State Expenditure Perspectives

PART TWO – MAJOR EXPENDITURE PROPOSALS IN THE 2011 BIENNIUM BUDGET

GENERAL OVERVIEW

Caution on Comparing Biennia

The standard biennial comparisons are used throughout the next sections and in Volumes 3 through 7. This methodology compares ongoing appropriations in FY 2010 and ongoing appropriations in FY 2011 to the Governor's requested HB 2 budget.

However, the 2011 biennium had a number of out of the ordinary appropriations and subsequent legislative direction on developing the 2013 biennium budget that mean the standard comparisons show a change in general fund that does not reflect the true change in operations or legislatively anticipated levels of funding from the previous biennium for three agencies. These appropriations are due to three circumstances:

Legislative appropriations made in HB 645, the bill that implemented the federal stimulus. Federal funds were made available for certain ongoing expenditures in the Department of Public Health and Human Services (DPHHS), the Office of Public Instruction (OPI), and the Office of the Commissioner of Higher Education (OCHE). The legislature passed a statute that allowed the one-time federal funds to be replaced with general fund in the adjusted base budget for each of the three agencies.

Additional enhancements to the federal stimulus received in the interim. Additional federal funds were received in the interim in DPHHS and OPI that were used to replace general fund. General fund has been incorporated in the executive budget for the 2013 biennium.

Other one-time receipt of funds for ongoing operations. OPI received about $85.0 million in FY 2010 from Arch Coal for coal leases on Otter Creek. These funds caused a one-for-one reduction of general fund in the base year that has been replaced with general fund in the 2013 biennium executive budget.

The following adjusts the 2011 biennium expenditures and appropriations for DPHHS, OPI, and OCHE to provide a more comparable analysis of ongoing HB 2 general fund biennia to biennia spending.

The following adjustments were made:

- For all three agencies, the amounts specifically named in HB 645 that were allowed to be included in the general fund adjusted base budget.
- For OPI, replacement of the Otter Creek funds.

The following table shows the original and revised comparisons for the three agencies, and for HB 2 as a whole for all agencies.

Comparison of Biennium to Biennium with Preauthorized Adjustments HB 2 ONLY						
		Actual Base	Appropriated Base	Governor's Budget		Biennial
	FY 2010 Approp	FY 2010	FY 2011	FY 2012	FY 2013	%
Section A	**88,534,471**	**$ 83,196,780**	**$ 86,854,541**	**$87,479,825**	**$87,522,441**	**2.9%**
Section B	**315,370,087**	**303,495,348**	**369,077,195**	**422,731,980**	**416,215,358**	**24.7%**
Department of Public Health & Human Services	315,370,087	303,495,348	369,077,195	422,731,980	416,215,358	24.7%
ARRA authorized replacement	73,708,000	73,708,573	27,994,723			
DPHHS Adjusted	**389,078,087**	**377,203,921**	**397,071,918**	**422,731,980**	**416,215,358**	**8.4%**
Section C	**31,168,553**	**29,098,711**	**30,028,822**	**31,492,585**	**31,320,044**	**6.2%**
Section D	**251,558,467**	**246,853,565**	**252,562,996**	**263,641,339**	**268,625,186**	**6.6%**
Section E (includes smaller agencies)	**802,015,593**	**719,477,679**	**885,772,254**	**856,377,772**	**863,089,738**	**7.1%**
Commissioner Of Higher Education	149,084,997	147,531,701	150,674,815	193,828,002	196,104,759	30.8%
ARRA authorized replacement	29,762,000	30,953,960	28,570,487			
OCHE Adjusted	**178,846,997**	**178,485,661**	**179,245,302**	**193,828,002**	**196,104,759**	**9.0%**
Office Of Public Instruction	640,836,659	560,053,258	722,904,404	650,266,733	654,798,000	1.7%
ARRA authorized replacemend	14,613,000	14,613,477	30,737,469			
Otter Creek replace trust revenue		81,552,855	(81,552,855)			
OPI Adjusted	**655,449,659**	**656,219,590**	**672,089,019**	**650,266,733**	**654,798,000**	**-1.7%**
Grand Total	**1,488,647,171**	**1,382,122,083**	**1,624,295,808**	**1,661,723,501**	**1,666,772,767**	**10.7%**
Grand Total - Adjusted for above	**1,606,730,171**	**1,582,950,948**	**1,630,045,633**	**1,661,723,501**	**1,666,772,767**	**3.6%**

