUS employers' retirement contributions	2007	1.875	1.794	1.794	$3.589
Sub-total			$48.647	$51.664	$54.996	$106.660
Economic Development						
15-35-108(9)(b)(i)	Coop Developmental Center NMC	2000 SS	$0.065	$0.065	$0.065	$0.130
15-35-108(9)(b)(ii)	Growth Through Agriculture	2000 SS	0.625	0.625	0.625	1.250
15-35-108(9)(b)(iii)	Research & Commercialization	2000 SS	1.275	1.275	1.275	2.550
15-35-108(9)(b)(iv)	Economic Development	2000 SS	1.100	1.100	1.100	2.200
Sub-total			$3.065	$3.065	$3.065	$6.130
Other						
7-4-2502	HB 12 - Pay county attorney salaries	2007	$2.803	$2.852	$2.892	$5.744
10-1-1202	HB 136 - Death benefit to national guard beneficiaries	2007	0.000	0.000	0.000	0.000
10-3-312(1)	Emergency Appropriations	1985	8.250	8.250	8.250	16.500
15-1-121(3)	HB 124 - Combined Local Entitlement Distribution	2001	99.209	103.688	107.550	211.238
15-1-121(6)	HB 124 - Local TIF Entitlement Distribution	2001	0.785	0.773	0.732	1.506
15-1-218	HB 680 - DOR to collect out-of-state debt	2007	0.400	0.400	0.400	0.800
15-70-601(1)(b)	HB 756 - Biodiesel tax incentives	2005	0.004	0.004	0.004	0.007
15-70-369(4)	HB 776 - Biodiesel tax refunds	2005	0.000	0.000	0.000	0.000
16-11-509	HB 169 - Fines & cost recovery tobacco settlement	2005	0.013	0.013	0.013	0.026
17-3-106(2)	DofA Cash Management Interest	1993	0.177	0.166	0.164	0.330
17-6-101(6)	BOI Banking Charges	1993	2.368	2.500	2.653	5.153
17-7-502(4)	TRANS Debt Service and Issuance Costs	1985	0.000	0.000	0.000	0.000
17-7-502(4)	Transfer to Debt Service A/B Bond	1985	14.963	16.242	16.461	32.703
Sub-total			$128.971	$134.888	$139.119	$274.007
Total			$180.683	$189.618	$197.180	$386.798

LFD COMMENT

Executive Budget – HB 49, HB 138, HB 56, and LC ???

The executive proposes three new proposals associated with general fund statutory appropriations.

Additional Debt Service (HB 49) - The executive proposes to issue up to $16.0 million in general obligation bonds to pay the state's costs for water-related infrastructure projects within the Blackfeet Indian reservation. It is estimated that the debt service, paid with a statutory appropriation from the general fund, will be $1.23 million each year for 20 years. Total debt service through the 2013 biennium will be $2.5 million general fund.

LFD COMMENT CONT.

Reduce General Fund for MUS Optional Retirement Plan (HB 138) – Since 30% of salary and benefit costs are funded with non-state money, the executive proposes to use this money to pay the costs rather than the general fund. It is estimated that general fund expenditure reductions from this statutory appropriation will be over $1.0 million in the 2013 biennium.

Lower and Cap the Entitlement Share Growth (HB 56) – Beginning with FY 2012 and all subsequent payments, the executive proposes to permanently cap the growth rate at 0.76% each year. This compares with current law growth rates of 4.5% and 3.7% for FY 2012 and FY 2013, respectively. Over the 2013 biennium, general fund payments to local governments would decrease by $10.6 million.

LFD ISSUE

Unknown – The Executive Budget includes general fund debt service payments for an unknown project. When LFD staff contacted the Office of Budget and Program Planning about additional statutorily appropriated general fund debt service amounts in the Executive Budget, the executive refused to provide the LFD with pertinent, detailed information about the new project.

LFD COMMENT

Legislative Finance Committee Policy

The committee has adopted the following policy: "It is the policy of the Legislative Finance Committee that the legislature does not enact legislation establishing a statutory appropriation unless a termination date is included".

