

# Overview of State Expenditures

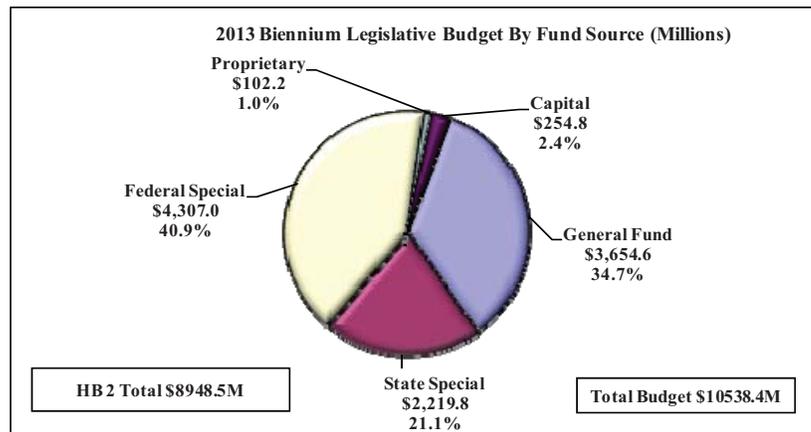


## THE BIG PICTURE – SPENDING ALLOCATIONS BY FUND SOURCE/FUNCTION

### SPENDING BY FUNDING SOURCE

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

Figure 1



### SPENDING BY FUNCTION

Figures 2 and 3 show the budget by function for the general operations of state government and by appropriation type for the remaining budget items. Figure 2 shows the total budget from all fund sources. As shown in the figure, K-12 (public) education, human services, and “other agencies” (primarily due to transportation and various environmental and wildlife expenditures) consume the largest share of total funds at over 82% of the budget, with statutory appropriations a further 11.6%.

Figure 2

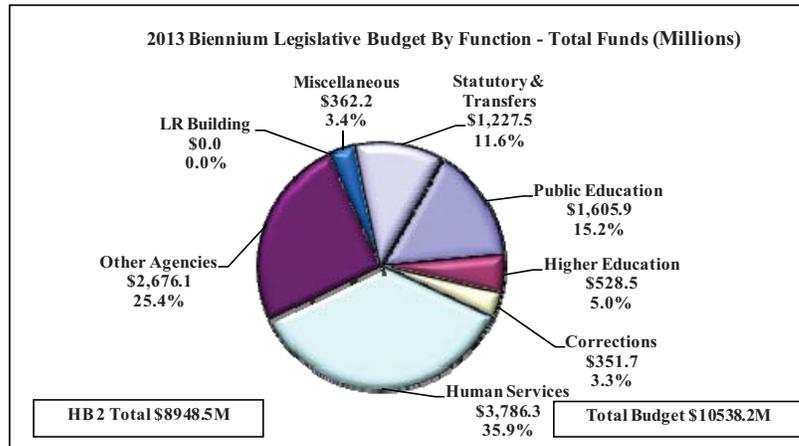
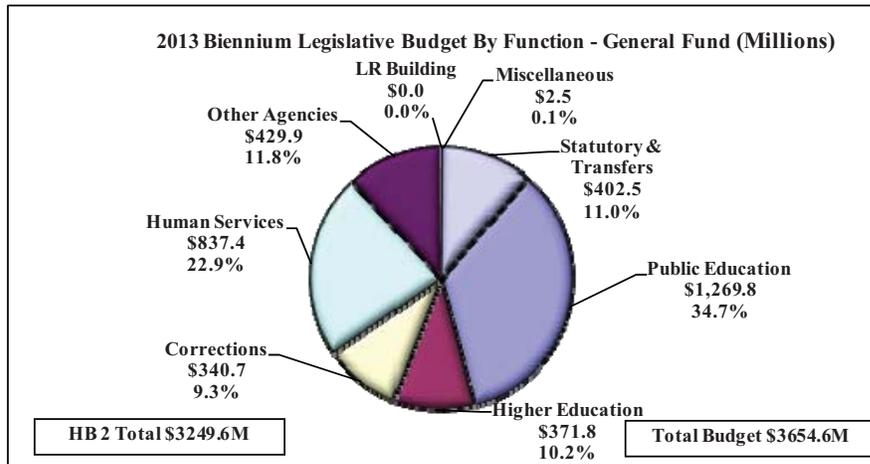


Figure 3 shows the general fund budget. Education, human services, and corrections are over 71% of the budget. Statutory appropriations which are primarily transfers to local governments and bond payments, are 11%.

Figure 3



### COMPARISON TO 2011 BIENNIUM WITH STIMULUS

In examining any of the totals and changes from the previous biennium in the sections of the report that follow, it is important to account for the influence of the provision of one-time funds in the 2011 biennium from federal stimulus funds and from Otter Creek coal leasing revenues when examining any changes in state government operations.

For federal stimulus funds, there are two components:

- Funding that replaced general fund for ongoing operations of state government in human services and education, and for which the 2009 Legislature made allowance for replacement with general fund in present law budgets
- Other one-time stimulus funds that were not intended to be ongoing but which were used for state government activities

Otter Creek coal leasing funds were deposited to the statutorily appropriated guarantee account as a direct offset of general fund for the operations of K-12 education.

For the stimulus funds that were used for ongoing operations, and also for the Otter Creek coal leasing funds, general fund was used to replace these revenues in the 2013 biennium. Consequently, general fund increases are skewed higher and federal fund increases lower, and general fund changes do not necessarily reflect actual increases in state government operations.

The following charts illustrate various components of state government and what the influence of the federal stimulus funds was on 2011 biennium appropriations compared to 2013 biennium appropriations. Please note that the charts reflect appropriations in the 2011 biennium, not actual spending in FY 2010 and adjustments in FY 2011.

Figure 4 shows total funds, and that, while there is an annual increase in HB 2, there is actually a decrease in total funds.

**Figure 4**

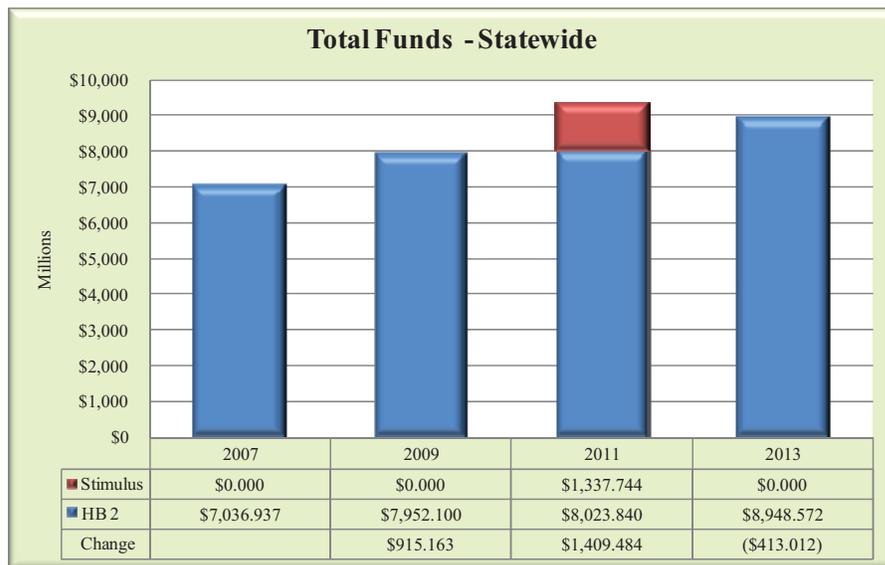


Figure 5 shows public health (Department of Public Health and Human Services), and shows that this component has a slight increase over the total 2011 biennium.

Figure 5

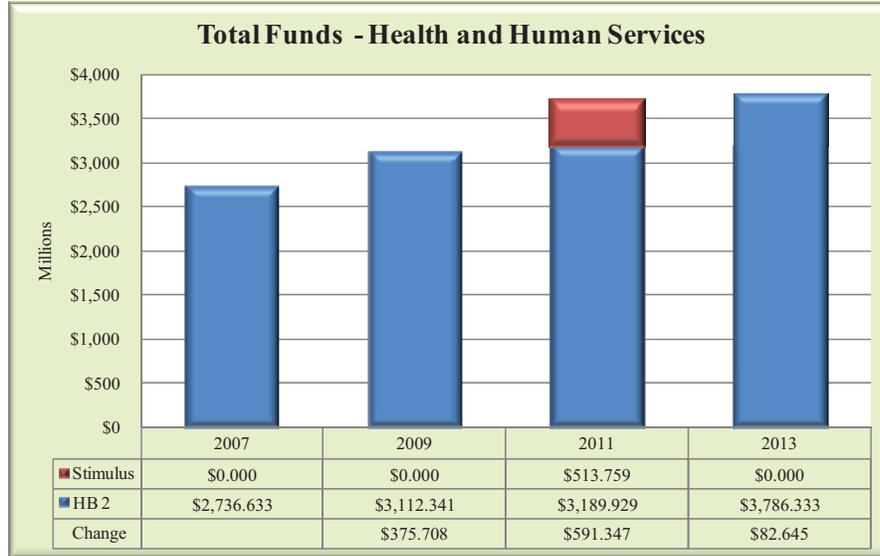


Figure 6 shows K-12.