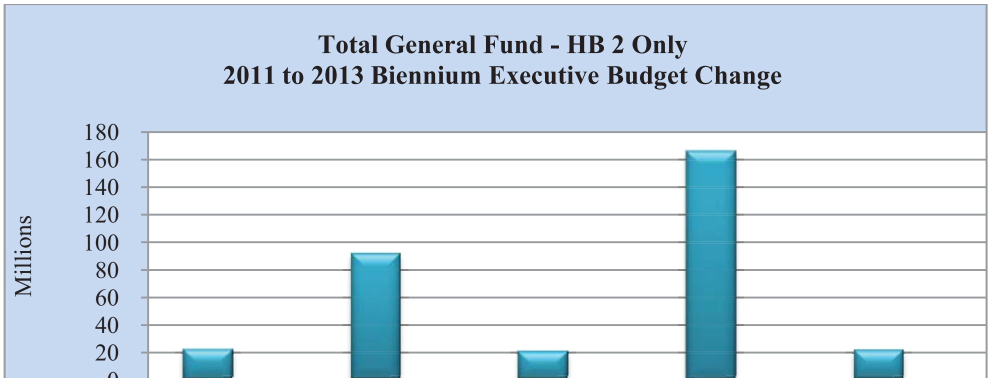
Note that before the adjustments, the increased general fund spending is 13.9% over the biennia. With these adjustments as intended by the previous legislature, the general fund increase from biennia to biennia is 5.0%. For the adjusted areas the changes include:

- The Department of Public Health and Human Services increase is reduced from 24.7% to 8.4%.
- The Montana University System increase goes from 30.8% to 9.0%.
- The Office of Public Instruction/K-12 Schools goes from an increase of 1.7% to a decrease of 1.7%.

GOVERNOR'S PROPOSAL

Figures 1 and 2 show the allocation of the increases in HB 2, by function, for general fund and total funds.

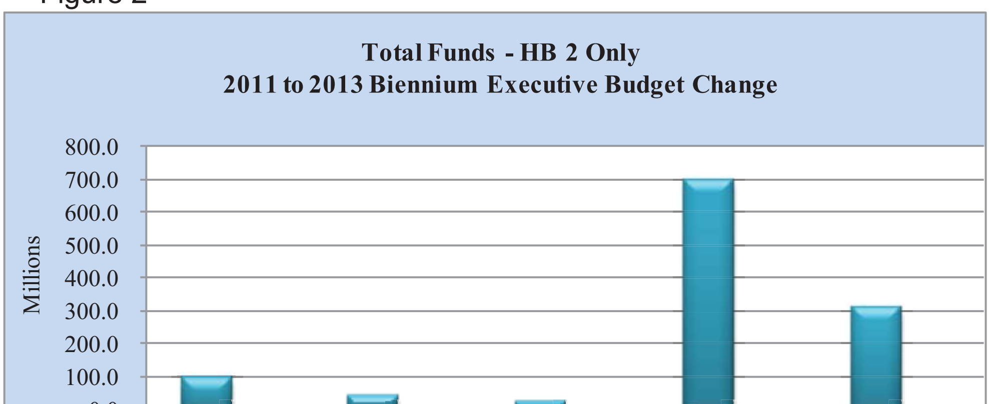
Figure 1



	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%

Total increases are shown in the following figure.

Figure 2



	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%

As stated earlier, the Governor proposes a present law budget, with very limited new proposals. Also, while the executive generally does not propose new programs, they propose minimal program eliminations: 1) the Regional Development Program in the Department of Commerce; 2) the PACE program in the Department of Public Health and Human Services; and 3) the state day care program in the Department of Administration.

INCREASES ARE DOMINATED BY PRESENT LAW ADJUSTMENTS BUT THE ABILITY OF AGENCIES TO MAINTAIN PRESENT LAW SERVICES IS IN QUESTION

Background

The executive would add $322.1 million general fund and $1,161.0 million total funds in HB 2. Of this total $400.1 million general fund or 124.2%, and $1,109.5 million total funds or 95.6%, would be for present law, with negative $78.0 million general fund and positive $51.4 million total funds for new proposals.

Present law is defined in statute as "…that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature…"

Governor's Proposal

As stated above, present law changes are well over 100% of all general fund changes proposed by the executive, and over 95% of total funds.