LFD ISSUE

Local Government Entitlement Payments

As stated in the Figure 20 discussion, $212.7 million of general fund is projected to be spent in the 2013 biennium through a general fund statutory appropriation for entitlement payments to local governments and tax increment financing districts. By statute, subsequent yearly amounts are automatically increased for the entitlement payments by a calculated growth factor. Since FY 2010, the yearly growth in expenditures has increased each year at an average rate of 4.2 percent or an average of $4.3 million each year. Because the money is appropriated in statute, it is not reviewed by the legislature as part of the biennial budgeting process. In essence, it and all other general fund statutory appropriations have priority funding over all general fund programs appropriated in the general appropriations act (HB 2). When the legislature is prioritizing general fund programs to balance the budget, programs funded with general fund statutory appropriations could be considered by the legislature along with all other general fund programs.

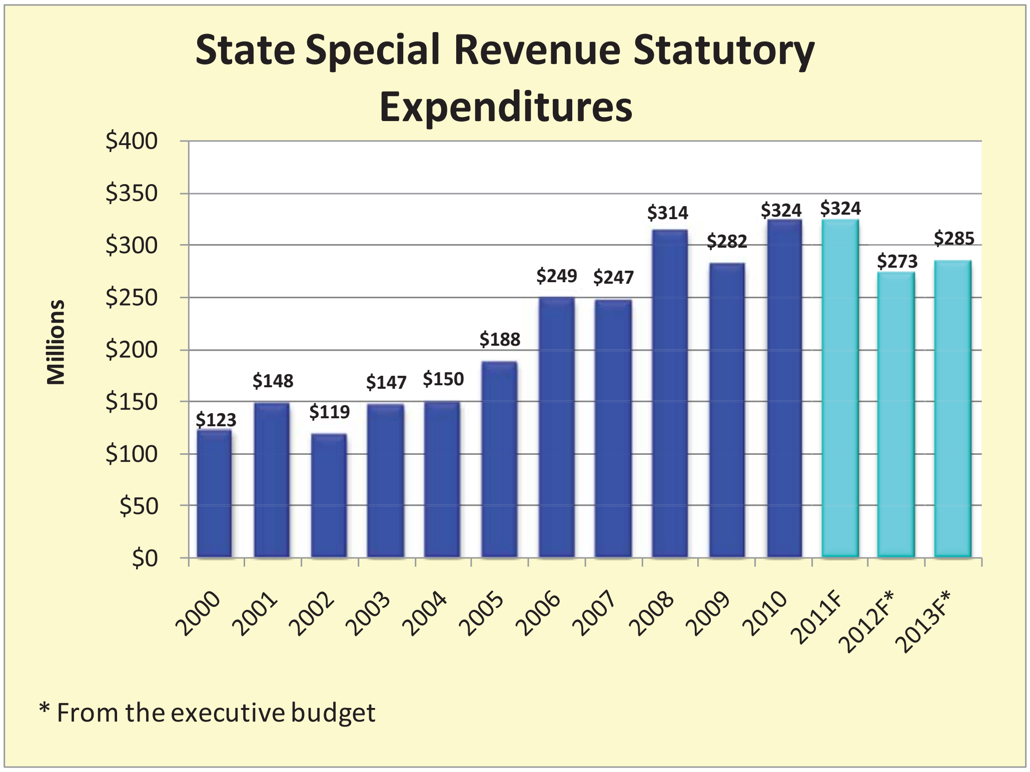
LFD ISSUE CONT.

As an alternative to funding local governments and tax increment financing districts entitlement payments through a statutory appropriation, the legislature could eliminate the general fund statutory appropriation and provide general fund appropriations for the programs in HB 2 at the same level. This was done in the 1995 session (SB 83) for K-12 education. Not only would this ensure that the programs would receive the same amount of funding, but the appropriations would be reviewed and prioritized along with the other general fund programs in HB 2 each biennium and the level of funding would reflect the current legislature's funding priorities.

State Special

It is estimated by the executive that $557.5 million of state special revenue will be spent through statutory appropriations in the 2013 biennium. Figure 22 shows the amounts spent from FY 2000 through FY 2010 and the amounts estimated by the executive to be spent from FY 2011 through FY 2013. In FY 2010, the agency with the largest expenditure of state special revenue ($134.3 million) with statutory appropriations was the Office of Public Instruction which distributes net interest and income from the common school trust to fund public schools. The second largest was $105.0 million spent by the Department of Revenue. This department distributes revenue from oil, natural gas, metalliferous mines, beer, wine, and liquor taxes to local and tribal governments. The five agencies with the largest expenditures spent $305.7 million or 94.3 percent of the $324.1 million total. By far, the largest single purpose for which the money was spent ($275.1 million or 84.9 percent) was to transfer money to local governments.