Figure 6

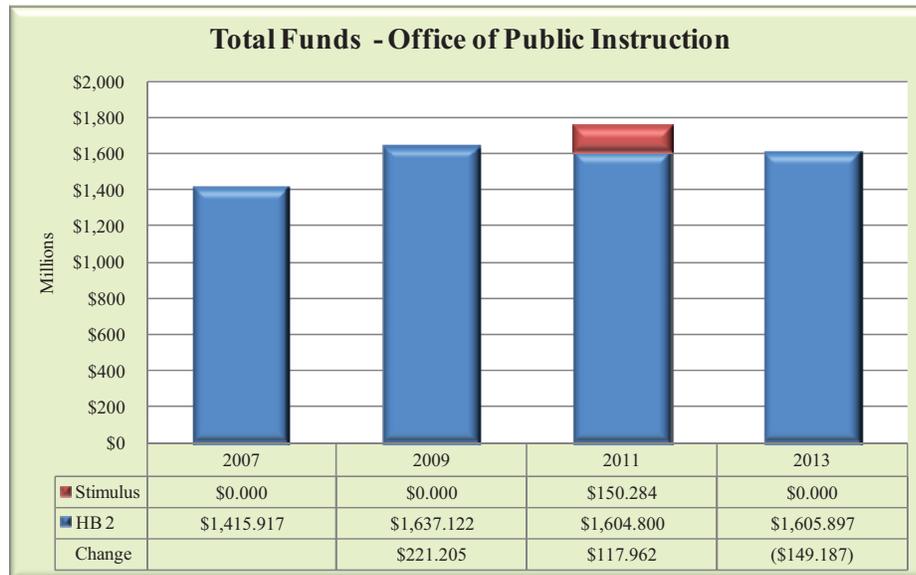
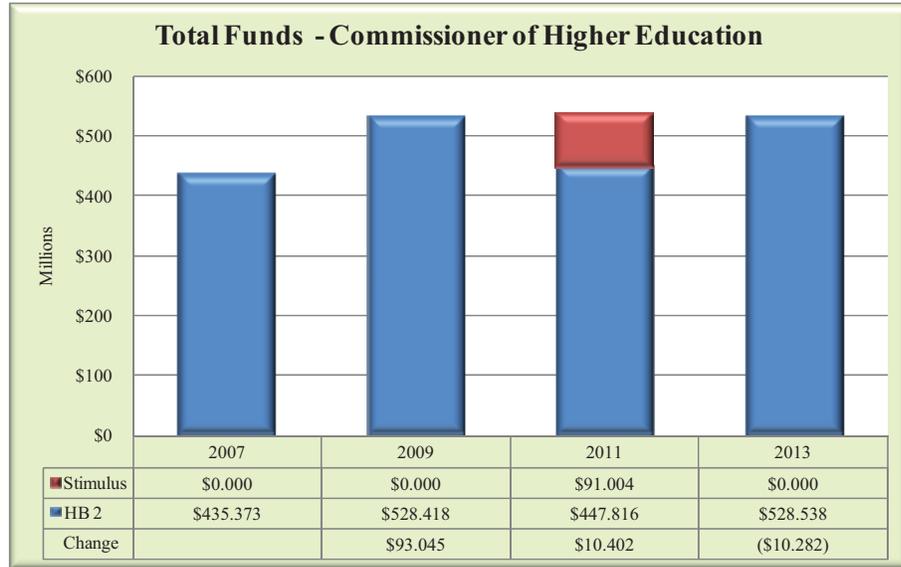


Figure 7 shows that higher education has a slight decrease rather than an increase if just HB 2 appropriations are considered.

**Figure 7**



## A FURTHER EXAMINATION – THE LEGISLATIVE BUDGET BY CATEGORY

This section provides further detail on the legislative appropriations, broken down by each of the functional and appropriations source categories shown in Figures 9 and 10. HB 2, the general appropriations act that includes the general operating budget of state agencies, contains 85% of the total.

The budget is summarized by programmatic function shown in Figures 9 and 10 (public and higher education, corrections, human services, and other) beginning on page 53. Long-range planning is summarized on page 62 and in Section F of Volume 4. Statutory appropriations and non-budgeted transfers are discussed beginning on page 64. “Miscellaneous Expenditures”, which includes all other appropriation bills and the long range planning bills, are listed beginning on page 72.

### BUDGET IN HB 2 – GENERAL OPERATIONS OF STATE GOVERNMENT

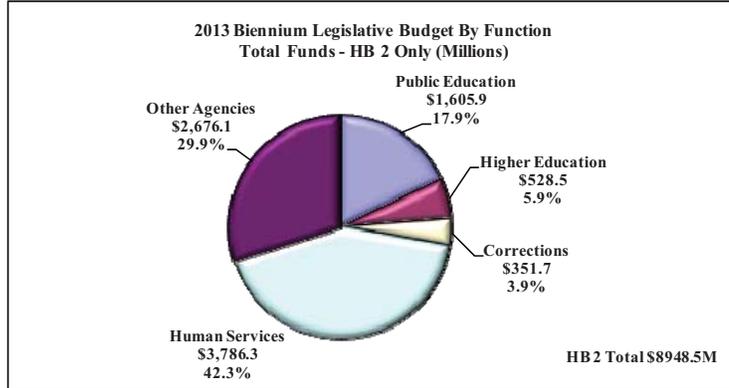
As stated, HB 2 contains about 85% of the total budget, making it by far the most significant source of funding for state government. HB 2, the general appropriations act, is by definition the vehicle with which the legislature funds operational costs of state agencies.

While higher than the 2011 biennium, when significant portions of education and human services were funded in HB 645 (the bill implementing the federal stimulus), this percentage in HB 2 is slightly lower than in previous biennia in part due to the funding of a higher percentage of K-12 education costs from the statutorily appropriated guarantee account, and the need for a supplemental appropriation due to the failure of HB 316. A further discussion is found on page 79 of this volume and beginning on page E-1 of Volume 4.

#### Allocation by Function

Figure 8 shows the allocation of total funds for expenditures in HB 2, by function, with education, corrections, and human services accounting for about 70% of the total.

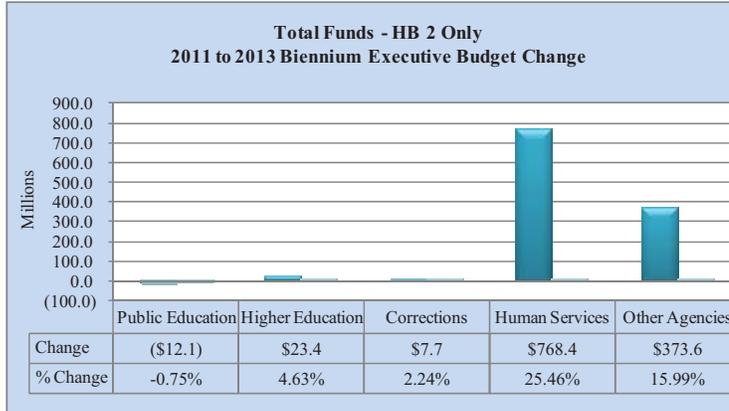
**Figure 8**



**Changes by Function and Fund**

Figure 9 shows the changes in funds from the 2011 to the 2013 biennium for all funds, by function. As shown, increases are dominated by human services due in large part to increases in caseload and utilization, and in “All Other” for transportation due to increases for an anticipated change in federal funding and an expansion of the state funded construction program.

**Figure 9**

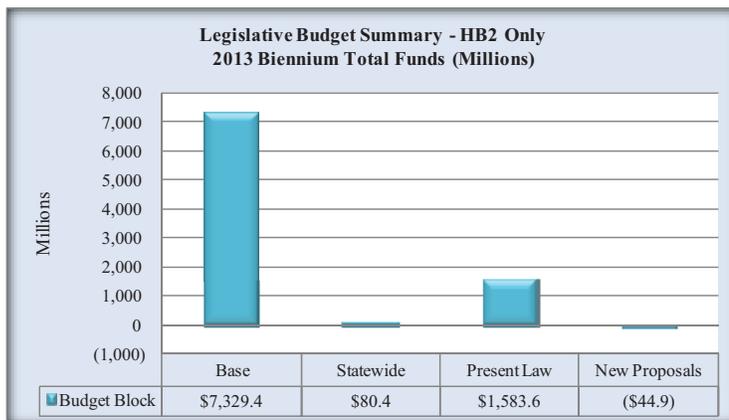


The decrease for education is primarily due to the provision of a greater portion of Base Aid costs from the statutorily appropriated guarantee account and the underfunding of Base Aid due to the failure to pass of HB 316. For a further discussion, see page 79 of this volume and the narrative for the Office of Public Instruction beginning on page E-1 of Volume 4.

**Present Law vs. New Proposals**

Figure 10 shows the allocation among base expenditures, present law increases and new proposals for all funds in HB 2.

**Figure 10**



Almost 82% of total expenditures are for the base, with all increases for present law and with negative new proposals. The most significant present law adjustments are the following. Please note that new proposals reduced the present law increases for almost all agencies:

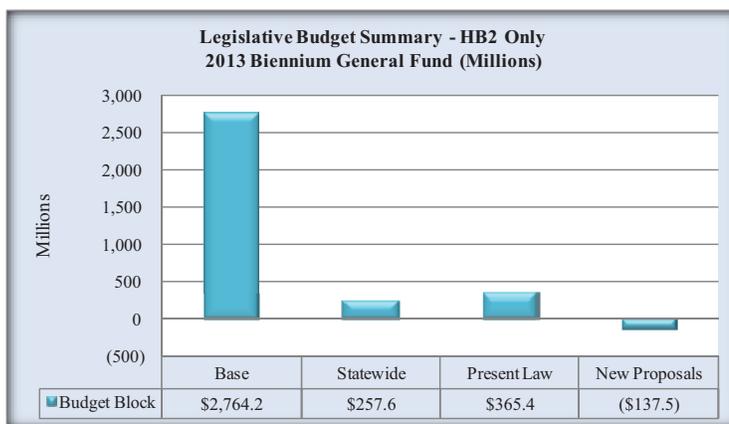
- Department of Public Health and Human Services (DPHHS) - Medicaid caseload and utilization, as well as increases in federal programs such as food and utilities assistance, and for health information systems
- Department of Corrections - Annualization of corrections beds first added in the 2011 biennium and additional new beds
- Office of Public Instruction (OPI) - K-12 education adjustment to the FY 2011 funding level, reinstatement of the at-risk payment, and the school lunch matching payment
- Office of the Commissioner of Higher Education (OCHE) - Various ongoing adjustments as well as an increase in claims payments and collections costs (Guaranteed Student Loan Program)
- Department of Transportation (MDT) - Increased federal transportation aid and state construction program
- All agencies – Statewide present law adjustments

An anomaly is the difference in the statewide present law adjustments for general fund and for all funds. Because general fund replaced certain one-time federal stimulus funds used for ongoing operations in human services and education within the statewide present law adjustments, they reflect the increased general fund for expenditures funded with federal funds in FY 2010. Total funds adjustments, because they include the corresponding reduction in federal funds, more accurately reflect the actual total increase.

New proposals include all reductions adopted by the legislature from statutorily required submissions from agencies on options to reduce general fund and certain state special revenues by 5%. This is the primary function resulting in the net general fund and total funds decrease.

General fund base expenditures are over 85% of the total, with present law increases a further 19.2%. Overall, general fund new proposals are a net negative 4.2%. As with total funds, few new proposals were requested or approved due to the downturn in revenues and reductions to present law were included in new proposals.

**Figure 11**



Among the limited positive new proposals are the following:

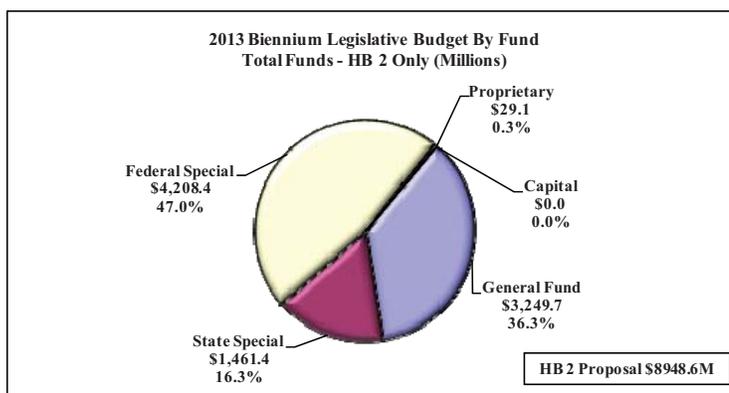
- Office of Public Instruction – Montana Digital Academy (transferred from the university system) and multi-district cooperatives
- Montana University System – Increased assistance for community colleges, university units, agencies, and non-beneficiary students at Tribal Colleges
- Montana University System – Groundwater activities and Ag Experiment Station
- Commerce – Continuance of funding for several economic development programs and high performance computing that were one-time-only in the previous biennium

A further discussion begins on page A-2 in Appendix A of this volume.