- The executive replaced one-time funds that had replaced general fund in the 2011 biennium:
  - Federal stimulus money in human services and education identified by the last legislature as an ongoing expense
  - Other federal education and enhanced Medicaid match funds that became available during the interim
  - Funds to lease coal in Otter Creek
- State funds were added to replace federal funds due to changes in the regular federal Medicaid matching requirements (FMAP)
- The executive generally funds anticipated caseload and utilization increases in human services and population increases in corrections, and provides an inflationary increase for K-12 education
- The executive funds all statewide present law adjustments, including 4% vacancy savings for most positions (the 4% reduction to general fund ongoing personal services costs is in new proposals)
- All other general fund present law increases within agencies are minimal. For many agencies, statewide present law adjustments are the largest present law adjustment provided

Risks of the Executive Proposal - Can Existing Services Be Maintained?

There are several areas where the executive budget may be at risk of not being sufficient to fund present law services.

- The Department of Corrections is projecting greater populations in both secure care and community corrections than is currently funded in the executive budget (see corrections discussion below)
- Caseload projection in human services assume a low growth trend level (see human services discussion below)
- The executive budget does not fully fund BASE Aid for K-12 education (see K-12 discussion below)

- Most agencies would be provided a budget with very few present law changes, and with an additional reduction of 4% general fund personal services, requiring them to provide the same services with fewer resources
  - In most cases the FTE that would be reduced are not identified, making identification of risks and potential impacts to services unknown

K—12 IS PROVIDED INFLATIONARY INCREASES

Background

K-12 education is the single largest expenditure of general fund in state government, consuming $1,305.1 million in the 2013 biennium. This represents 39.2% of the total general fund.

K-12 is funded by a combination of state dollars, federal dollars and local taxes. In the 2011 biennium, federal dollars became much more important as a result of the federal stimulus package. The stimulus package provided $62.1 million in federal stabilization aid, $40.4 million of which was used to supplant state general fund for ongoing BASE aid to school districts, and $21.7 million of which was used as one-time-only BASE aid. This freed up $34.8 million in general fund which was transferred to the school facility and technology account for distribution to school districts for energy upgrades. In addition, the federal government supplied $30.7 million in education jobs money in FY 2011, which the state used for BASE aid, again supplanting general fund, and $84.6 million in stimulus dollars for the provision of greater Title 1 aid (to districts with high proportions of low income children) and special education.

The state's share of K-12 BASE aid is also funded by revenue received from state lands. During the 2011 biennium, this source was greatly enhanced by the receipt of $81.6 million in a bonus payment made by Arch Coal Company for an option to produce coal on state land. This payment supplanted general fund by the same amount.

A significant action taken by the legislature in the 2011 biennium was to reduce the K-12 at-risk payment from $5.0 million per year to $1 per year.

Governor's Proposal

The Governor would increase the K-12 education appropriation by $97.0 million, including $23.0 million general fund, from the 2011 biennium. The Governor proposes to:

- Fund BASE aid at FY 2011 entitlement rates ($26.1 million)
- Replace the federal stabilization money and Education Jobs money that the legislature designated as ongoing ($71.1 million)
- Replace the one-time-only state lands bonus payment money ($81.5 million)
- Restore the at-risk student payment ($10 million)
- Increase entitlements by inflation of 1.90% in FY 2012 and by 1.53% in FY 2013 ($29.6 million)
- Increase special education by inflation ($5.6 million)

- Shift budget authority for the quality educator payment from the general fund to a new Teach Montana fund, to be paid for with 90% of oil and natural gas revenues now being distributed to school districts (saving the general fund $72.9 million)
- Shift budget authority for the school facility reimbursements from the general fund to the school facility and technology account, to be paid for from existing balances in that account (saving the general fund $17.2 million)
- Delay deposit of streambed rents into the school facility and technology for two years until FY 2014 and continue to deposit these revenues into the guarantee account (possibly saving the general fund $22.0 million).

