

State Expenditures Perspectives



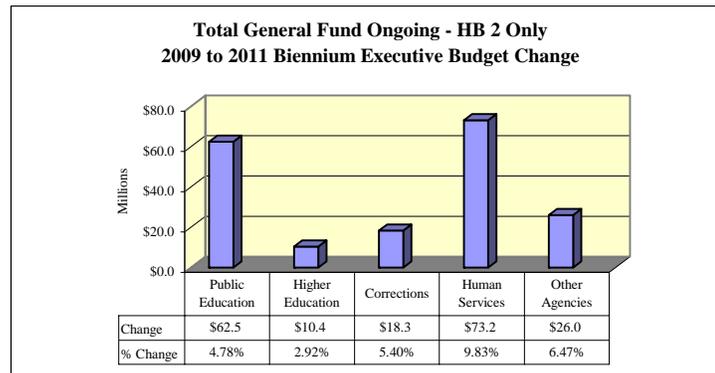
PART TWO – MAJOR EXPENDITURE PROPOSALS IN THE 2011 BIENNIUM BUDGET

GENERAL OVERVIEW

GOVERNOR’S PROPOSAL

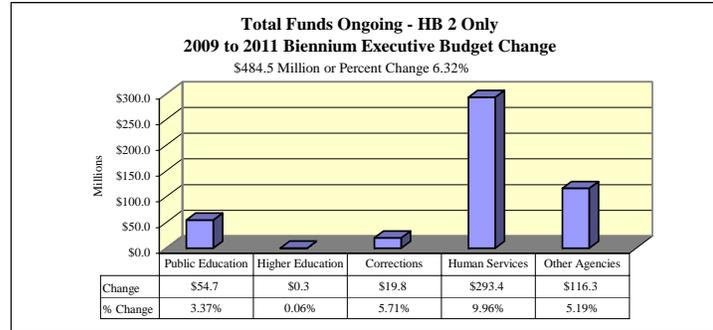
Figures 1 and 2 show the allocation of the ongoing increases in HB 2, by function, for general fund and total funds.

Figure 1



Total increases are shown in the following figure.

Figure 2



As stated earlier, the Governor proposes a present law budget, with very limited new proposals.

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 \$190.4 million general fund and \$484.5 million total funds in HB 2 for ongoing functions. Of this total \$194.3 million general fund and \$436.7 million total funds would be for ongoing present law, with a negative \$3.9 million general fund and a positive \$47.8 million total funds for ongoing new proposals (\$7.8 million total general fund for all 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, including but not limited to:
 - changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
 - changes in funding requirements resulting from constitutional or statutory schedules or formulas;
 - inflationary or deflationary adjustments; and
 - elimination of nonrecurring appropriations."
- Statewide present law adjustments (SWPLAs) are made to account for three factors:
 - Fully funding all personal services costs at the annualized total, and then applying a vacancy savings rate (the rate in the SWPLA is 4 percent)
 - Inflation on selected items, including gasoline and diesel
 - Fixed costs so agencies receiving services from centralized functions can pay for those services

GOVERNOR'S PROPOSAL

Present law changes comprise almost 90 percent of the total changes proposed by the executive, underscoring the small number of new proposals above the level of present law changes. General themes for general fund increases are applied:

- 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 percent vacancy savings for most positions, and then applies a reduction to personal services through a new proposal to increase the vacancy savings rate from 4 percent to 7 percent for most positions and all funding sources, and to reduce the original inflation on fuel to 0 percent through an offsetting present law adjustment
- All other general fund present law increases within agencies are minimal. For many agencies, statewide present law adjustments are the largest and in many instances the only present law adjustment provided

The reduction in personal services through an increase in the vacancy savings rate from 4 percent to 7 percent constitutes an across the board cut for agencies of about 1.6 percent of operations (not including benefits and grants), although the impact on individual agencies and programs varies widely depending on how much of total expenditures for operations are for personal services.

ISSUE FOR LEGISLATIVE CONSIDERATION-CAN EXISTING SERVICES BE MAINTAINED?