**Type of Funding**

Expenditures are also shown by type of funding. The largest source of funding for state government is federal funds at \$4.2 billion or 47% of the total.

Figure 12

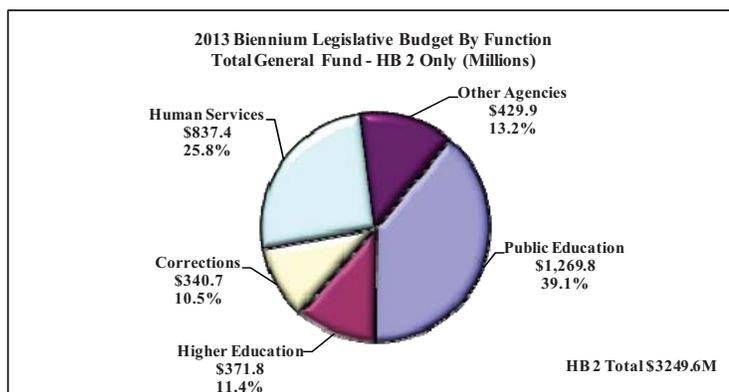


**General Fund Spending**

*Background*

General fund comprises 36.3% of total HB 2 funding (\$3,249.7 million), and is used for a wide variety of programs, although education, human services, and corrections dominate expenditures at a combined 86.8%, as shown in the following figure.

Figure 13



*Spending*

General fund increases by \$243.3 million, or 8.1% from the 2011 to the 2013 biennium for ongoing expenditures. As noted earlier, however, this amount does not entirely reflect actual state government expenditure increases from the previous biennium. There are four primary partially offsetting reasons why the increase in general fund from the 2011 biennium does not reflect increased state expenditure:

- The 2009 Legislature replaced general fund for certain ongoing functions in human services and education with one-time federal stimulus funds, and authorized the executive to include replacement of those funds with general fund in the submitted budget - \$197.6 million

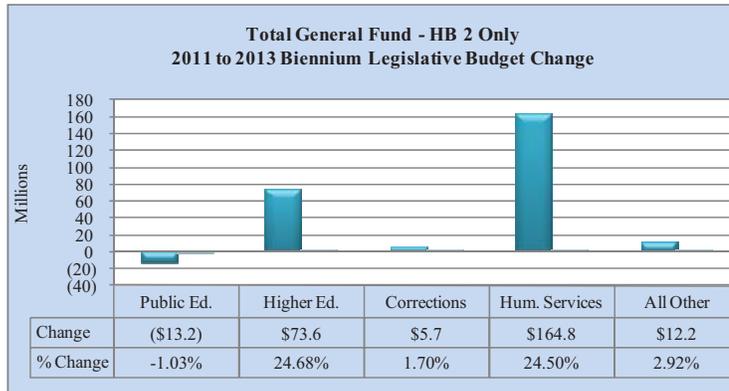
- The provision of one-time funds of funds from the lease of Otter Creek coal replaced a like amount of general fund in the Office of Public Instruction in FY 2010 that was replaced with general fund in the 2013 biennium - \$81.5 million
- FY 2010 expenditures reflect the receipt of additional federal funds in human services that was not anticipated by the legislature and that replaced general fund. Other unanticipated federal funds in human services and education are not reflected in the FY 2011 appropriations and so are not included in this factor - \$4.2 million
- K-12 appropriations for Base Aid are underfunded due to the failure of HB 316, which would have deposited additional funds in the guarantee account for support of Base Aid – (\$53.4 million)

These factors account for a net of \$229.9 million of the increase. If these funds were accounted for, then HB 2 only general fund would increase by about \$13.4 million, or 0.4%.

Please note that other factors also impact the increase shown, including fund switches that reduced general fund in the 2015 biennium.

For a further discussion, see pages 79 and 81 of this volume and the Department of Public Health and Human Services beginning on page B-1 of Volume 3 and the Office of Public Instruction beginning on page E-1 of Volume 4.

**Figure 14**



Significant changes and other policies as shown in the figure are dominated by the following:

- Replacement of one-time federal stimulus funds in human services and education
- Medicaid caseload and utilization
- K-12 education inflation and replacement of one-time Otter Creek payments, partially offset by funding of a greater share of costs from the guarantee account and underfunding of Base Aid
- Replacement of federal funds for various components of higher education

- Annualization of corrections beds begun in the 2011 biennium, and increased populations projected for the 2013 biennium
- Continuation of various economic development programs and the Energy Promotion and Development Division in the Department of Commerce that had been one-time-only in the 2011 biennium
- Additional FTE for workload issues in the Office of the Public Defender

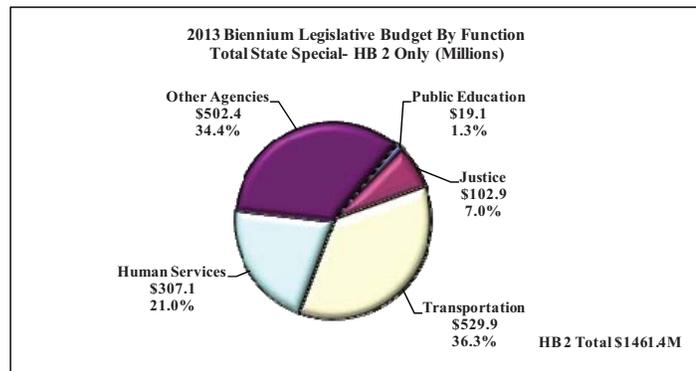
For additional detail, see page A-17 in Appendix A.

**State Special Revenue Spending**

*Background*

State special revenue is earmarked for specific purposes. Appropriations total \$1,461.4 million, and comprise 16.3% of the total budget in the 2013 biennium. The following pie chart shows funds by function. “Other agencies” include transportation, environmental, and wildlife functions, each of which is significantly funded with state special revenue.

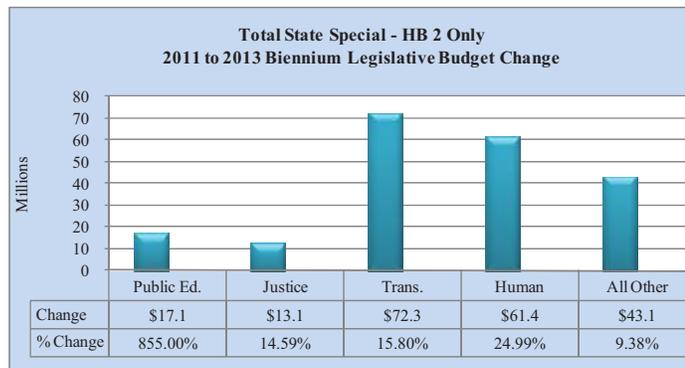
**Figure 15**



*Spending*

State special revenue funds increases by \$207.1 million, or 16.5% for ongoing expenditures from the 2011 to the 2013 biennium.

**Figure 16**



Significant increases and other policies include:

- Expansion of the state highway construction program and matching funds for an anticipated increase in the federal highway construction program
- Use of the school facility account for debt service payments in the Office of Public Instruction
- State match for increased enrollment in Healthy Montana Kids, use of one-time Medicaid reserve funds, and increased use of the health and Medicaid initiatives account for direct care worker wage increases and other health related expenditures

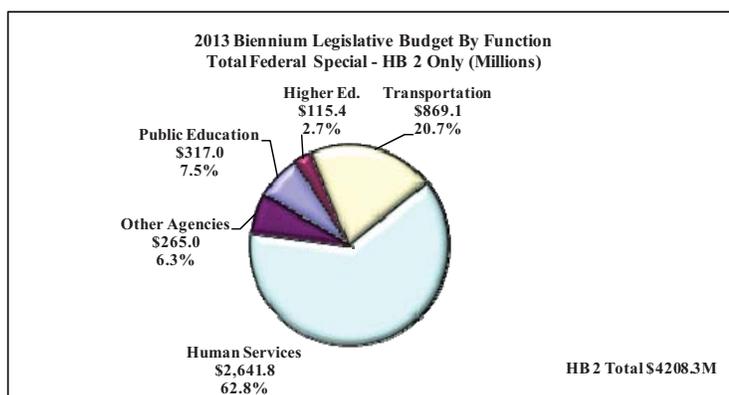
For additional detail, see page A-19 in Appendix A.

### 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 purposes intended. The budget has a total of \$4,208.4 million in the 2013 biennium, or 47.0% of the HB 2 total. Two agencies, Health and Human Services (DPHHS) and Transportation, account for over 83% of the total funding.

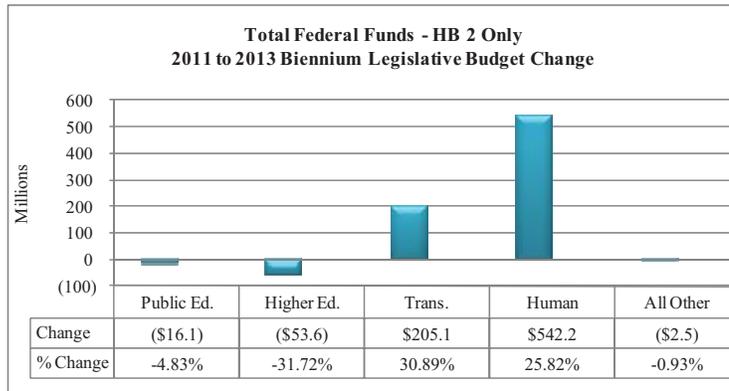
**Figure 17**



#### *Spending*

Federal funds for ongoing expenditures increase by \$675.1 million, or 19.1% between the 2011 and the 2013 biennium. DPHHS receives \$542.2 million of this increase, primarily for maintenance of current programs, partially offset by reductions due to the replacement of one-time stimulus funds and a decrease in the federal Medicaid match rate.