Figure 22

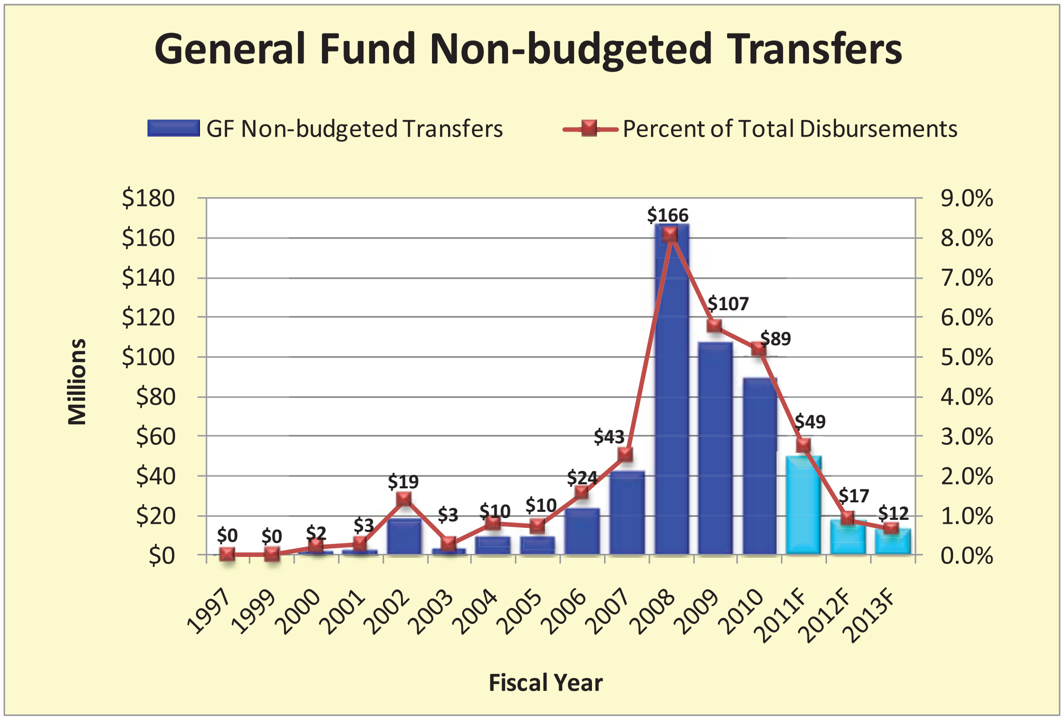


GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper legislative authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in uncodified legislation) and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs. Because they are in statute, they remain in place until removed or changed by the legislature.

Since FY 2000, increased amounts of money have been transferred out of the general fund to other accounts that fund non-general fund programs. As illustrated in Figure 23, this amount has grown from $0 in FY 1999 to a high of $166.4 million in FY 2008. Of the $166.4 million, $158.0 million was uncodified one-time transfers for capital projects ($82.6 million), water adjudication ($25 million), noxious weed trust fund ($5.0 million), cultural trust fund ($1.5 million), national guard life insurance ($1.0 million), and children trust fund ($1.0 million) among others. In FY 2009, $107.0 million was transferred including one-time transfers to other funds of $98.2 million for capital projects, community health center support, free hunting licenses, and national guard life insurance.

Figure 23



Transfers are estimated to be $29.2 million in the 2013 biennium. The largest single transfer in the biennium is $18.1 million to the workers compensation old fund (39-71-235(6), MCA). Beginning FY 2011 at $2.1 million, the Montana State Fund estimates that yearly general fund transfers (in decreasing amounts after FY 2012) totaling $60.8 million will be needed through FY 2049. The table shows the estimated transfer amounts from FY 2011 to FY 2021.

These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs. Figure 24 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet.