- There are several areas where the unknown duration and severity of the economic downturn could significantly increase present law costs beyond the amount in the executive budget.
 - As discussed on page 78, projections for Medicaid expenditures are very uncertain given the economic climate and lack of knowledge about the duration of the economic downturn. Periods of economic downturn generally increase the demand for Medicaid and other health services
 - The impact on more expensive secure care corrections populations if persons currently in less expensive community corrections placements cannot find work is also unknown
 - Projected interest and income that offsets general fund in K-12 education could be further negatively impacted by economic conditions, requiring general fund to assume more of the statutorily established level of Base aid to schools
- Under current funding, the Department of Corrections will have to move additional populations into community corrections, as secure care population projections are higher than the number of secure beds funded (see the Department of Corrections below)
- The Governor states that no programs or current jobs have been eliminated. However, the impacts on operations and service delivery from minimal present law adjustments to recognize on-going increases in costs and from an across-the-board reduction will likely be unknown until it begins to play out during the biennium. In addition, agencies will likely have to artificially keep positions open in order to

- meet the vacancy savings targets, or transfer funds from other areas of the budget, having an unknown impact on operations
- While direct care workers (positions that must be filled 24 hours a day, 7 days a week) are exempted from the additional vacancy savings rate, they were not exempted from the 4 percent reduction. Vacancy savings on these positions means that either critical positions are not filled, or the agency must fill the positions and/or take overtime and reduce expenditures in other areas of the budget. Among the programs with 24/7 positions are the men and women's prisons, Montana State Hospital in Warm Springs, the Montana Developmental Center in Boulder, the veteran's homes, the Montana Mental Health Nursing Care Center at Lewistown, and several other facilities in corrections and human services. A number of these institutions have had difficulty filling critical positions with current funding

INCREASES TO K-12 EDUCATION ARE GENERALLY INFLATIONARY

BACKGROUND

K-12 education is the single largest expenditure of general fund in state government, consuming \$1,371.3 million and 36.1 percent of the total general fund (41 percent of HB 2). Therefore, small recommended percentage increases can result in large total dollar impacts. Because K-12 education is a significantly state and locally funded enterprise with a growing federal presence, it comprises only 17.4 percent of total funding (20.5 percent of ongoing HB 2).

GOVERNOR'S PROPOSAL

The Governor would increase general fund K-12 education funding by \$62.5 million or 4.8 percent from the 2009 to the 2011 biennium, primarily with a proposed 3 percent increase in Base aid schedules and special education each year, along with special education increases for federal maintenance of effort requirements. The Governor has funded one new initiative to increase special education by 3 percent each year.

ISSUE FOR LEGISLATIVE CONSIDERATION

- The Helena district court recently rejected plaintiffs' suit for additional funding for K-12, ruling that the state has made a good faith effort since 2004 to define and fund an adequate K-12 education in Montana

A further discussion of the agency and all issues begins on page E-6 of Volume 7 of the LFD 2011 Biennium Budget Analysis.

HIGHER EDUCATION ESSENTIALLY IS FUNDED AT FY 2009 LEVEL

BACKGROUND

Higher education (Montana University System) is \$366.8 million ongoing general fund in the 2011 biennium proposed budget (\$516.5 million total funds), or 9.7 percent of total general fund expenditures and 11.0 percent of ongoing HB 2. 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 \$10.4 million (2.9 percent) ongoing general fund and \$0.3 million (0.1 percent) ongoing total funds. The Governor's proposed budget for higher education holds state funding for the Montana University System units and community colleges at approximately the FY 2009 level for the 2011 biennium state funding (FY2009 increases \$15.0 million from FY 2008 primarily due to the College Affordability Fund). The Governor's proposed budget also funds student assistance programs implemented or expanded by the 2007 Legislature, including the Governor's Postsecondary Scholarship Program and the Educator Loan Forgiveness Program.

ISSUES FOR LEGISLATIVE CONSIDERATION

- The executive does not continue the College Affordability Plan adopted in the 2009 biennium to freeze tuition rates
- The revised executive budget essentially reduces state funding to the educational units and agencies to the FY 2009 level. Although state funding is at the approximate FY 2009 level, there are present law costs that will continue into the 2011 biennium and will have to be paid either from tuition increases or from expenditure reductions in other areas, such as the last quarter of the 2009 biennium pay plan. The Board of Regents has the responsibility and authority to determine tuition rates and establish budgets for the Montana University System

A further discussion and all issues begin on page E- 123 of Volume 7 of the LFD 2011 Biennium Budget Analysis.