**Figure 18**



Significant increases and other policies include:

- Medicaid caseload and utilization
- SNAP (food stamps), Temporary Assistance for Needy Families (TANF), and other human services benefit programs
- Highway construction

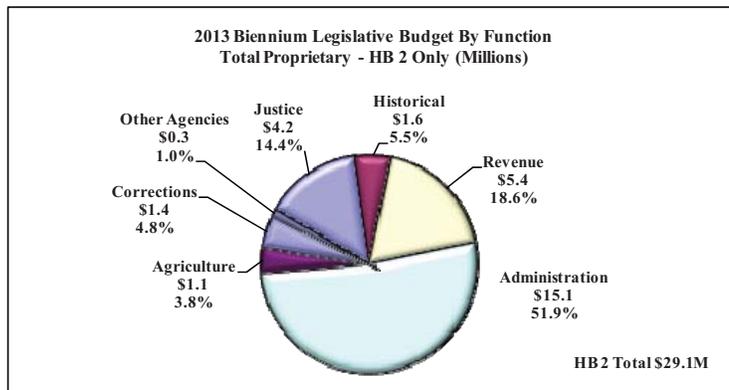
Partially offsetting the overall increase are decreases in a number of agencies, the largest of which is in the Montana University System, primarily due to the non-continuance of various federal stimulus funds that had supported ongoing expenditures and were replaced with general fund.

For additional detail, see page A-21 in the Appendix A.

**Proprietary Funds Spending**

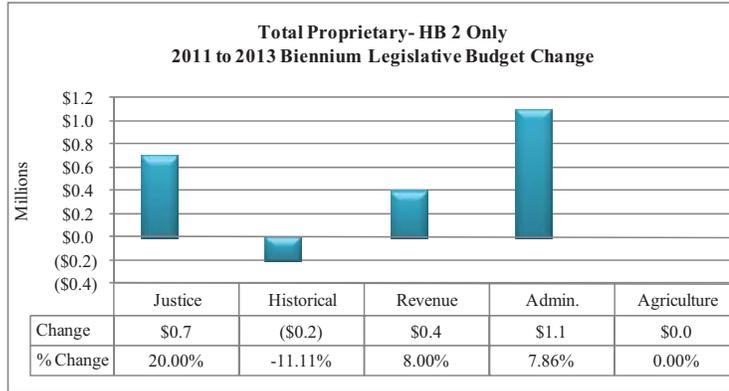
Most expenditures of proprietary funds are made in the Departments of Administration, Revenue, and Justice.

**Figure 19**



Proprietary funds are increased by \$2.1 million, or 7.8% from the 2011 to the 2013 biennium.

**Figure 20**



Please note that these totals are only the portion of proprietary funds appropriated in HB 2, which is 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 programs that utilize the services. If only non-budgeted proprietary funds are examined, total biennial appropriations are \$1,732 million, with an 8.6% increase, primarily in three areas:

- Montana University System for the university system benefits plan
- Department of Administration for various internal service funded programs
- Department of Labor and Industry for internal service functions

Volumes 3 and 4 of the 2013 Biennium LFD Fiscal Report contain discussions of all non-budgeted proprietary funds in the relevant agencies.

## BUDGET FOR LONG-RANGE PLANNING

### BACKGROUND.

The Long-Range Planning Subcommittee (LRP) analyzes and recommends appropriations and grant authorizations for capital projects to the legislature. 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. More information related to the LRP budgets is found in Volume 4 Section F of the Legislative Fiscal Report.

### LRP BUDGETS.

The Sixty-second Legislature approved total funds spending of \$142.3 million for the LRP budgets. For the 2013 biennium, the Sixty-second Legislature appropriated funds for nine programs. 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 (SBECP) – energy efficiency improvements to state owned buildings
- Long-Range Information Technology Program (LRITP) – major information technology build out and upgrade
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program (TSEPRW)– matching funds for major regional water projects
- Renewable Resource Grant and Loan Program (RRGLP)– water conservation grants and loans to local governments
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program – arts and historical grants
- Quality School Facility Grants Program – grants for major maintenance of K-12 school facilities

Figure 21 provides a summary of the legislative appropriations for the LRP programs.

**Figure 21**

Long-Range Planning Budgets 2013 Biennium (Dollars in Millions)								
Program	Appropriations				Non-Appropriations		Grand Total	Total %
	Capital Project	State Special	Fed Special	Bonds / Loans	Prop. Funds	Authoriz		
Long-Range Building Program	\$2.670	\$39.256	\$25.823		\$0.250	\$14.335	\$82.334	57.87%
State Building Energy Conservation Program							0.000	0.00%
Long-Range Information Technology Program							0.000	0.00%
Treasure State Endowment Program		14.754					14.754	10.37%
Treasure State Regional Water Program		3.920					3.920	2.76%
Renewable Resource Grant and Loan Program		7.690		\$13.724			21.414	15.05%
Reclamation and Development Grant Program		7.084					7.084	4.98%
Cultural and Aesthetic Grant Program		0.696					0.696	0.49%
Quality School Facilities Grant Program		12.069					12.069	8.48%
Grand Total	<u>\$2.670</u>	<u>\$85.469</u>	<u>\$25.823</u>	<u>\$13.724</u>	<u>\$0.250</u>	<u>\$14.335</u>	<u>\$142.272</u>	

**LEGISLATIVE ACTIONS OF NOTE**

Total legislative appropriations for the LRP budgets are \$142.3 million. This is 67% less than the LRP budgets in the 2011 biennium and 37% greater than the executive budget proposal. For the 2013 biennium, the largest source of program funding is state special revenue, \$85.5 million, and there is no general fund proposed to be appropriated in any of the programs. In the upcoming biennium, the highest amount of appropriations was provided for the LRBP, \$82.3 million. The legislature did not provide any appropriations for one LRP program, the SBCEP. Following the 2011 Legislative Session, the Governor vetoed the single appropriation that the legislature provided in the LRITP program, leaving two LRP budgets without appropriations in the 2013 biennium.

The legislature made transfers of \$44.3 million from LRP program funds to the general fund. As seen in Figure 22, the greatest change from the executive transfer proposal was the legislative decision to appropriate funds to the TSEP and TSEPRW programs. While the legislature provided appropriations to the programs, they also chose to transfer \$1.6 million of TSEP funds and \$1.0 million of TSEPRW funds to the general fund. The general fund will benefit by \$44.3 million through the various actions of the legislature.

**Figure 22**

Transfers from LRP Programs to the General Fund (Dollars in Millions)			
Program	Description	Action	Legislative Transfers
Long-Range Building Program	Project reduction / elimination	Transfer of Funds	\$10.686
Long-Range Building Program	Program funds transfer	Transfer of Funds	0.500
Long-Range Information Technology Program	Project reduction / elimination	Transfer of Funds	4.762
Treasure State Endowment Program	Program funds reduction	Transfer of Funds	1.570
Treasure State Regional Water Program	Program funds reduction	Transfer of Funds	1.000
Quality School Facilities Grant Program	Debt Service Funding Switch	Statutory change	17.172
Quality School Facilities Grant Program	Temporary funding reduction	Statutory change	8.560
Total General Fund Transfers from LRP Programs			<u>\$44.250</u>

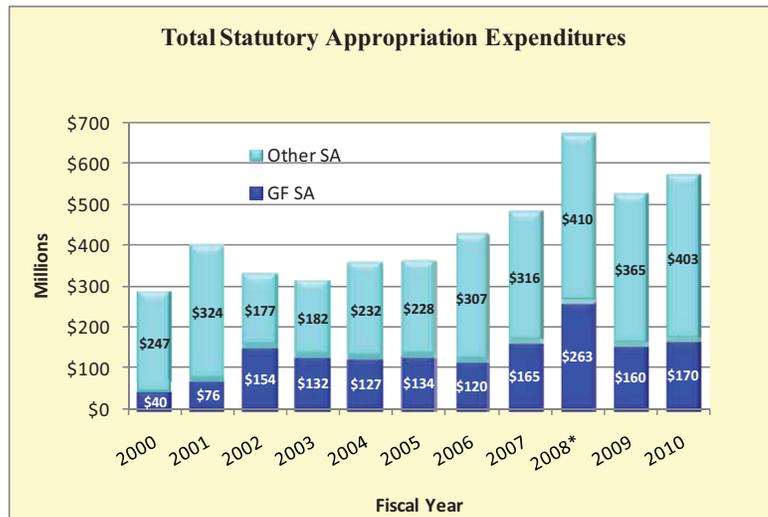
## STATUTORY APPROPRIATIONS

### 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.

Guidelines for the establishment of statutory appropriations are specified in 17-1-508, MCA. In FY 2010, a total of \$573.0 million was spent with statutory appropriations (Figure 23). The general fund expenditures were \$170.0 million. Total statutory appropriation expenditures since FY 2000 were \$4.7 billion, of which \$1.5 billion was general fund.

Figure 23



\*Excludes \$1.6 million spent by MUS in FY 2008 for optional retirement (HB 95-2007 session) without a statutory appropriation

Since statutory appropriations continue without review, there is no assurance the amount of money authorized to be spent still reflects the priorities of the current legislature. All statutory appropriations are available for the legislature to review, prioritize, and change if desired. Although vetoed by the governor, the legislature attempted to address this situation in HB 317. The legislation would have provided for the staggered sunset of 47 statutory appropriations from June 30, 2014 through June 30, 2020. Figure 24 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 percent 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, \$380.0 million general fund is expected to be spent with statutory appropriations, an increase of \$29.0 million over the estimated \$351.0 million to be spent in the 2011 biennium.

Figure 24

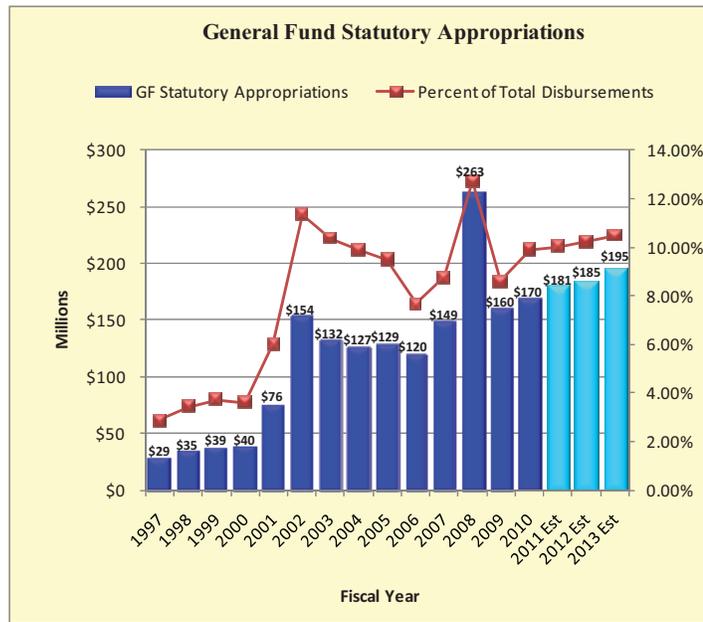


Figure 25 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet for FY 2011 through 2013. The largest single statutory appropriation of general fund occurs under 15-1-121, MCA. Under this statute, \$206.7 million is expected to be spent for entitlement payments to local governments and tax increment financing districts in the 2013 biennium. Except for the 2013 biennium (see House Bill 495 below), statute allows annual increases to the entitlement payments based on collections of certain types of revenue. 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 25