Risks of the Executive Proposal

- The executive underestimates BASE Aid costs to school districts for the 2013 biennium by around $8.4 million. New data on school district non-levy revenue, fund balance appropriated, and enrollments indicate that costs will be substantially higher than calculated by the executive.
- The executive uses revenue estimates for the guarantee account available for BASE aid that are $6.5 million higher than estimated by the Revenue and Transportation Committee.
- The revenue source to pay for the quality educator payment that will be deposited in the new Teach Montana fund is likely inadequate. The quality educator payment is currently $38 million per year but the school districts only received $33 million in oil and gas receipts in FY 2010. The executive relies on 9 quarters of the newly available oil and gas revenue from school districts to pay for 8 quarters of the quality educator payment in the 2013 biennium.
- Depending on streambed rents to fund school districts is risky because the PPL suit is in the US Supreme Court. The suit appeals the finding of the Montana Supreme Court that streambeds behind dams are state lands and thus subject to rent. Currently, only around $4.2 million per year in streambed rents is being paid to the state from Avista Corp and Pacificorp. If PPL loses in the US Supreme Court there will likely be $11 million per year available. If PPL wins, there will be nothing available for the state.

A further discussion of the agency and all issues begins on page E-25 of Volume 7 of the LFD 2013 Biennium Budget Analysis.

EXECUTIVE BUDGET INCREASES HIGHER EDUCATION FUNDING

Background

Higher education (Montana University System) is $389.9 million general fund in the 2013 biennium proposed budget ($542.6 million total funds), or 11.7% of total general fund expenditures. State funding for the university system is only a portion of the total. Other funding sources such as tuition are not appropriated by the legislature.

Governor's Proposal

The executive would increase general fund by $91.6 million (30.7%) general fund and $37.4 million (7.4%) total funds. The Governor replaced $59.5 million in the

2011 biennium federal State Fiscal Stabilization Funds (SFSF) from the American Recovery and Reinvestment Act (ARRA - the federal stimulus bill) with general fund in the 2013 biennium as allowed in HB 645 passed by the 2009 Legislature. This fund switch accounts for 65% of the general fund increase in the 2013 biennium. The 2009 Legislature used the SFSF funds in the 2011 biennium to free up general fund that had been included in HB 2 for the MUS educational units. The freed up general fund was then reallocated to higher education and other non-education programs for the 2011 biennium as one-time-only appropriations.

The Governor's proposed budget for higher education increases funding for community colleges due to projected enrollment growth and increases funding for university units by using a higher state percent share for present law adjustments than had been used in the 2011 biennium.

Risks of the Executive Proposal

- The executive funded only a portion of the base costs for the Bureau of Mines groundwater investigation program implemented in HB 52 passed by the 2009 Legislature
- The executive budget double counted the 1% MUS optional retirement program employer contribution increase, overestimating the 2013 biennium general fund cost by $2.4 million
- The legislature may wish to consider implementing service payback requirement on professional student exchange programs such as WICHE to improve the state's return on its investment in these programs

A further discussion and all issues begin on page E-123 of Volume 7 of the LFD 2013 Biennium Budget Analysis.

HUMAN SERVICES CASELOAD AND UTILIZATION INCREASES/REPLACEMENT DUE TO REDUCED FEDERAL MATCH RATE

Background

Total spending in the 2013 biennium for human services (Department of Public Health and Human Services) is $838.9 million general fund (25.2% of HB 2) and $3,714.6 million ongoing total funds (41.4% of HB 2). Major programs include Medicaid, TANF, SNAP (formerly food stamps), protective services for children and seniors, developmental disabilities services, mental health services, and a variety of other programs, including public health. Most of the budget funds payments to service providers (such as medical providers) and for costs at six state facilities that provide medical services. As with K-12 education, given its budgetary significance small changes can have a major impact on expenditures.

Governor's Proposal

The Governor provides a $696.7 million increase in total funding ($166.4 million general fund) from the 2011 biennium to the 2013 biennium. The vast majority of the increase -$680.6 million - funds services for individuals who meet specific financial eligibility criteria, and in some cases age and disability criteria as well. The most significant changes in services budgets are:

- Medicaid service utilization and enrollment changes - $276.4 million
- Supplemental Nutrition Assistance Program - $250.0 million
- Healthy Montana Kids (HMK) enrollment increases funded from the federal Children's Health Insurance Program block grant - $92.2 million
- Low-Income Energy Assistance Program (LIEAP) - $25.0 million

General fund increases between the two biennia are due in large part to discontinuation of the temporary increase in the federal Medicaid match rate of about 10% in FY 2010 and the first part of FY 2011 with a gradual phase down in the last half of FY 2011. The temporary federal increase reduced 2011 biennium general fund costs by an estimated $97.0 million compared to the 2013 biennium Medicaid budget request. In addition, regular changes in the federal Medicaid match rate add $12.0 million general fund in the 2013 biennium.