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

BACKGROUND

Total spending for human services (Department of Health and Human Services) is \$818.8 million general fund and \$3.241.5 million total funds. These totals represent 21.6 percent of total general fund (24.5 percent of ongoing HB 2) and 33.7 percent of total funds (39.7 percent of ongoing 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 institutions that provide medical services. As with K-12 education, given its size, small changes can have a significant impact on expenditures.

GOVERNOR'S PROPOSAL

Excluding one-time-only appropriations, the Governor provides a 10.0 percent, or \$293.4 million increase in total funding (9.8 percent and \$73.2 million general fund) from the 2009 biennium to the 2011 biennium. The Governor would fund all anticipated caseload increases (see issue below), and would replace federal funds with general fund to account for a reduction in the FMAP rate (the percent of Medicaid costs funded with federal funds). The Governor would also fully fund the Healthy Montana Kids (I-155) initiative passed by the voters in November 2008, at a cost of over \$33 million state special revenue (from general funds) and \$104.6 million total funds in the 2011 biennium (the executive may request additional funds in FY 2009).

ISSUES FOR LEGISLATIVE CONSIDERATION

- Projecting Medicaid expenditures is highly uncertain at this time, given the rapidly changing economic condition. Payment lags in the cost data used to develop projections do not reflect the impact of the economic downturn. Typically, Medicaid caseloads increase in periods of recession/high unemployment
- The Healthy Montana Kids initiative is fully funded in the executive budget. However, the budget assumes federal approval of state plan amendments and that federal reauthorization and significant expansion (nearly doubling federal funds) of CHIP will occur in early 2009. Montana's federal CHIP allotment will run out by July 2009. Without significant increases in the federal CHIP grant, current enrollment cannot be maintained, let alone fund additional children through Healthy Montana Kids. If federal matching funds aren't provided, CHIP funds would go unexpended

- The Governor's budget assumes federal reauthorization of the hospital utilization fee (\$134.1 million in total funds over the 2011 biennium for supplemental payments to hospitals to cover the cost of uncompensated Medicaid services) with a backup request for an unspecified amount of general fund if the legislation fails

A further discussion of the agency and all issues is included in Volume 4 of the LFD 2011 Biennium Budget Analysis.

CORRECTIONS PROPOSALS FUND POPULATION INCREASES AND ANNUALIZE PROGRAMS BEGUN IN THE 2009 BIENNIUM

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 \$360.5 million general fund, or 9.5 percent of all general fund appropriations (10.7 percent of ongoing HB 2). Because it has very little other funds, it comprises only 3.9 percent of total funding.

GOVERNOR'S PROPOSAL

Ongoing funding, which is over 97 percent general fund, would increase by 5.7 percent, or \$19.8 million from the 2009 biennium. Requested increases for annualization and expansion of beds (and probation and parole slots) of \$37.4 million are offset by the anticipated reversion of \$15 to \$17 million in the 2009 biennium. The executive budget includes funding for an average (overall) 4.6 percent increase (4.6 percent in FY 2010 and 4.7 percent in FY 2011) in populations, and to maintain corrections populations at 80 percent non-secure/20 percent secure. The executive also annualizes programs begun in the 2009 biennium.

ISSUES FOR LEGISLATIVE CONSIDERATION

- Requested increases are offset by anticipated reversion of \$15 to 17 million general fund, of which 30 percent or about \$5 million would be available to the department to carry-forward and expend in the 2011 biennium
- ADP increases are estimated to be 30 and 76 offenders in FY 2010 and 2011, respectively, greater than the number of offenders supported by the executive request
- The executive proposes reducing the base budget funding level for juvenile placements by \$1 million per year

A further discussion of the agency and all issues begins on page D-138 of Volume 6 of the LFD 2011 Biennium Budget Analysis.