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
<b>Retirement</b>						
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/Polc 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	<u>1.875</u>	<u>1.794</u>	<u>1.794</u>	<u>\$3.589</u>
Sub-total			\$48.647	\$51.664	\$54.996	\$106.660
<b>Economic Development</b>						
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	<u>1.100</u>	<u>1.100</u>	<u>1.100</u>	<u>2.200</u>
Sub-total			\$3.065	\$3.065	\$3.065	\$6.130
<b>Other</b>						
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(5)	HB 124 - Combined Local Entitlement Distribution	2001	99.209	103.688	107.550	211.238
15-1-121(5)	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	<u>14.963</u>	<u>16.242</u>	<u>16.461</u>	<u>32.703</u>
Sub-total			\$128.971	\$134.888	\$139.119	\$274.007
<b>2011 Legislature - Changes to Existing Statutory Appropriations</b>						
15-1-121(5) *	HB 495 - Combined Local Entitlement Distribution	2011	0.000	(4.560)	(8.423)	(12.983)
15-1-121(5)	SB 372 - Combined Local Entitlement Distribution	2011	0.000	0	6.976	6.976
17-3-106(2)	HB 111 - DoFA Cash Management Interest	2011	0.000	0.068	0.070	0.138
17-7-502(4) **	HB 49 - Authorize the sale of bonds for Blackfoot water compact	2011	0.000	0.000	0.000	0.000
19-21-203	SB 138 - Decrease MUS employers' retirement contributions	2011	<u>0.000</u>	<u>(0.594)</u>	<u>(0.633)</u>	<u>(1.227)</u>
Sub-total			\$0.000	(\$5.086)	(\$2.010)	(\$7.096)
Total			\$180.683	\$184.532	\$195.170	\$379.701

\* No growth only for the 2013 biennium  
 \*\* \$311,722 in FY 2014 & \$1,220,069 in FY 2015

Although the 2011 Legislature did not enact any new general fund statutory appropriations that affect the 2013 biennium, it did enact five laws that change the amount of general fund appropriated from existing statutory appropriations. These include HB 49 that increases general fund debt service appropriations beginning FY 2014. Explanations of these bills follow.

**House Bill 495** – For each year of the 2013 biennium, the amount paid for local government and tax incremental financing districts entitlements remain constant at the amount received in FY 2011. Beginning in FY 2014, the entitlement share growth is based on two factors: The first factor is a ratio of revenue collections for the previous

two fiscal years to revenue collections for the previous second and third fiscal years from vehicle, boat, aircraft taxes and fees, gaming, and all beer, liquor and wine taxes multiplied by 75%. The second factor is a ratio of revenue collections for the previous two fiscal years to revenue collections for the previous second and third fiscal years from individual and corporation taxes multiplied by 25%. The entitlement growth is the lesser of: 1) the sum of the first and second factor; or 2) 1.03 for counties, 1.0325 for consolidated local governments, and 1.035 for cities and towns. The legislation is effective July 1, 2011 and applies to fiscal years beginning after June 30, 2011.

Senate Bill 372 reduces the taxation for a portion of the taxable market value of class eight business equipment. This reduces revenue to the general fund (95 mills and the 1.5 mills). To reimburse schools for the loss of revenue due to the reduction, additional amounts will be added to the general fund statutory appropriation for local government entitlement payments in 15-1-121, MCA. The first reimbursement payment of approximately \$7.0 million will be made in FY 2013. This legislation is effective July 1, 2011.

House Bill 111 changes the allocation of the lodging facility use taxes collected from state agencies for in-state lodging. The Department of Administration will deposit 30% of the total amount plus the amount paid by federal funds to the general fund. The amount paid by federal funds will be reimbursed to the federal government from the general fund statutory appropriation in 17-3-106, MCA. The remainder of the tax revenue collected from state agencies will be distributed under current allocations, including the new allocation to the historical interpretation (House Bill 477 enacted by the 2011 Legislature). The legislation is effective July 1, 2011.

House Bill 49 authorizes the issuance of \$16.15 million in general obligation bonds to pay for water-related infrastructure projects on the Blackfeet Indian reservation and for bond issuance costs (\$150,000). The bonds can only be issued if the water right compact between the Blackfeet Tribe, the State of Montana, and the United States has been ratified by the Blackfeet Tribe, the Montana Legislature, and the United States congress. The bonds are anticipated to be issued in July 2013 with a 20-year term at an interest rate of 4.4%. Debt service from the general fund will be \$311,722 in FY 2014 and \$1,220,069 for each subsequent fiscal year. The legislation is effective on passage and approval.

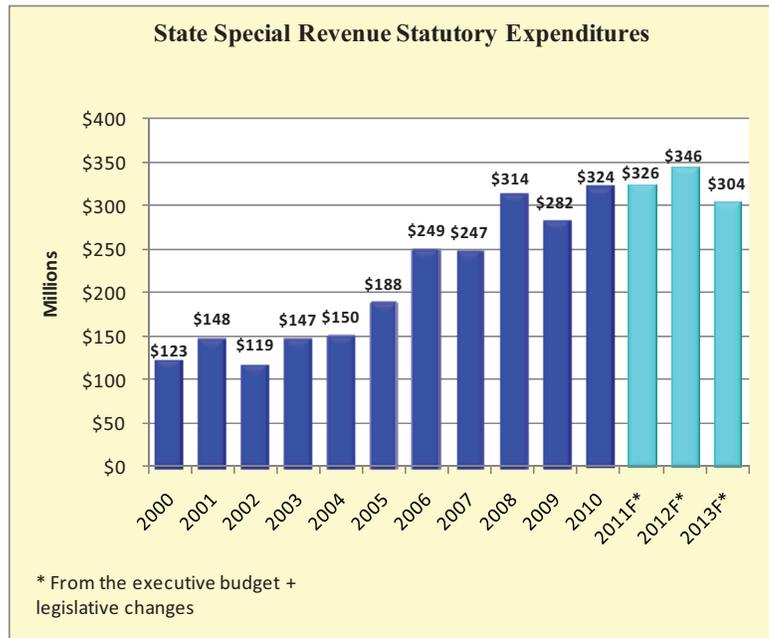
Senate Bill 138 limits the use of the general fund statutory appropriation for the Montana University System's optional retirement program to participants whose salary and benefits are paid from the current unrestricted subfund. Since those participants funded from other sources will no longer receive benefits from the general fund, general fund appropriations are reduced \$594,124 in FY 2012 and \$632,742 in FY 2013.

### State Special

It is estimated that \$649.1 million of state special revenue will be spent through statutory appropriations in the 2013 biennium. Figure 26 shows the amounts spent from FY 2000 through FY 2010 and the amounts estimated 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) 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 26**



The 2011 Legislature enacted 17 laws that increase state special revenue amounts statutorily appropriated by a net \$58.2 million in the 2013 biennium. These laws affect the appropriations by: 1) changing or eliminating existing statutory appropriations; 2) changing the amount of revenue deposited in accounts that are statutorily appropriated; or 3) creating new statutory appropriations. Although, vetoed by the Governor, the legislature attempted to address this situation in HB 317. The legislation would have provided for the staggered sunset of 47 statutory appropriations from June 30, 2014 through June 30, 2020. Figure 27 shows the amounts estimated from existing statutory appropriations and from new ones enacted by the 2011 Legislature.

Figure 27

State Special Revenue Statutory Appropriation Estimates Fiscal Years 2011-2013 (Millions)						
MCA Cite	Bill/Purpose	Legislative Session	Fiscal 2011	2013 Biennium		
				Fiscal 2012	Fiscal 2013	Total
<b>Existing Statutory Appropriations*</b>						
Multiple	Varied dedicated uses	Multiple	\$325.081	\$301.375	\$289.535	\$590.910
<b>Changes to Existing Statutory Appropriations - 2011 Legislature</b>						
15-35-121	HB 111 - Deposit state agency lodging tax in the general fund	2011	\$0.000	\$0.119	\$0.122	\$0.241
15-35-121	HB 477 - Lodging tax allocation to Montana Historical Society	2011	0.000	(0.475)	(0.493)	(0.968)
20-9-622(1)(b)	HB 2 - Guarantee account for school base aid	2011	0.000	0.280	0.282	0.562
20-9-622(1)(b)	HB 165 - Guarantee account for school base aid	2011	0.000	4.193	4.277	8.470
20-9-622(1)(b)	HB 604 - Guarantee account for school base aid	2011	0.000	27.400	0.000	27.400
20-9-622(1)(b)	SB 35 - Guarantee account for school base aid	2011	0.000	0.001	0.008	0.009
20-9-622(1)(b)	SB 329 - Guarantee account for school base aid	2011	0.000	10.906	7.980	18.886
20-9-622(1)(b)	SB 409 - Guarantee account for school base aid	2011	0.000	(0.022)	(0.561)	(0.583)
20-9-622(1)(b)	SB 410 - Guarantee account for school base aid	2011	0.000	0.149	0.614	0.764
23-5-603	SB 361 - Revise gambling laws	2011	0.000	0.011	0.056	0.068
41-5-2011(2)	SB 67 - Suspend juvenile intervention program evaluations	2011	(0.025)	(0.025)	0.000	(0.025)
Sub-total		2011	(\$0.025)	\$42.538	\$12.284	\$54.822
<b>New Statutory Appropriations - 2011 Legislature</b>						
23-4-105(2)	SB 16 - Board of horse racing and simulcasts requirements	2011	0.093	0.373	0.373	0.745
30-10-xxx	HB 81 - Create a securities restitution fund	2011	0.131	0.124	0.127	0.251
85-20-1505 **	HB 49 - Bonds to fund Blackfeet water compact	2011	0.000	0.000	0.000	0.000
85-20-1504	HB 79 - Blackfeet mitigation account interest payments	2011	0.650	0.650	0.650	1.300
76-13-4xx	HB 93 - Revise laws related to slash hazard reduction	2011	0.000	0.010	0.010	0.020
81-1-1xx	HB 622 - Livestock mitigation and control of predatory animals	2011	0.000	0.200	0.200	0.400
81-7-1xx	HB 622 - Livestock mitigation and control of predatory animals	2011	0.000	0.350	0.350	0.700
Sub-total			\$0.874	\$1.707	\$1.710	\$3.416
Total			\$325.930	\$345.620	\$303.529	\$649.148
* Amounts from the executive budget						
** \$16,150,000 in FY 2014						

## 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 28, 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 (\$25.0 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. In FY 2011, \$49.1 million of one-time transfers will occur due to legislation enacted by the 2009 Legislature. Transfers are estimated to be \$29.7 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. 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 28

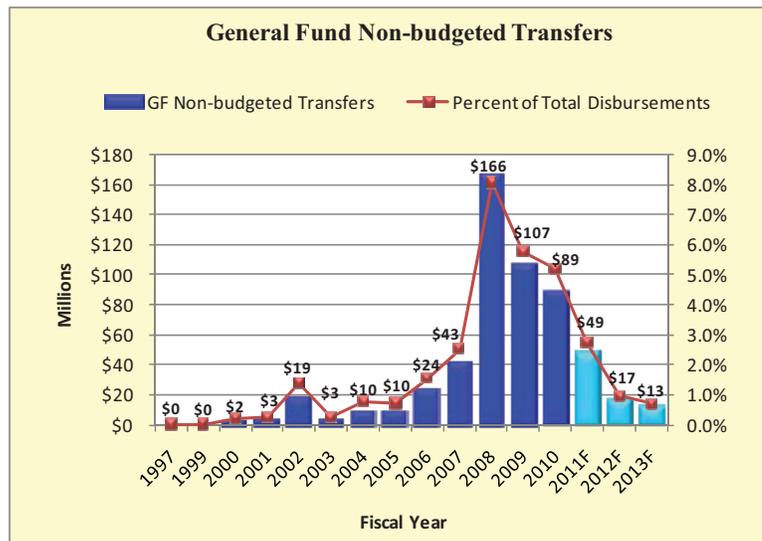


Figure 29 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet. Following Figure 7 are explanations of bills enacted by the 2011 Legislature that affect general fund transfers.