Risks of the Executive Proposal

- Projecting Medicaid expenditures has inherent budgetary risks due to the size of the expenditure and the variability of cost drivers (enrollment, service utilization, and federal policy changes) that are not always within the control of the legislature
- The 2013 biennium Medicaid budget is based on low cost trends between 2% and 3% per year
- The revised executive budget submitted in December lowered general fund by a net $4.0 million compared to the original submission in November. General fund changes over $0.1 million are:
  - Offset general fund state Medicaid match for increased enrollment in HMK with insurance premium tax state special revenue – $3.1 million
  - Reinstate a portion of funding for mental health crisis jail diversion services - $0.6 million
  - Remove a duplicate request for information technology facility maintenance contracts - $0.3 million

A more detailed discussion of the agency and all issues is included in Volume 4 of the LFD 2013 Biennium Budget Analysis.

CORRECTIONS PROPOSALS FUND POPULATION INCREASES

Background

Corrections, which includes both secure placements such as the men and women's prisons and non-secure placements such as probation and parole, totals $355.7 million general fund, or 10.7% of all general fund appropriations. Because it has very little other funds, it comprises only 4% of total funding.

Governor's Proposal

The executive budget increases funding for the Department of Corrections $21.0 million or 6.1% between the 2011 and 2013 biennia. This increase is primarily due to present law adjustments increasing funding for offender populations including:

- $12.3 million for 164 additional prison beds
- $10.1 million for additional community corrections beds

The increase in prison beds would come from relocating the male assessment and sanction program to another facility and the addition of 20 assisted living beds. The increase in community corrections beds is mostly in prerelease settings, including the addition of a 40 bed prerelease in northwestern Montana.

The department estimates that the total average daily population of offenders will increase 1.9% per year, while male prison population increases are estimated at 3.1% per year and community alternatives to prison are estimated to increase 4.9% per year. The executive budget does not provide funding to support the entire anticipated increase in ADP.

Risks of the Executive Proposal

- If populations rise as estimated, there is not sufficient funding or beds available within existing community and prison facilities.
- The department may be challenged to create programs that divert offenders from community and prison settings. This may result in more serious or higher risk offenders being supervised in community settings.
- Diverting more serious offenders to community based supervision may have a negative impact on offender recidivism, which in turn may increase system stress and demand for prison beds.
- Operating prisons at operational capacity may stress the maintenance of the inmate classification system.
- Higher cost segments of the system (prison and alternatives) are projected to grow at larger rates of increase than lower cost segments (probation and parole)
- Contracting, siting, and opening new facilities, such as a prerelease center in northwestern Montana, may not occur within the proposed timeframe, further challenging the available capacity within the system

A further discussion of the agency and all issues begins on page D-124 of Volume 6 of the LFD 2013 Biennium Budget Analysis.

TRANSPORTATION FUNDING IS UNCERTAIN

Background

Transportation funding in the Montana Department of Transportation, totaling $1,355.6 million, is one of the largest expenditures of state government, and comprises 15.1% of total state funding in the proposed executive budget.

The agency does not utilize any general fund. Operations are entirely funded with state special revenues and federal funds. Federal funds are typically provided via multi-year authorization legislation. Congress has failed to reauthorize the last such multi-year authorization that expired at the end of FFY 2009. Federal-aid for highways has continued to be received through short-term extensions of the previous authorization at FFY 2009 funding levels. Short-term funding makes it difficult to plan and budget for state highway programs.

Governor's Proposal

Total funding for the Department of Transportation would increase by $234.0 million, or 20.9%. The highways state special revenue account (HSRA) is projected to end the 2011 biennium with a sizable balance of $87.0 million but would decline by $40.0 million during the 2013 biennium. The executive matches and appropriates all anticipated federal funds and additionally expands the 100% state funded highway construction program by four times its current level of $10.0 million per year, but offers little indications on how the expansion would benefit the traveling public.

RISKS OF THE EXECUTIVE PROPOSAL

- The HSRA is in an uncertain position, due to lack of a long-term federal reauthorization. This unknown could make determining the amount of total funds available for transportation, and the resulting impact on the driving experience and safety, problematic
- A fourfold increase in the 100% state funded construction program draws down the balance in the state fund and may not be sustainable, and little quantitative data on the system impacts are provided by the executive

A further discussion of the agency and all issues begins on page C-115 of Volume 5 of the LFD 2013 Biennium Budget Analysis.