FIRE SUPPRESSION COSTS ARE PROVIDED 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 \$17.7 million this biennium. Prior to the 2009 biennium, when the legislature in special session provided up-front funding, only a small amount was appropriated by the legislature prior to the start of fire season. Instead, the Department of Natural Resources and Conservation (and to a lesser extent the Department of Military Affairs) covered all costs from within its general fund budget and from the Governor's emergency fund until the legislature met and could provide a supplemental appropriation. The 2008 fire season costs overwhelmed this mechanism.

GOVERNOR'S PROPOSAL

The Governor would provide up-front funding for the costs of wildland fire suppression by eliminating the expiration of the special fund created in the September 2007 Special Session, providing about \$33 million during the biennium. This fund was originally established with general fund to address potential costs in FY 2009, which were significantly lower than the previous year and the 7-year average.

ISSUES FOR LEGISLATIVE CONSIDERATION

- If the 7-year average fire cost is maintained in the 2011 biennium, the funding set aside by the executive would not be entirely sufficient to fund wildland fire costs, and a supplemental appropriation would be required of the next legislature for any additional costs
- Since there is no proposal for a mechanism to replenish the fund, the Governor has not addressed a long-term funding source for fire costs beyond the 2011 biennium

A further fire costs discussion, including a summary of recommendations of the interim fire committee, begins on page C- 244 of Volume 5 of the LFD 2011 Biennium Budget Analysis.

TRANSPORTATION FUNDING IS PRECARIOUS

BACKGROUND

Transportation funding in the Montana Department of Transportation is one of the largest expenditures of state government, and comprises 11.5 percent of total state funding (34.8 percent of total ongoing state special revenue in HB 2) in the proposed executive budget. Operations are entirely funded with state special revenues and federal funds. The executive includes language to re-appropriate up to \$2.6 million of any 2009 biennium general fund remaining for rail litigation.

GOVERNOR'S PROPOSAL

Ongoing total funding for the Department of Transportation would increase by \$31.2 million, or 2.9 percent. The solvency of the highways state special revenue account (HSSRA) is in question in the 2011 biennium, although the executive matches and appropriates all anticipated federal funds.

ISSUES FOR LEGISLATIVE CONSIDERATION

- The HSSRA is in a precarious position, while the federal funding source is broke and the regularly scheduled federal reauthorization is due. These two factors make determining the amount of total funds available for transportation, and the resulting impact on the driving experience and safety, problematic
- Federal economic stimulus packages that focus on infrastructure could mean additional funding for highway construction and/or maintenance

A further discussion of the agency and all issues begins on page C-123 of Volume 5 of the LFD 2011 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.

Governor's Proposal

The executive budget includes a pay plan costing a total \$18.7 million general fund and \$32.6 million total funds over the biennium that consists of three parts. It does not include any percentage increase for employee salaries to cover either cost of living or maintenance of market position. (Please note that the figures below are for the proposal received on December 18, and do not precisely tie to the amounts in the executive's December 15 balance sheet):

- An increase in the state contribution toward health insurance of \$53 per month beginning on January 1, 2010 and a further \$54 per month beginning on January 1, 2011 (July 1 of each fiscal year for the Montana University System) that costs \$11.6 million general fund and \$20.2 million total funds
- A one-time biennial payment of \$450 for all full-time (1.00 FTE) employees and \$225 for all 0.50 to 0.99 FTE making \$45,000 or less in base salary, which would cost \$3.1 million general fund and \$5.2 million total funds
- A contingency fund for agencies that cannot meet the vacancy savings reductions included in HB 2 (7 percent for most positions and all funding sources) of \$4.0 million general fund and \$3.0 million other funds, and a \$75,000 general fund appropriation for training.

Issues for Legislative Consideration

- According to Department of Administration officials, dependent premium costs for employees will likely increase by an additional \$23 per month in 2010 and a further \$26 per month in 2011. Therefore, employees with dependent premium will see a reduction in purchasing power in this pay plan. According to administration officials, the \$450 one time payment to employees making less than \$45,000 per year is intended to reduce the loss of purchasing power
- Retired state employees are allowed to remain in the state system if they pay the premium costs, which is subsidized by active members; the legislature may wish to examine this policy
- The pay plan is an important part of the equation when discussing the ability of state government to retain and recruit qualified personnel to do the job expected by the legislature, but the plan is generally not discussed in concert with HB 2

A further discussion, including issues and options for legislative consideration, is in the “Major Issues Facing the Legislature” section beginning on page 95 of this volume.