Figure 29

General Fund Non-budgeted Transfer Estimates Fiscal Years 2011-2013 (Millions)						
Authorization	Name	Legislative		2013 Biennium		
		Session	Fiscal 2011	Fiscal 2012	Fiscal 2013	Total
<u>Prior to 2011 Legislature - Vehicle/Other Fee Transfers</u>						
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	1.605	1.599	3.205
15-1-122(2)(c)(i)	FWP-Boat facilities & enforcement, OHV, Parks	2001	0.748	0.771	0.768	1.538
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	0.728	0.725	1.453
15-1-122(2)(e)	DOT-Disabled seniors transportation	2001	0.312	0.321	0.320	0.641
15-1-122(2)(f)	MA-Search and rescue	2001	In above	In above	In above	0.000
Subtotal			\$4.973	\$5.074	\$5.074	\$10.148
<u>Prior to 2011 Legislature - Other Transfers</u>						
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 - Incentive 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
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
Subtotal			\$2.529	\$11.768	\$7.441	\$19.209
<u>2009 Legislature</u>						
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 capital projects account	2009	6.545	0.000	0.000	0.000
Un-codified	HB 645 - To the long-range building capital 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 reclamation grants & loans account	2009	0.897	0.000	0.000	0.000
Subtotal			\$41.642	\$0.000	\$0.000	\$0.000
<u>2011 Legislature - New or Changes to Existing Transfers</u>						
39-71-2352(6)	SB 372 - Lower business equipment tax, reimburse 6-mill account	2011	0.000	0.079	0.184	0.263
15-1-122(3)	HB 622 - To the livestock loss reduction and mitigation account	2011	0.000	0.200	0.200	0.400
Subtotal			\$0.000	\$0.279	\$0.384	\$0.663
Total			\$49.144	\$17.122	\$12.898	\$30.020

Senate Bill 372 reduces the taxation for a portion of the taxable market value of class eight business equipment. To reimburse the Montana university system for the loss of 6-mill levy revenue due to the reduction, ongoing general fund transfers of \$79,060 in FY 2012 and \$183,635 in FY 2013 are deposited in the 6-mill state special revenue account. This legislation is effective July 1, 2011.

House Bill 622 authorizes an ongoing transfer of \$200,000 general fund each fiscal year to the livestock loss reduction and mitigation restricted state special revenue account. Money in the account is used to make payments to livestock producers for confirmed and probable livestock losses based on fair market value. Money in the account is statutorily appropriated. The statutory appropriation terminates June 30, 2017. The legislation is effective July 1, 2011.

## OTHER APPROPRIATION BILLS

Although a large majority of direct appropriations occur in the general appropriations act (HB 2), other bills may also contain appropriations. Figure 30 lists all bills in which a separate appropriation was made. These appropriations total \$232.3 million general fund and over \$2 billion for all funds. The extraordinary size of these appropriations is due to the inclusion of HB 645 totals. The list does not include bills that either establish or change existing statutory appropriations (see page 64). Supplemental appropriations are not included and are discussed in Appendix A. It should be noted that the general fund identified actually understates the general fund impact of these bills because in some instances, money is transferred from the general fund to a different fund account before it is appropriated. Transfers are discussed in this volume on page 69.

The long-range planning bills are discussed in Volume 4, Section F of this report. The other bills are discussed in the narratives of the impacted agencies in Volumes 3 and 4 of the *2013 Biennium Legislative Fiscal Report*, and a short description of these bills follows.

HB 587 – This bill provides an option for an associate water judge and appropriates \$22,000 each year from the water adjudication account to the Judicial Branch for related expenses.

HB 602 – This bill directs the water policy interim committee to conduct a study of ground water wells that are exempt from permitting and appropriates \$15,000 general fund for this purpose.

HB 621 – This bill revises laws relating to the prevention and control of aquatic invasive species, and appropriates a total of \$898,000 to three agencies for various prevention and control activities: \$558,000 to the Department of Agriculture, \$150,000 to the Department of Fish, Wildlife, and Parks, and \$190,000 to the Department of Natural Resources and Conservation.

HB 642 – This bill provides for a select legislative committee on efficiency in government and lays out several study areas. An appropriation of \$100,000 was made to the Legislative Services Division for expenses of the committee.

SB 329 – This bill generally revises education laws, and was the main vehicle for education policy changes by the 2011 Legislature. For a full discussion, see the Office of Public Instruction beginning on page E-1 of Volume 4 of the 2013 Biennium Legislative Fiscal Division Fiscal Report.

SB 348 – This bill appropriates \$274,000 each year from the state general license account and \$626,000 each year federal money to the Department of Fish, Wildlife, and Parks for wolf management, including the use of global positioning systems. The bill requires that FWP allocate \$900,000 each year for wolf management.

Figure 30

Other Appropriation Bills FY 2011 and 2013 Biennium										
Bill No.	Short Title	FY 2011			FY 2012			FY 2013		
		General Funds	State Special	Other Funds <sup>1</sup>	General Funds	State Special	Other Funds <sup>1</sup>	General Funds	State Special	Other Funds <sup>1</sup>
<b>Long-Range Planning Bills</b>										
HB 5	Long-Range Building appropriations <sup>2</sup>	\$0	\$34,443,330	\$19,805,500	\$0	\$0	\$0	\$0	\$0	\$0
HB 6	Renewable Resource grants and loans	0	0	0	0	7,690,000	0	0	0	0
HB 7	Reclamation and Development grants and loans	0	0	0	0	6,790,722	0	0	0	0
HB 8	Renewable Resource bonds and loans	0	0	0	0	13,724,457	0	0	0	0
HB 9	Cultural and Aesthetic grants	0	0	0	0	724,976	0	0	0	0
HB 296	Southwest Montana Veterans Home in Butte	0	0	0	0	481,250	893,750	0	1,751,750	3,253,250
HB 351	Treasure State Endowment Program appropriations & transfers to general fund	0	0	0	0	16,537,342	0	0	0	0
	Sub-Total	\$0	\$34,443,330	\$19,805,500	\$0	\$45,948,747	\$893,750	\$0	\$1,751,750	\$3,253,250
<b>Other Appropriation Bills</b>										
HB 1	Feed bill for legislative session	\$8,053,281	\$0	\$0	\$0	\$0	\$0	\$270,184	\$0	\$0
HB 587	Provide option for associate water court judge	0	0	0	0	22,000	0	0	22,000	0
HB 602	Require interim study of exempt water wells	0	0	0	12,479	0	0	2,521	0	0
HB 621	Revise aquatic invasive species laws and provide appropriation	0	0	0	449,000	0	0	449,000	0	0
HB 642	Create select committee on efficiency in government--members--duties	0	0	0	100,000	0	0	0	0	0
SB 329	Generally revise K-12 laws	0	0	0	0	0	0	1,000,000	0	0
SB 348	Revise funding for wolf management	0	0	0	0	274,000	626,000	0	274,000	626,000
	Sub-Total	\$8,053,281	\$0	\$0	\$561,479	\$296,000	\$626,000	\$1,721,705	\$296,000	\$626,000
	Total All Bills	\$8,053,281	\$34,443,330	\$19,805,500	\$561,479	\$46,244,747	\$1,519,750	\$1,721,705	\$2,047,750	\$3,879,250
Notes: <sup>1</sup> Other funds might be federal funds, proprietary funds, and/or capital project funds.										
<sup>2</sup> Although long-range building moneys are appropriated in FY 2011, the spending authority continues into the 2013 biennium.										

## LANGUAGE APPROPRIATIONS IN HB 2

The language appropriations, because of their nonspecific nature, are not included in the summary tables in this volume and Volumes 3 and 4. Those tables only include HB 2 line item appropriations. As a matter of record, the HB 2 language appropriations are summarized by agency in Figure 31. The specific language of each appropriation can be found in HB 2 in the narrative portions that follow the affected agencies.

Figure 31

HB 2 Language Appropriations									
Agency and Language Item	2013 Biennium			FY 2012			FY 2013		
	General Fund	State Special	Other Funds	General Fund	State Special	Other Funds	General Fund	State Special	Other Funds
Governor's Office									
Air Transportation Program		\$45,000			\$45,000				
Department of Revenue									
Liquor Division for Inventories, etc.	\$0	\$0	\$254,000,000 <sup>a</sup>	\$0	\$0	\$124,000,000	\$0	\$0	\$130,000,000
Department of Environmental Quality									
Petro Board for Contract Expenses	0	500,000	0	0	500,000	0	0	0	0
Department of Livestock									
To Meet Service Levels for Accreditation	0	30,000	0	0	30,000	0	0	0	0
Department of Natural Resources/Conservation									
Prior Liens	0	600,000	0	0	600,000	0	0	0	0
Coal Bed Methane Account for Water Losses	0	333,000	0	0	333,000	0	0	0	0
Broadwater Hydro	0	1,000,000	0	0	1,000,000	0	0	0	0
Repair, etc. Broadwater-Missouri Diversion	0	100,000	0	0	100,000	0	0	0	0
Repair, Improve, Rehab State Water Projects	0	500,000	0	0	500,000	0	0	0	0
Fire Suppression Costs	0	23,000,000	0	0	23,000,000	0	0	0	0
Carrying Out Provisions of SB 410	0	60,885,000	0	0	60,885,000	0	0	0	0
Crime Control Division									
2009 Biennium Reversions	200,000	360,000	\$14,000,000 <sup>b</sup>	100,000	180,000	7,000,000	100,000	180,000	7,000,000
Department of Public Health & Human Services									
Quality Assurance Div Recovery Audit Costs	0	103,061	204,308	0	103,061	204,308	0	0	0
Office of Public Instruction									
State Traffic Education Account	0	2,200,000	0	0	1,100,000	0	0	1,100,000	0
Montana University System									
Interest Earnings & Other Revenue to Units	0	0	11,360,471	0	0	5,679,898	0	0	5,680,573
Interest Revenue to Forest & Cons Exp Station	0	0	4,000	0	0	2,000	0	0	2,000
Sales Revenue to Bureau of Mines	0	0	96,000	0	0	48,000	0	0	48,000
Interest Revenue to Fire Training School	0	0	400	0	0	200	0	0	200
<b>Total</b>	<b>\$200,000</b>	<b>\$89,656,061</b>	<b>\$279,665,179</b>	<b>\$100,000</b>	<b>\$88,376,061</b>	<b>\$136,934,406</b>	<b>\$100,000</b>	<b>\$1,280,000</b>	<b>\$142,730,773</b>