Estimated General Fund Transfers to the Old Fund

Fiscal Year	Amount
2011	$2,055,060
2012	11,157,605
2013	6,909,883
2014	5,959,212
2015	5,180,633
2016	4,223,272
2017	3,339,841
2018	2,568,549
2019	2,010,461
2020	1,544,477
2021	1,157,184

Figure 24

General Fund Non-budgeted Transfer Estimates
Fiscal Years 2011-2013
(Millions)

Authorization	Name	Legislative Session	Fiscal 2011	2013 Biennium Fiscal 2012	Fiscal 2013	Total
Vehicle/Other Fee Transfers						
15-1-122(1)	DPHHS-Adoption services	2001	$0.065	$0.072	$0.079	$0.150
15-1-122(2)(a)	DEQ-Junk vehicles	2001	1.584	1.578	1.584	3.161
15-1-122(2)(b)	Agriculture-Noxious weeds	2001	1.558	1.558	1.558	3.116
15-1-122(2)(c)(i)	FWP-Boat facilities & enforcement, OHV, Parks	2001	0.748	0.748	0.748	1.496
15-1-122(2)(c)(ii)	FWP-Enforcement, snowmobiles	2001	In above	In above	In above	0.000
15-1-122(2)(c)(iii)	FWP-Motorboats	2001	In above	In above	In above	0.000
15-1-122(2)(d)	MA-Veterans' services	2001	0.706	0.706	0.706	1.413
15-1-122(2)(e)	DOT-Disabled seniors transportation	2001	0.312	0.312	0.312	0.623
15-1-122(2)(f)	MA-Search and rescue	2001	In above	In above	In above	0.000
Sub-total			$4.973	$4.973	$4.986	$9.959
Other Transfers						
Unknown	DPHHS Nonbudgeted		$0.248	$0.248	$0.248	$0.496
Unknown	Other Agencies Nonbudgeted		0.022	0.022	0.022	0.043
17-1-511(2)	SB 553 - Incentative for rural physicians	2007	0.170	0.227	0.227	0.455
39-71-2352(6)	Old state fund shortfall	2002 SS	2.055	11.158	6.910	18.067
53-20-171(2)	Developmental disability tax credit excess	2003	0.000	0.000	0.000	0.000
77-1-108(5a)	HB 19 - To trust land administration account	2007	0.000	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.001	0.001	0.001	0.001
87-2-803(12d)	SB 243 - To general license acct. national guard free license	2007	0.033	0.033	0.033	0.067
Sub-total			$2.529	$11.768	$7.441	$19.209
New or Changes to Existing Transfers - 2009 Legislature						
Un-codified	HB 10 - To long-range information technology capital projects	2009	$3.433	$0.000	$0.000	$0.000
Un-codified	HB 645 - To the long-range building captial projects account	2009	6.545	0.000	0.000	0.000
Un-codified	HB 645 - To the long-range building captial projects account	2009	1.793	0.000	0.000	0.000
Un-codified	HB 645 - To state energy conservation repayment account	2009	0.750	0.000	0.000	0.000
Un-codified	HB 645 - To MUS energy conservation improvements	2009	6.150	0.000	0.000	0.000
Un-codified	HB 645 - To U of M Western main hall	2009	3.000	0.000	0.000	0.000
Un-codified	HB 645 - To state energy conservation account	2009	0.750	0.000	0.000	0.000
Un-codified	HB 645 - To Secretary of State information management system	2009	0.750	0.000	0.000	0.000
Un-codified	HB 645 - To TSEP regional water system	2009	4.000	0.000	0.000	0.000
Un-codified	HB 645 - To TSEP for infrastructure	2009	11.500	0.000	0.000	0.000
Un-codified	HB 645 - To the renewable resource grants & loans account	2009	2.074	0.000	0.000	0.000
Un-codified	HB 645 - To the reclaimation grants & loans account	2009	0.897	0.000	0.000	0.000
Subtotal			$41.642	$0.000	$0.000	$0.000
Total			$49.144	$16.741	$12.426	$29.168

LFD COMMENT

Legislative Finance Committee Policy

The Legislative Finance Committee has approved the following policy: "It is the policy of the Legislative Finance Committee that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. Such action obfuscates the true source of funding, reduces the general fund balance without any review by the appropriations subcommittees, and is inefficient. A better method is to directly appropriate the funding for the intended use. This policy also applies to non-general fund on-going transfers. Our Legislative Fiscal Division staff is instructed to inform legislators, legislative committees, and others as it deems necessary of this policy."