EXECUTIVE PROPOSAL ONE-TIME-ONLY EXPENDITURES

The Governor has proposed almost \$55.0 million general fund and \$301.6 million total funds for one-time-only expenditures in the 2011 biennium. Figures 3 and 4 show the proposed general fund and total funds one-time-only expenditures, which are discussed in more detail on page B-3 in the appendix.

Figure 3 shows general fund proposals:

Figure 3

Executive Budget One-Time Only Initiatives - General Fund				
Figures in Millions				
Description of Initiative	Budgeted FY 2010	Budgeted FY 2011	2011 Biennium	% of Total
HB 2 Present Law Adjustments	\$3.392	\$0.208	\$3.600	6.5%
HB 2 New Proposals	7.966	3.728	11.694	21.3%
HB 5 20 x 10 Initiative	14.700	7.260	21.960	39.9%
HB 10 Information Technology	5.500	-	5.500	10.0%
HB 13 Pay Proposal	5.546	1.471	7.017	12.8%
Water Compact Legislation	5.000	-	5.000	9.1%
Statutory Appropriation for Arbitrage	-	0.215	0.215	0.4%
Total One-Time Only	\$42.104	\$12.882	\$54.986	

HB 2 Present Law Adjustments

There are several present law adjustment decision packages totaling \$3.6 million that are designated as one-time only requests. The largest two of these are for motor vehicle license plate renewal and reissue totaling \$3.2 million.

HB 2 New Proposals

Twenty-eight new proposal decision packages totaling \$11.7 million are included in the executive proposal and designated as one-time only. The largest of these are for a high performance computer operations initiative at \$2.0 million, the Department of Commerce new workers program at \$1.9 million, a health information initiative at \$0.75 million, and funds for the Meth Watch Program at \$0.5 million.

HB 5 "20 x 10" Initiative

There is \$21.96 million general fund requested for various Long Range Building energy conservation projects related to the Governor's "20 x 10" initiative. The program would upgrade various aspects of state buildings in order to achieve reduced energy use and the related savings. More is discussed in Long-Range Planning – Section F of the Legislative Budget Analysis.

HB 10 Information Technology

The executive includes \$5.5 million general fund for two information technology initiatives: 1) \$3.5 million for moving expenses for the Enterprise Systems Services Centers, and 2) \$2.0 million for matching funds for federal funds for the Interoperability Montana Communication Project.

HB 13 Pay Proposal

The pay plan proposal includes \$5.5 million in FY 2010 and \$1.5 in FY 2011, for the cost of pay plan contingency intended to assist agencies that are unable attain the 7 percent vacancy savings, the labor/management training costs, and the one-time biennial payment provided for in the pay plan for certain employees.

Water Compact Legislation

The executive requests \$4 million general fund for the Blackfeet Water Rights Compact and \$1 million for the Fort Belknap Water Rights Compact.

Statutory Appropriation for Arbitrage

Since the state is not allowed to profit from interest earned on unspent, non-taxable, bond proceeds, \$215,000 general fund is requested to rebate excess earnings, or bond arbitrage, calculated for a past bond issue to the federal government.

Total fund proposals are shown in Figure 4.

Figure 4

Executive Budget One-Time Only Initiatives - Total Funds				
Figures in Millions				
Description of Initiative	Budgeted FY 2010	Budgeted FY 2011	2011 Biennium	% of Total
HB 2 Present Law Adjustments	\$7.426	\$2.796	\$10.222	3.4%
HB 2 New Proposals	14.341	9.098	23.439	7.8%
HB 5 20 x 10 Initiative	14.700	7.260	21.960	7.3%
HB 5 Maintenance & Acquisition	77.562	-	77.562	25.7%
HB 10 Information Technology	99.752	-	99.752	33.1%
HB 13 Pay Proposal	10.256	2.181	12.437	4.1%
School Trust Bonds	21.000	-	21.000	7.0%
Wildfire Account	30.000	-	30.000	9.9%
Water Compact Legislation	5.000	-	5.000	1.7%
Statutory Appropriation for Arbitrage	-	0.215	0.215	0.1%
Total One-Time Only	\$280.037	\$21.550	\$301.587	

HB 2 Present Law Adjustments

There are several present law adjustment decision packages totaling \$10.2 million total funds that are designated as one-time only requests. Present law adjustments are adjustments to the base budget intended to maintain the level of services authorized by the previous legislature.