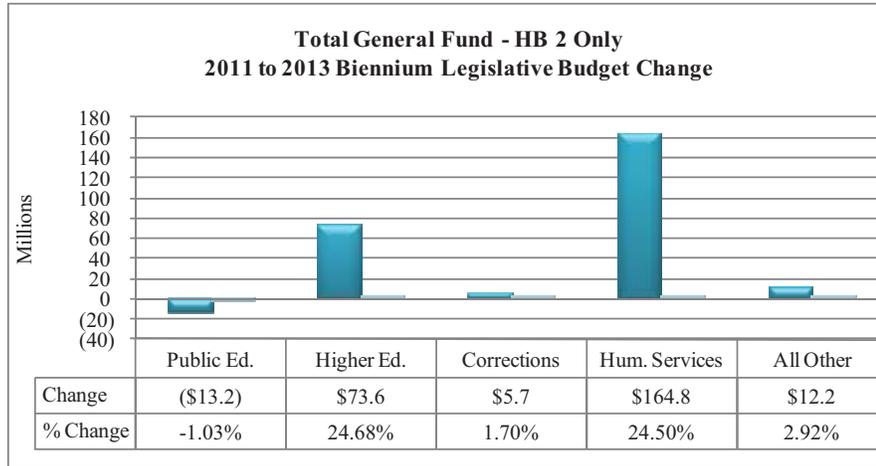
<sup>a</sup> "Other funds" for the Liquor Division are proprietary funds to maintain inventories, pay freight charges, and transfer profits and taxes to appropriate accounts.

<sup>b</sup> "Other funds" for the Crime Control Division are federal funds.

## MAJOR EXPENDITURE ALLOCATIONS

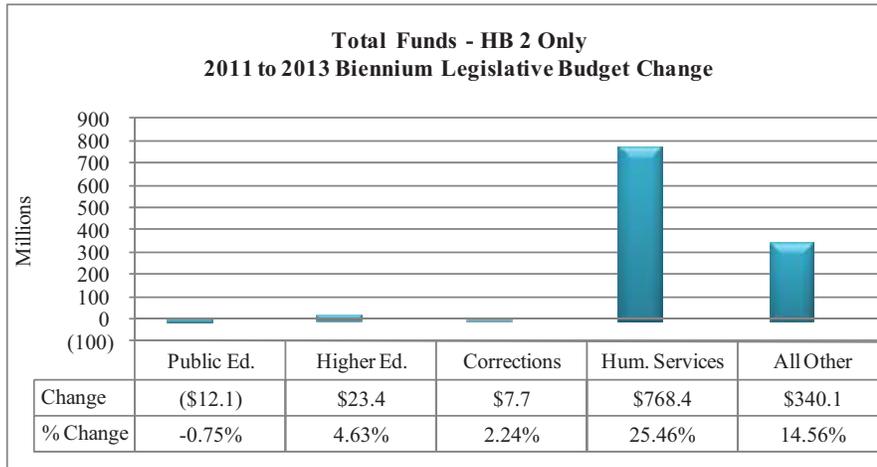
Figures 32 and 33 show the allocation of the increases in HB 2, by function, for general fund and total funds.

**Figure 32**



Total increases are shown in the following figure.

**Figure 33**



As stated earlier, the increase in general fund is not representative of the increase in state government due to factors that overstate the growth. For a further discussion, see page 79 in this volume and the Office of Public Instruction narrative beginning on page E-1 of Volume 4.

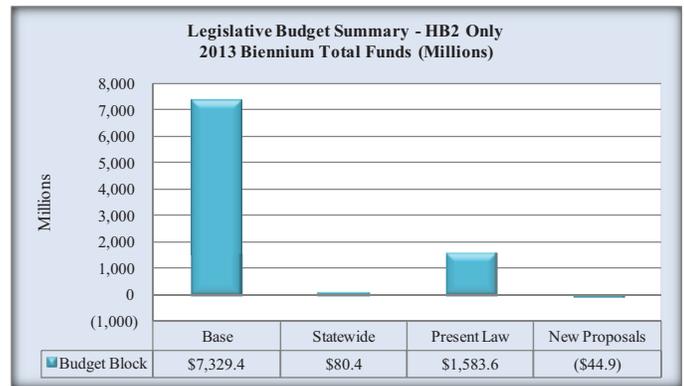
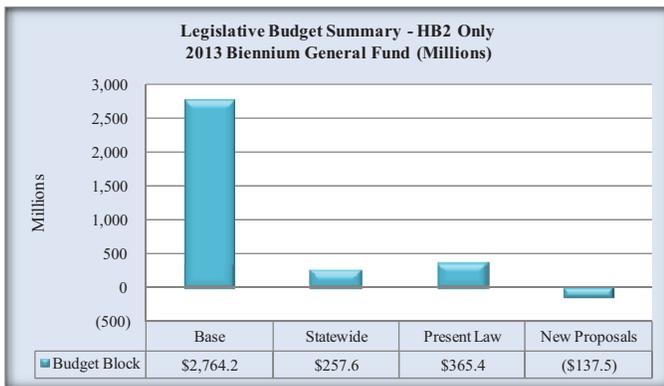
**BUDGET IS GENERALLY A REDUCED PRESENT LAW (MAINTENANCE)**

Present law is considered to be the funding necessary to maintain operations of state government at the level passed by the previous legislature, including phased-in legislation. The budget passed by the 2013 Legislature is essentially a reduced present law. As shown in the “Further Examination” section, present law comprises over 100% of the total increases to the base for all funds and for general fund, and new proposals are negative. The legislature essentially funded present law adjustments, but then reduced those adjustments by items primarily included in plans submitted by agencies as required by statute to reduce general fund and certain state special revenues by 5%.

The following figures show the allocation of base, statewide present law adjustments, other present law adjustments, and new proposals for general fund and other funds. Statewide present law adjustments are those adjustments to account for ongoing costs of personal services (including the pay plan passed by the previous legislature, partially offset by a vacancy savings rate), inflation, and fixed costs (discussed on page A-13 of this volume).

As stated earlier, the statewide present law adjustments include replacement of one-time federal and other funds with general fund, resulting in the large difference between general fund and total funds appropriated for those adjustments. Because of this factor, the total fund change, which includes the net of the replacement, more accurately reflects the actual increase.

**Figure 34 and 35**



**LEGISLATIVE BUDGET IS LOWER THAN EXECUTIVE BUDGET**

The total budget is \$78.8 million lower than the proposed HB 2 executive budget in general fund and \$33.5 million in total funds. The differences within each agency are due to a number of and sometimes offsetting factors.

As shown in the figure that follows, the primary differences in general fund are due to adoption by the legislature of 5% reductions greater than the executive proposed, funding switches, and a lower inflation rate applied to K-12 education. The primary factor partially offsetting these reductions was updated Medicaid estimates presented by the Governor in February and not included in his original budget.

The legislature essentially adopted the executive’s correctional population estimates and Medicaid projections.

**Figure 36**

Comparison to Executive HB 2 Budget HB 2 November 15th Version 2013 Biennium	
Component	General Fund
Total Executive Request	\$3,328.5
Total Legislative Budget	<u>3,249.7</u>
Difference	<u>(\$78.8)</u>
5% Reduction Plans	(29.7)
Workers Comp Reductions (HB 334)	(2.2)
K-12*	
Various Adjustments	(37.8)
No Inflation on Spec Ed Payment	(2.7)
No Inflation on Block Grants	(2.0)
SB 372 Block Grant	6.4
DPHHS	
Medicaid Caseload Update	14.2
Eliminate Funding for Contraceptives	(0.9)
Physical Health Caseload	(4.3)
Health Montana Kids Presumptive Eligibility	3.5
Corrections	
Fewer Secure Beds and Outside Medical	(3.9)
Use SSR to Replace General Fund	(1.8)
Higher Education	
Fund at Lower Percentage of General Fund	(8.1)
Difference of Funding for Units/Agencies	(2.3)
Additional Agency Funding	2.5
Reduced Initiative Funding	(1.6)
Miscellaneous Other	(8.1)
*Does not include the anticipated supplemental appropriation in the 2013 biennium due to the failure to pass of HB 316.	

For a further discussion of all differences from the executive, including a detailed discussion of the differences in K-12, please see the individual agency narratives in Volumes 3 and 4.

**K-12 RECEIVES AN INFLATION INCREASE, BUT A GENERAL FUND SUPPLEMENTAL FOR BASE AID WILL BE REQUIRED IN THE 2013 BIENNIUM**

While it appears from the figure on page 57 that general fund for K-12 education is reduced in the 2013 biennium, the legislature actually approved an increase of \$29.3 million in funding above the amount appropriated from all sources for ongoing expenditures in the 2011 biennium.

In the 2011 biennium there were four sources of funding for K-12: 1) general fund; 2) state special revenue; 3) the statutorily appropriated guarantee account; and 4) federal American Recovery and Relief Act (ARRA) stabilization and education jobs funds. In FY 2010 the guarantee account contained over \$81.5 million of one-time revenues from Otter Creek coal leasing revenues.

For the 2013 biennium the legislature:

- 1) Replaced the one-time federal and Otter Creek revenues for on-going expenditures;
- 2) Provided an inflationary increase of 1% in FY 2012 and 1.6% in FY 2013 and;
- 3) Underfunded Base Aid by \$53.4 million due to the Governor’s veto of HB 316 as described below.

The following figure illustrates the funding differences between the 2011 biennium and the 2013 biennium.

Biennial Comparison of OPI's Budget - 2013 Biennium v 2011 Biennium (in millions)				
Fund	FY 2010	FY 2011	FY 2012	FY 2013
General Fund	\$560.053	\$627.399	\$617.403	\$652.397
State Special	0.975	0.979	9.573	9.573
Guarantee Account	134.317	47.986	111.377	93.548
Federal Stabilization (ARRA)	<u>25.331</u>	<u>67.510</u>	<u>0.000</u>	<u>0.000</u>
Total State Spending/Appropriations	<u>\$720.676</u>	<u>\$743.874</u>	<u>\$738.353</u>	<u>\$755.518</u>
Biennial Difference				\$29.321

The two bills that altered K-12 policy were SB 329, the major school funding bill, and HB 604, a bill to increase revenues in the guarantee account. HB 2 contained appropriations consistent with these bills as well as appropriating various categorical items for K-12.