LFD COMMENT

Executive Budget - HB 121 Montana Trust Land Coal Development Landowner Protection Act

The executive proposes to establish a landowner protection account in the state special revenue fund to be used to compensate private landowners and water right holders for damages to land or water attributable to development of trust land coal tracts and to pay administrative costs. Money from a one-time $5.0 million transfer from the general fund will be deposited in the new account and is statutorily appropriated. The transfer is to occur during the 2013 biennium.

LFD ISSUE

MCA Title 15 General Fund Transfers

The second largest group of on-going transfers out of the general fund ($10.0 million in the 2013 biennium) is the transfer of motor vehicle fee and other revenue that is initially deposited to the general fund (15-1-122, MCA). This money is earmarked and transferred out to multiple accounts to fund various state programs. The practice of transferring money out of the general fund escalated with the enactment of HB 124 (entitlement payments to counties) in the 2001 session. The practice unnecessarily complicates the revenue and disbursement processes.

The legislature could achieve the same results by implementing one of the following changes:

- Earmark the applicable fees and provide for their direct deposit to the various program accounts. This bypasses the unnecessary step of first depositing the money in the general fund and then transferring the general fund to the various program accounts. Since the money is already being appropriated from these program accounts, current appropriations would not change.
- Continue to deposit the applicable fees to the general fund, but eliminate the transfers to the various program accounts. Since there would be no transfer revenue to appropriate from the various program accounts, appropriations from these accounts could be eliminated and replaced by general fund appropriations in the same amounts.

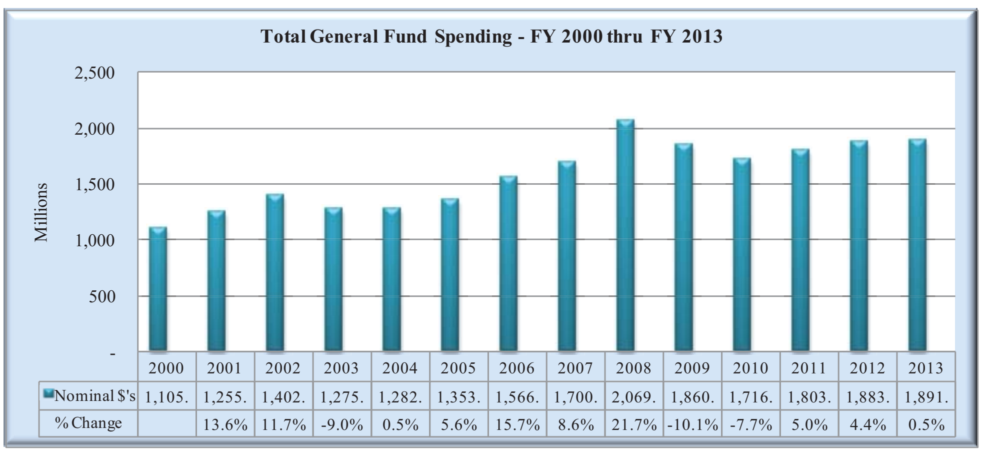
In both cases, the various state programs would receive the same level of appropriation, the general fund transfers are eliminated, and there is no impact on the general fund balance.

A HISTORICAL PERSPECTIVE ON GENERAL FUND SPENDING

TOTAL GENERAL FUND SPENDING – A 14-YEAR HISTORY

Figure 25 shows total general fund spending over a fourteen year period, FY 2000 through 2013. The amounts shown for the period FY 2000 through 2010 are actual disbursements, FY 2011 is as budgeted by the 61st Legislature and FY 2012 and 2013 are as proposed in the revised Executive Budget submitted on December 15, 2010. The disbursement data for this historical perspective was obtained from the Statewide Budgeting and Human Resources System (SABHRS) and the Montana Budgeting and Accounting System (MBARS). The economic information was obtained from IHS Global Insight, the regional and national economic forecasting service on contract with Montana state government.