HB 2 New Proposals

Numerous new proposal decision packages totaling \$23.4 million total funds are included in the executive proposal and designated as one-time only. New proposals are requests over and above the present law budget and represent new spending initiatives to add services not included in the previous budget, or may also be a change in funding or the change or elimination of existing services.

HB 5 “20 x 10” Initiative

The \$21.96 million requested for various Long Range Building energy conservation projects related to the Governor’s “20 x 10” initiative is entirely general fund as discussed above.

HB 5 Maintenance and Acquisition

The executive request includes \$77.6 million for the Long-Range Building Program primarily for the maintenance of state buildings and \$2.0 million for the purchase of additional state parks land.

HB 10 Information Technology

The executive includes \$99.8 million total funds for eight information technology initiatives, with the largest share being for the replacement of the Medicaid management information system (\$65.5 million) and an upgrade to the unemployment insurance tax system (\$19.7 million).

HB 13 Pay Proposal

The pay plan proposal includes \$10.3 million in FY 2010 and \$2.2 in FY 2011, for the cost of pay plan contingency intended to assist agencies that are unable attain the 7 percent vacancy savings and the one-time biennial payment provided for in the pay plan for certain employees.

School Trust Bonds

The executive requests \$21 million state special revenue for the purchase of additional School Trust lands to increase school trust land revenues in the long term.

Water Compact Legislation

The \$5.0 million requested for water compacts is entirely general fund as discussed above.

Statutory Appropriation for Arbitrage

The \$215,000 requested for this item is entirely general fund as discussed above.

**LFD
ISSUE**

Items Listed as OTO are On-Going and Should be Considered when Determining Structural Balance

The OTO designation should allow the legislature to examine the Governor’s proposals with some assurance that costs will not continue into future biennia, and can therefore truly be excluded from consideration when determining whether the budget is structurally balanced. However, not all of the proposals designated as OTO meet this standard. Consequently, the legislature must examine each OTO closely to determine if it in fact should be considered within the discussion of maintenance of a structural balance.

The Governor has a number of OTO proposals that fall into one or more of the following categories:

- Continuations of programs funded by previous legislatures, and not OTO in practice and likely to continue into future biennia
- Other programs and/or activities that are likely to continue into future biennia
- Have associated current or future costs
- Have on-going costs as a component of the total OTO request

Figure 5 summarizes proposals that fall into the various categories.

OTO Proposals	
2011 Biennium Executive Budget	
Figure 5	
Continuations of On-Going Programs/Other Continuing	
Economic Development	\$6,560,244
Pay Plan Contingency and Training***	3,075,000
Justice - Meth Watch Continue	500,000
COPP - Additional Legal Costs	118,000
Gov - Executive Residence	50,000
Potential Future or Associated Costs	
Blackfoot Water Rights Compact	4,000,000
Fort Belknap Water Rights Compact	1,000,000
Ag - Invasive Species Advisory	660,000
Various IT systems	*
On-going Costs Within the OTO	
DNRC Central Services Legal Imaging**	17,000
Livestock Brand Enforcement System Lease	11,100
Total	\$15,991,344

*Specifics not known, but character of many projects would lead to maintenance and other costs
 **Department states that ongoing costs will be absorbed in the base budget.
 ***Includes the traditional contingency amount. Total contingency proposed is \$4.0 million.

**LFD
COMMENT**

Even if all proposed expenditures designated as OTO truly meet that standard, proposed OTO expenditures should be examined with care for the impact they have on the ending fund balance for the 2011 biennium and the amount the 2011 Legislature will have to work with going into the next session. Because of the uncertainty of potential revenue collections in the coming months, as well as the potential impact on expenditures of economic downturn, the amount of the ending fund balance is of critical importance.