FIRE SUPPRESSION COSTS – MINIMAL UP-FRONT FUNDING

BackGround

Montana has fire costs each year. These costs have ranged widely from year to year based upon the individual fire seasons but are generally increasing rapidly, going from an average yearly cost of $7.0 million prior to FY 2006 to $11.9 million this biennium. Fire suppression costs were paid from the Department of Natural Resources and Conservation's general fund authority and the Governor's emergency fund until such time the legislature could meet and provide a supplemental appropriation. This process forced DNRC to utilize general fund authority provided for other purposes to cover fire costs. After the severe fire season of 2008, DNRC was unable to use this process, and a special session was called to cover fire costs. During the 2007 Special Session, the legislature provided appropriation authority for the 2008 fire season and established a fire suppression fund with a $40.0 million general fund transfer. The fund was designed to provide for up front funding for fire suppression to alleviate the pressures on DNRC's budget and avoid further special sessions. Due to less than average fire seasons since 2008, the fund currently has a balance of $22.5 million, or about enough for two average fire seasons.

Governor's Proposal

The Governor would provide up-front funding for the costs of wildland fire suppression at a minimal level. The Governor is proposing, via HB 48, to transfer $20.0

million from the fire suppression fund to the general fund, leaving a balance of $2.5 million. The bill also establishes a transfer to the fund of any unexpended funds from the Governor's $16.0 statutorily appropriated emergency fund.

Risks of the Executive Proposal

- If fire suppression costs for the 2013 biennium are average, the funds remaining in the fires suppression fund are insufficient and will force DNRC to utilize general fund authority for other purposes to cover fires suppression costs until such time the legislature can provide a supplemental appropriation
- The greatest risk is the lack of funds for the 2011 fire season. If the state has a higher than average year, the fire suppression fund and the Governor's emergency fund may not be sufficient to cover costs and thus a special session would be required.
- If the Governor's emergency fund is fully expended in the 2013 biennium, there will be no funds available for transfer to the fire fund. Without a consistent means to replenish the fund, the Governor has not provided a long-term funding source for fire suppression.

A further fire costs discussion, including a summary of recommendations of the interim fire committee, begins on page C- 206 of Volume 5 of the LFD 2013 Biennium Budget Analysis.

EXECUTIVE PAY PLAN PROPOSAL

Background

A pay plan provides for salary and/or benefit increases for state employees over the biennium. For several biennia, any increases have generally been provided beginning on October 1 of each fiscal year, and have been phased in over the biennium. Consequently, future biennial costs exceed the current biennium costs.

In the 2011 biennium, state employees did not receive a salary adjustment. Employees received an increase in the state contribution to the health care plan, and any state employee making less than $45,000 per year was given a one-time $450 bonus payment.

Governor's Proposal

The Governor has allocated $19.1 million general fund and $13.2 million other funds ($32.3 million total) in the 2013 biennium for a state employee pay plan. The pay plan consists of an across the board increase of 1% effective on January 1, 2012 (midway through FY 2012) and a further 3% effective January 1, 2013. The Governor also proposes $4.0 million general fund and $3.0 million other funds ($7.0 million total) as a biennial contingency fund for agencies unable to meet their personal services funding levels, and $75,000 in training funds. There is no proposed increase in the state contribution for health insurance.

Risks of the Executive Proposal

- State employee salaries were frozen in the 2011 biennium, and this pay plan does not maintain purchasing power in the 2013 biennium against projected inflation
- It is unclear whether state employees will have higher out-of-pocket medical costs
- It is unclear what impact health care reform will have on the cost or scope of health benefits

For a discussion of issues, see page 99 of this volume.

EXECUTIVE PROPOSAL ONE-TIME-ONLY EXPENDITURES

Background

The executive is proposing a negative ($9.2) million in general fund one-time-only (OTO) expenditures, and $15.8 million total funds. This figure contrasts sharply with the previous biennium, when a large beginning fund balance and federal stimulus funds resulted in OTO appropriations of $310.1 million general fund and $1,821.0 million total funds.

Governor's Proposal

The general fund OTO expenditures proposed by the Governor are dominated by a replacement of general fund on a one-time basis with funds from the Medicaid hold-harmless account in the Department of Public Health and Human Services that were available due to provision of additional federal funds under the federal stimulus in the 2011 biennium.