Figure 25



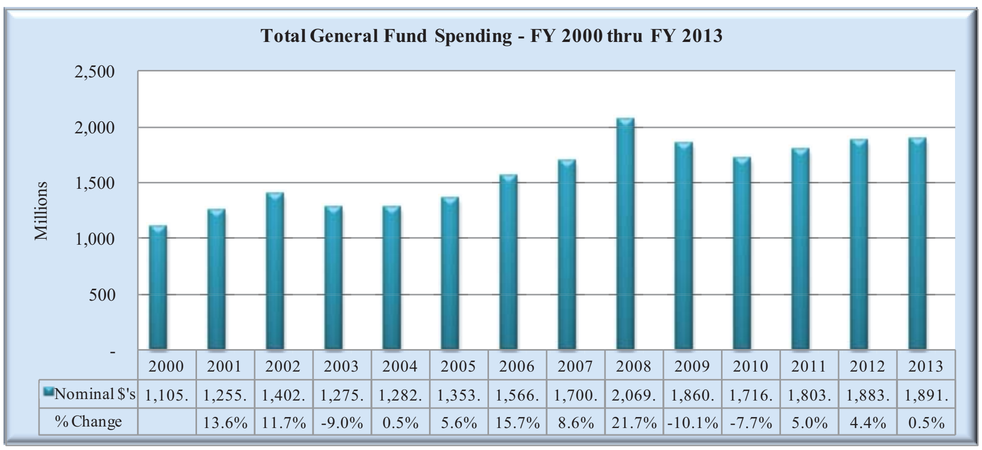
Total general fund spending grows from $1.105 billion to $1.891 billion over the period, FY 2000 through 2013. This is a 71.1% total growth or an annual average growth rate of approximately 4.2% per year. As shown in Figure 25, general fund spending was on the increase from FY 2000 to 2002 reflecting the positive effects of the "dot.com" rage and the resulting run-up in the securities market. Higher equity prices produced record capital gains income, higher corporate profits, and accelerated state tax revenues. During FY 2003 and 2004, Montana's economy as well as the US economy fell into a recession precipitated by the tragic event of "9/11". Starting in FY 2005, state disbursements began an upward growth pattern fueled by unusually high revenue growth until FY 2008. Individual, corporation, and oil and gas taxes all contributed to this phenomenal growth spurt during this period. As shown in Figure 25, the executive budget proposes to adjust general fund spending by 4.4% in FY 2012 and 0.5% in FY 2013.

It should be noted that historical spending trends can be misleading if there are statutory changes that have occurred over the comparison period. For instance, the 2001 Legislature passed House Bill 124 ("The Big Bill") that re-directed the flow of local government vehicle fees and taxes, video gambling revenues, and other taxes to the state general fund. This legislation had no impact on individual taxpayers but state disbursements went up by the corresponding increase in state revenue flow. Without knowledge of this change, the reader could conclude that state disbursements are increasing significantly when in reality some of this growth is due to "accounting" changes. The data presented in this historical perspective has not been adjusted for any legislative or accounting changes.

PER CAPITA GENERAL FUND SPENDING

Part of the increase in general fund spending can be attributed to a growing population and the services required for a greater population base. For instance, as population grows or the demographics of the populace change, the services provided by government may increase in one area and wane in another. If school age children decline, for example, but the population as a whole ages, reduced costs may be incurred for education but human service costs for the aged may increase. Regardless, population growth and the underlying demographics play a critical role in state general fund spending. Figure 26 shows per capita general fund spending over the fourteen year period, FY 2000 through 2013. Per capita general fund spending has increased by 53.9% or an average annual rate of 3.37% per year.

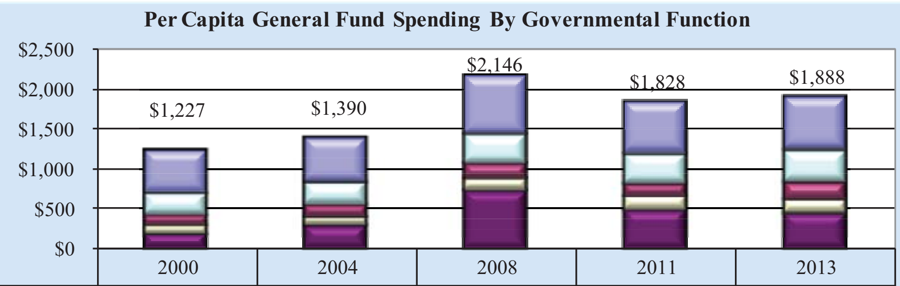
Figure 26



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nominal $'s	1,105.	1,255.	1,402.	1,275.	1,282.	1,353.	1,566.	1,700.	2,069.	1,860.	1,716.	1,803.	1,883.	1,891.
% Change		13.6%	11.7%	-9.0%	0.5%	5.6%	15.7%	8.6%	21.7%	-10.1%	-7.7%	5.0%	4.4%	0.5%