SB 329 increased the basic entitlements for elementary, middle school and high school, and the per-ANB entitlements for elementary and high school by 1% in FY 2012 and by 2.43% in FY 2013. However, the increase in the second year was contingent on HB 316, a bill transferring certain ending fund balances to the guarantee

account, which the Governor vetoed. This action reduced the FY 2013 increase in entitlements to 1.6%. The cost to the state of the inflation provisions is \$19.9 million, a reduction of \$4.6 million from the 2.43% level.

SB 329 also increased revenues in the guarantee account by redistributing oil and natural gas severance tax revenues from school districts with revenues in excess of 130% of a district's maximum general fund budget and numerous other changes. HB 604 transferred \$27.4 million of state special revenue funds from the junk vehicle account, orphan share fund, oil and gas privilege and license tax fund, and the coal bed methane protection fund to the guarantee account. All of these funds were used to pay for direct state aid to school districts. For a complete discussion, see the Office of Public Instruction narrative beginning on page E- 1 of Volume 4.

HB 2 appropriated the money for Base Aid to school districts for the 2013 biennium. However the amount appropriated for Base Aid was predicated on HB 316 paying for a portion of Base aid out of US mineral royalties in the guarantee account. HB 316 was vetoed and as a result the transfer of US mineral royalties of about \$56.8 million to the guarantee account was not accomplished. As a result of the net between this under-appropriation and the over-appropriation of inflation in FY 2013, there will be a general fund Base Aid supplemental required in the 2013 biennium of \$53.4 million.

A further discussion of the agency begins on page E-1 of Volume 4 of the 2013 Biennium Legislative Fiscal Report.

## HIGHER EDUCATION RECEIVES PRESENT LAW ADJUSTMENTS AND ONE-TIME FUNDING

The 2013 biennium state budget for the Montana University System (MUS) is \$23.4 million (\$73.6 million general fund) higher than the 2011 biennium budget. The 2011 Legislature replaced \$59.5 million of federal State Fiscal Stabilization Funds appropriated in HB 645 by the 2009 Legislature with general fund to continue base level educational services in the Montana University System. In addition, the 2011 Legislature continued about \$21.0 million of the \$31.5 million of one-time-only HB 645 funds appropriated by the 2009 Legislature for community colleges, tribal colleges, and the MUS educational units and agencies. Had HB 645 been included in the 2011 base budget biennium appropriation, the 2013 biennium budget difference would be about \$8.1 million.

Major adjustments included:

- \$3.7 million in new proposals that increased base funding for the Agricultural Experiment Station, Montana Bureau of Mines Ground Water Investigation Program, Tribal College Assistance, and the Public Broadcasting System (PBS)
- \$5.5 million in increased state funding for the state's three community colleges reflecting use of the statutory funding formula, an anticipated 14% enrollment increase in the 2013 biennium, and the state percent share at 50.8%
- \$12.7 million for a one-time-only state funding increase for the MUS educational units and for MUS research

- Present law adjustments
- Implementation of the plan submitted by the agency as required in statute to reduce general fund and certain state special revenues by 5%

Although the legislature approved a biennial budget increase, as just noted, a large portion of the increase was funded from a one-time-only appropriation that will not be included in the base budget for the 2015 biennium unless reauthorized by the 2013 Legislature. In addition, the legislature replaced general fund with federal special revenue in the Student Assistance Program for the 2013 biennium. This fund switch is likely unsustainable in the 2015 biennium due to the one-time availability of the federal special revenue.

A further discussion begins on page E-70 of Volume 4 of the 2013 Biennium Legislative Fiscal Report.

### **HUMAN SERVICES INCLUDE CASELOAD AND UTILIZATION INCREASES AND REPLACEMENT OF FEDERAL STIMULUS FUNDS**

The Department of Public Health and Human Services (DPHHS) 2013 biennium budget is \$768.4 million (\$164.8 million general fund) higher than the 2011 biennium budget. The majority of the increase is due to continuing services funded in HB 645 by the 2009 Legislature, including funding for ongoing Medicaid and Supplemental Nutrition Assistance Program (SNAP) benefits. Had HB 645 been included in the 2011 base budget biennium appropriation, the 2013 biennium budget difference would be about \$250.0 million.

Funding for benefits (direct services to eligible persons) is most of the increase and adds \$731.7 million total funds over the biennium, primarily due to:

- Medicaid service utilization and eligibility increases - \$333.3 million, including \$147.8 million general fund
- SNAP - \$215.0 million
- Healthy Montana Kids services for children in families with incomes above 100% of the federal poverty level - \$79.8 million
- Federal appropriation authority to distribute among programs - \$50.9 million
- Low Income Energy Assistance Programs (LIEAP) - \$20.0 million
- Temporary Assistance for Needy Families (TANF) benefits and employment programs - \$12.8 million

Other significant appropriation changes in the 2013 biennium include:

- Federal pass through incentive payments to healthcare providers that adopt electronic health records - \$35.3 million
- Federal child care and related food program grants - \$9.9 million
- Foster care and subsidized adoption - \$9.1 million
- Weatherization and community assistance - \$6.0 million
- Funding for 20.00 new FTE to administer Healthy Montana Kids - \$1.9 million

A further discussion of the agency begins on page B-1 of Volume 3 of the 2013 Biennium Legislative Fiscal Report.

### **CORRECTIONS INCLUDES ANNUALIZATION OF 2011 BIENNIUM INCREASES AND NEW BEDS**

The legislature provided funding for this agency that is \$7.6 million total funds (2.2%) and \$5.8 million general fund (1.7%) greater than 2011 biennium funding.

When compared to the agency base budget the legislature provided about \$15.7 million general fund to support increases in community alternative and secure custody beds. The bulk of this funding supports the costs of existing beds. However, the legislature did provide \$6.6 million for additional beds (\$3.6 million for community placement alternatives and \$3.0 million for secure custody). The number of community placement beds supported by the \$3.6 million was not specified but is consistent with the executive request to fund 34 community treatment beds and 20 prerelease beds. The \$3.0 million for secure custody beds supports 100 additional secure beds and 20 new secure assisted living beds.

Increases in funding are offset by general fund reductions of about \$6.9 million consistent with the statutorily required plan to reduce general fund and certain state special revenue funds by 5% as submitted by the agency. The legislature also adopted other smaller reductions totaling \$1.3 million and funding shifts from general fund to state special revenue funds totaling \$1.8 million.

A further discussion of the agency begins on page D-77 of Volume 4 of the 2013 Biennium Legislative Fiscal Report.

### **TRANSPORTATION REFLECTS ANTICIPATED FEDERAL REVENUES**

The 2013 biennium budget for the Department of Transportation is \$277.4 million higher than the 2011 biennium. The biennium budget growth is due primarily to: 1) federal and state special revenue increases to match and expend higher anticipated federal-aid highway construction funds; and 2) expansion of the state funded construction program to \$40.0 million per year. In the 2011 biennium the state funded construction program was \$10.0 million annually, which is the minimum level needed to maintain a favorable match rate on federal-aid funding. The federal funding for the 2013 biennium are assumed funding levels that are not based on requirements within federal highway funding formulas applicable for the 2013 biennium as Congress has failed to enact a multi-year federal highway funding act to provide the funding formulas that typically exist.

A further discussion of the agency begins on page C- 64 of Volume 4 of the 2013 Biennium Legislative Fiscal Report.

## FIRE SUPPRESSION FUNDING

The legislature maintained funding for fires in the 2013 biennium with the state special revenue fire suppression fund. This fund is anticipated to have an ending fund balance of \$18.6 million, which includes the transfer of \$3.0 million to the general fund in HB 604.

The average fire suppression costs over the last seven years, with the high and low year removed is about \$11.9 million. Therefore, if actual state obligations for fire suppression costs are near the seven year average, the fund would be sufficient to fund partway through the 2013 biennium. Any state obligations for which the fire suppression fund is insufficient are paid from the general fund via any remaining appropriation for emergencies and then a supplemental appropriation.

A further discussion is in the Department of Natural Resources and Conservation beginning on page C-120 of Volume 4.

## LEGISLATIVE PAY PLAN

The legislature did not pass a state employee pay plan.

## VACANCY SAVINGS

The legislature applied a 4% vacancy savings to the personal services appropriations for most programs and positions of state government. The total reduced is about \$24.0 million general fund and \$54.0 million total funds.

### Exceptions

There are several exceptions.

#### *Programs with no Vacancy Savings*

- Agencies with 20.00 or fewer FTE
- Highway patrol officers (exempted per statute)
- Game wardens (exempted per statute)
- University system faculty
- Legislative Branch (hold positions open equivalent to about 2%)
- Portions of the Montana School for the Deaf and Blind

#### *Programs with Less than 4 Percent but More than 0 Percent*

- Judiciary – 2%
- Public Service Commission – 2%

Two programs in the Montana School for the Deaf and Blind – Education and Student Services - had no vacancy savings applied. Legislation was passed by the 2011 Legislature making the budget for the entire school exempt from future application of vacancy savings.

## ONE-TIME-ONLY (OTO) EXPENDITURES

OTO expenditures are those expenditures that the legislature has provided appropriations for that cannot be included in the base used to build the 2015 biennium budget. As a result, they can be funded with OTO revenues. OTO expenditures funded by the legislature in the 2013 biennium total \$25.8 million general fund and \$121.7 million total funds.

Among the major appropriations provided on a one-time-only basis are:

- Additional funding for the university system units and for research - \$12.7 million
- Various economic development programs and high performance computing in the Department of Commerce - \$4.1 million
- Area Agencies on Aging - \$3.0 million
- Multi-district cooperatives in K-12 education - \$1.0 million
- Costs of a death penalty case in the Office of the Public Defender - \$0.9 million

Some of the OTO appropriations in HB 2 fund programs that have been ongoing for several biennia, including new worker training, tribal economic development, and the Main Street Program. While no expenditures in FY 2012 will appear in the base for these functions, the legislature may once again be asked to continue funding in new proposal requests.

In addition, there are instances in which one-time funds were used to replace general fund for ongoing operations in one program in order to use the freed-up general fund in another program. The 2013 Legislature will need to replace the general fund or reduce ongoing operations:

- Department of Public Health and Human Services, where general fund to support child care was replaced with one-time federal funds and the general fund used in the Disability Services Division. The legislature changed statute to allow the department to include the equivalent of any of the one-time federal fund expended in the budget base - \$2.5 million
- Montana University System, where one-time fund balance in the Guaranteed Student Loan Program was used to replace general fund in student assistance - \$4.0 million

The major OTO appropriations made with other funds are the following:

- In DPHHS, health information technology payments and a direct care provider rate increase - \$45.2 million
- Additional state highway construction activity - \$30.0 million

All individual OTO appropriations in HB 2 are discussed within the relevant agency narratives in Volumes 3 and 4.