The Governor would also maintain the Court Help Program (formerly the Court Self Help Program) in the Judicial Branch first funded by the 2009 Legislature, and several economic development programs in the Department of Commerce that have been funded for several biennia. Both had been funded on a one-time basis with general fund freed-up due to the provision of federal stimulus funds in the 2011 biennium.

Risks of the Executive Proposal

- Several of the programs funded as OTO can be considered ongoing, as they have been funded for several biennia; therefore, the legislature will likely be asked to continue funding in the next biennium and should consider these expenditures when determining structural balance
- The Governor continues funding for brucellosis activities; it is not clear for how long these activities will continue, and whether this program is indeed ongoing

For detailed information, see page B-5 in Appendix B.

LOCAL GOVERNMENT ENTITLEMENTS INFLATION CAP

BACKGROUND

HB 124 of the 2001 legislative session changed the flow of certain revenues that previously went to local government entities, including counties, municipalities, and school districts, and replaced the flow of those revenues with statutorily appropriated payments referred to as "entitlement payments". The purpose of HB 124 was to streamline the revenue collection and distribution process and provide local government with a stable revenue flow each year. The legislation replaced the revenues that were changed to flow to the state general fund and provided for inflationary growth in the amount to which the local entities were "entitled". School District Block Grants increase each year by a factor of 0.76% and the counties and municipalities entitlement payments increase each year based upon the 4-year average change in the total state personal income and gross state product as reported by the U.S. Bureau of Economic Analysis. According to the executive, the adjustments over the past several years have ranged from 2.49% to 5.12%.

At the same time, and since, the state also assumed certain activities historically performed at the local level. Local welfare functions, district court functions, and later, public defender program functions were taken over by state funded programs, lessening the amounts due the local entities. The assumption of these activities by the state resulted in reductions to the entitlement payments to offset the program costs the state was assuming.

GOVERNOR'S PROPOSAL

The executive budget proposes to reduce the inflation rate for the local government payments down to the same level applied to the school district payments (0.76%) for a reduction of entitlement payments by the state of $10.56 million in 2013 biennium.

LFD ANALYSIS

In anticipation of this being a topic of discussion for the 2011 Legislature, the Legislative Fiscal Division (LFD) staff performed an analysis, looking at related revenue collections that were the subject of the switch to the entitlement payments to locals. The LFD also looked at the expenditures of those programs that were assumed by the state.

In the case of each relevant revenue source and program function, the amount of revenue received previously by the local governments or expenditures reported as spent for the state-assumed activities was determined. At the same time, comparable data was found that allowed the extension of revenue and costs through the years since the 2001 HB 124 changes. The projected net gains or losses of the local entities were then compared to the local government entitlement for each year from 2002 to 2010. In a review of the data, it appears that state government gave up a great deal more over the period than did the local government. This appears true for counties in every year, but not for the municipalities. In some of the middle years (2004-2008), the municipalities gave up more, primarily because gaming revenue grew steadily in those years. What the state gained in revenues in those years, however, was more than offset by the downturn in gaming revenues that has occurred since 2008.

The following figure summarizes the analysis for a single year (FY 2010 because it is the most recent year). The table shows the costs assumed by the state versus the revenues given up by local government as projected forward from 2001 to 2010.

Local Government Entitlement
Costs Assumed by the State versus Revenues Given Up By Local Government
FY 2010 (Dollars in Millions)

	FY 2010 Data	
Actions of HB 124 and Other Legislation	Counties	Municipalities
State Costs		
Local Government Entitlement Share Paid by State	$ 39.6	$ 55.1
Program Expenditures (of counties, municipalities) Assumed by State	40.7	3.1
State Spending	80.3	58.2
Revenue Given Up by Local Government - Moved to State GF		
Local Share of Revenue Replaced by "Entitlement Share"	(51.6)	(48.6)
Amount State Costs Exceed Revenues Given Up by Locals	$ 28.8	$ 9.6

Choosing to portray FY 2010 may in itself raise some questions. It is the most recent year that could be analyzed, but it also reflects the high differences of state cost versus the revenues given up by local government. Arguably, it is relevant because it is where the economy has taken state finances and economist are forecasting a slow recovery. But with recovery, the gap between these two features will narrow. On the other hand, another factor to consider is that the programs that the state assumed have experienced higher costs and growth than was estimated at the time of assumption.

CONCLUSION

The data shows that local governments have fared better than the state overall. An adjustment to the inflationary factors for counties and municipalities could maintain a level of revenue that exceeds the pre-HB 124 revenue stream and maintain a stable revenue stream.