As shown in Figure 26, per capita spending has followed a similar pattern as discussed previously. Per capita spending peaked in FY 2008 and 2009 when the legislature authorized an unprecedented amount of "one-time-only" spending for state infrastructure, information technology, retirement system cash infusions, and tax rebates. The executive budget proposes to reduce per capita spending but not near to the level observed prior to FY 2008 and 2009. Figure 27 shows the same per capita spending data except that the information is summarized by major functional service areas of state government. Figure 27 provides an indication of the spending priorities of the proposed executive budget. For FY 2013, the executive budget proposes to increase per capita spending for public schools and higher education. Additionally, the Governor's spending priorities also increase funds for public health and correction, while reducing all remaining state services. Considering the budget proposed by the Governor, with total per capita spending of $1,888 in FY 2013, this represents a $498 increase from per capita spending of $1,390 in FY 2004.

Figure 27

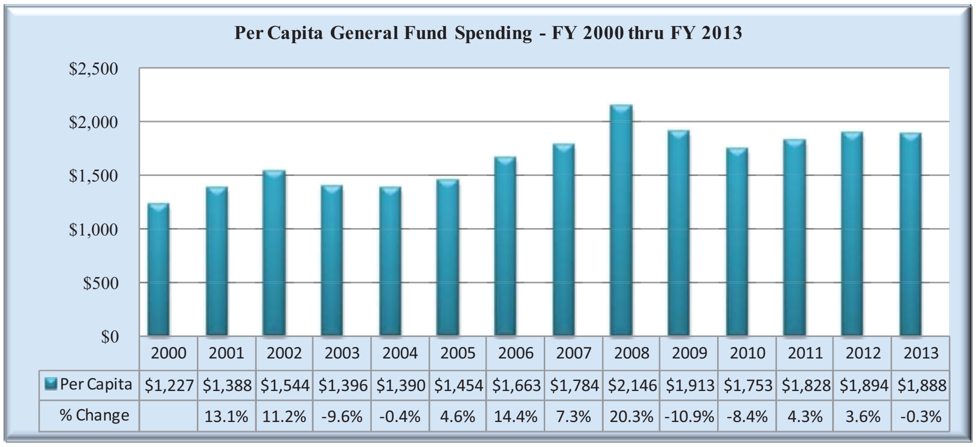


	2000	2004	2008	2011	2013
Public Schools	$535.27	$557.36	$711.16	$632.57	$653.52
Public Health	$259.22	$273.10	$370.18	$379.74	$415.41
Higher Education	$138.76	$152.93	$184.42	$157.80	$195.72
Corrections	$100.77	$113.61	$163.34	$174.34	$180.00
Remaining	$192.66	$292.90	$717.28	$483.29	$443.18
Total	$1,227	$1,390	$2,146	$1,828	$1,888

INFLATION-ADJUSTED PER CAPITA GENERAL FUND SPENDING

Part of the general fund spending growth discussed above is related to the effects of rising prices (inflation) and a growing population over time. Figure 28 shows total general fund spending after adjusting for both of these factors. The data shown in the figure are per capita general fund spending adjusted for the effects of inflation. To put the data in perspective, real spending (inflation adjusted before a population adjustment) has increased by 1.2% from FY 2000–2013 or at an average annual rate of 1.7%. Total state spending (unadjusted for inflation) as discussed before, grew by an annual average of 3.4%. Obviously, inflationary pressures contribute to the growth in general fund spending.

Figure 28



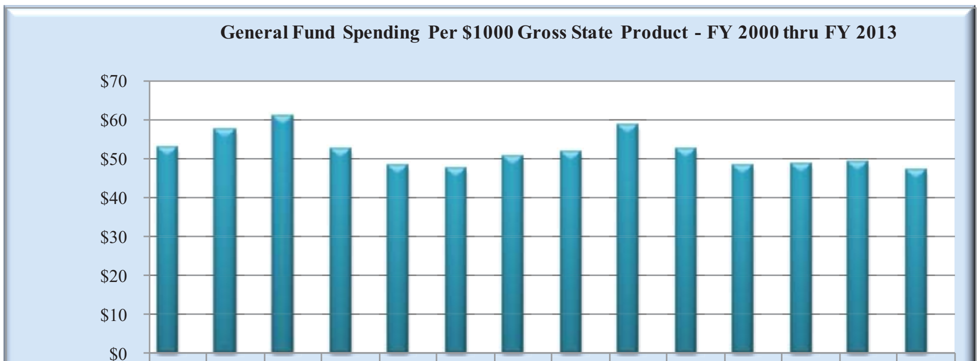
Real per capita general fund spending is a way of determining the "true" growth in general fund spending. This method removes the effects of both inflation and population growth. As shown in Figure 28, per capita spending has increased from $1,571 in FY 2000 to $1,754 in FY 2013. This represents a $183 real per capita increase or 11.7% increase over this fourteen year period. On an average annual rate, this is a 0.9% rate of growth for each year. In other words, when the effects of inflation and population changes are removed from the general spending amounts, actual growth in general fund spending has averaged 0.9% per year. This means that general fund spending is increasing because of other factors other than population changes and inflationary pressures. Some examples of these "other" factors would be additional public health services, full day kindergarten, correctional treatment programs, and appellate defender services to name a few.

STATE GENERAL FUND SPENDING RELATIVE TO THE STATE'S ECONOMY

The above discussion explains the reasons for the growth in state general fund spending. This section discusses general fund spending relative to the state's ability to support that level of state spending. Figure 29 shows how general fund spending has varied over the fourteen year period based on a percentage of Montana's gross state product (GSP). Gross state product is a broad measure of the size of Montana's economy. The data in Figure 29 shows the ratio in dollar terms of general fund spending to $1000 of Montana's GSP.

This figure portrays some interesting trends that were not apparent in the previous figures. For example, FY 2002 general fund spending in relation to GSP was the highest year during the fourteen year period FY 2000 through 2013. During the early years of this decade, general fund spending was increasing faster than Montana's GSP. Beginning in FY 2003, this trend was reversed when the legislature made numerous adjustments to the state general fund budget to maintain fiscal solvency. This trend remained stable until FY 2008 when the legislature approved numerous "one-time only" spending as discussed previously. As shown in Figure 29, the executive budget proposal would bring general fund spending in line with the historical pattern observed during FY 2003 through 2007. If this historical period represents the carrying capacity of Montana's economy to support a level of state government services, then the general fund executive budget as proposed is not adding additional burden on the taxpayers of Montana. However, if an argument is made that spending during this historical period was too high, then governmental services would need to be reduced in the 2013 biennium budget to reach the desired fiscal policy goals. Since the executive budget includes a limited number of new proposals (compared to previous biennia), reductions to the 2013 biennium budget would more than likely require a reduction in present law services.

Figure 29



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Per $1000 GSP	$52.98	$57.34	$60.99	$52.39	$48.22	$47.43	$50.66	$51.78	$58.49	$52.43	$48.17	$48.67	$48.93	$47.11
% Change		8.23%	6.37%	-14.10%	-7.96%	-1.64%	6.81%	2.21%	12.96%	-10.36%	-8.13%	1.04%	0.53%	-3.72%

SUMMARY

In summary, total general fund spending over the twelve year period (FY 2000-2011) has increased (on average) by 4.6% per year. If the executive budget proposal for FY 2012 and 2013 is included, the average annual growth rate declines to 4.2%. This decline in the average rate of growth occurs because the executive budget proposes only a slow increase in spending during the biennium, 4.4% in FY 2012 and 0.5% in FY 2013. This rate compares to the growth in Montana's gross state product of 5.2% per year over the twelve year period.

Inflation adjusted per capita general fund spending increased 1.1% per year from FY 2000 to 2011 and then declines to 0.9% per year when the executive budget proposal is included for FY 2012 and 2013. As mentioned previously, this means that general fund spending is increasing because of other factors other than population changes and inflationary pressures.