BUDGET BASICS

INTRODUCTION

This section provides an overview of certain basic budgeting and appropriations concepts, terms, and tools. It consists of the following sections.

Budget Process – A Primer. This document provides a basic grounding in a number of budget terms and concepts used in budgeting and appropriations and throughout the Legislative Budget Analysis.

Public School Funding – A Primer. K-12 public school funding is not only a significant general fund expenditure and an area of major legislative policy, the concepts and methodologies used to determine the budget are very complex. This section is designed to provide grounding in the workings of the BASE aid school funding mechanisms. A discussion of the 2005 biennium proposed K-12 expenditures is included in the Office of Public Instruction narrative on page E-14, Volume 4 of the Legislative Budget Analysis.

General Fund Status Sheet. The general fund status sheet is produced by the Legislative Fiscal Division throughout the legislative session (beginning approximately mid-way through) and provides the legislature with a current projection of the financial status of the general fund. This section describes the sheet and explains its components.

Budget Comparison Methodology. The legislature has traditionally compared expenditure growth from biennium to biennium to assess performance and growth patterns. Statute prescribes the methodology used to ensure consistent, accurate comparisons. This section explains the methodology. Figures 1 and 2 on pages 58 and 59 of this volume provide the comparison.

Index to Other LFD Budget Reference Documents. Previous year Legislative Budget Analysis and Legislative Fiscal Reports, current training publications, and brochures on various fiscal topics are available as additional tools available to the legislature and other interested parties. This section describes these resources.

BUDGET PROCESS – A PRIMER

PURPOSE

This section provides an overview of the basic budget concepts, definitions of budget terms, and background and reference information pertinent to the 2005 biennium budget and legislative appropriations process. For more in-depth information, see "Understanding State Finances and the Budgeting Process", available through the Legislative Fiscal Division.

TYPES OF LEGISLATIVE APPROPRIATIONS

Article VIII, Section 14, of the Montana Constitution reads:

> "Prohibited Payments: Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof."

Appropriations power lies with the legislature. In 17-7-501, MCA, three types of appropriations fall within the meanings of "appropriation made by law" as used in Article VIII, Section 14, of the Montana Constitution.

Temporary appropriations – Most activities of state government are funded on a temporary basis, usually for two-year periods. Funding, therefore, must be reauthorized by each legislature. The main vehicle for the provision of temporary appropriations is HB 2 (the General Appropriations Act).

Statutory appropriations – Statutory appropriations are made directly in statute, and are automatically made until and unless the law is changed. Statutory appropriations are listed in 17-7-502, MCA.

Budget amendments – Various authorities (most often the Governor) can approve the addition of certain funds (primarily federal) during the interim if certain statutorily- defined conditions are met. General fund appropriations cannot be added without express legislative approval.

In limited cases, authorizations to expend funds can also be made through appropriation or under general laws and contracts. The great majority of state agency operations are funded through temporary appropriations.

FUND TYPES

Governmental accounting differs from private enterprise accounting in that funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting.

1. Governmental funds consist of the following funds:
   - General fund includes all financial resources except those that must be accounted for in another fund. The general fund collects most general taxes levied, including individual and corporate income tax, property tax, and investment income. Revenue from a number of other taxes is also deposited into the general fund.
   - Special revenue funds consist primarily of two funds. 1) State special revenue is money from state and other sources earmarked for the purpose of defraying particular costs of an agency, program, or function. The largest state special revenue accounts are the Highways State Special Revenue Account (HSSRA), which collects various fuel taxes and is used to support highway-related functions, and the general license account, which collects various hunting and fishing fees and is used to support functions in the Department of Fish, Wildlife, and Parks. 2) Federal special revenue is revenue from federal sources. Most state agencies receive some federal funds. The two major sources of federal funds are used to support highway-related functions and human services programs such as Medicaid. This fund also accounts for trust activity formerly defined as expendable trusts.

- o Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligations, including principal and interest. Debt service funds are statutorily appropriated.
- o Capital projects funds are financial resources used for the acquisition or construction of major fixed assets. These funds are appropriated through bills that fund capital projects.
- o Permanent funds account for resources that are restricted to the extent that only earnings and not principal may be expended for purposes that support state programs. These resources were formerly classified as non-expendable trusts (i.e. the coal tax trust).

2. Proprietary funds are used for operations that provide goods or services to the public on a user-charge basis (enterprise funds), or to other agencies or programs of state government (internal service funds).
3. Fiduciary funds provide for those assets held by state government in a trustee capacity, or as an agency for individuals, private organizations, other governmental entities, or other funds.
4. University funds are used to support the university system and are classified according to the College and University Business Association (CUBA) structure. The legislature appropriates a portion of the funds used to support the university system as governmental funds, which are then reclassified as university system funds.

With the exception of a small portion of proprietary funds, the legislature does not directly appropriate proprietary, fiduciary, or university funds. The legislature directly appropriates most governmental funds. Debt service funds are usually statutorily appropriated. Capital projects funds are appropriated in the bills that fund the capital projects. The great majority of general fund monies and special revenue funds are appropriated through temporary appropriations bills.

HB 2

The temporary spending bill through which almost 83 percent of general fund monies and special revenue funds are appropriated is HB 2, the General Appropriations Act. The budget analysis contained in Volumes 3 and 4 of the Legislative Fiscal Division 2005 Biennium Executive Budget Analysis concentrates on the appropriations proposed for inclusion in HB 2.

Statute requires that the legislature establish fees and charges for all internal services functions. Statute further restricts programs from increasing those fees and charges during the biennium. The Executive Budget must also include a rate analysis of enterprise funds and internal service fees and charges. While only a small portion of proprietary funds are appropriated in HB 2, all rates approved by the legislature are listed in that bill.

Figure 1 shows all internal services rates reviewed and approved by the legislature.

BUDGET TERMS

Budgets must, by statute, be submitted in three tiers to allow legislative scrutiny of all stages of budget development:

The base - defined as the resources for the operation of state government, and used to cover current biennium expenses of an ongoing and non-extraordinary nature. The base and how it is derived are discussed in more detail in the "Base Budget" portion of this narrative.

Present law - defined as that additional level of funding needed to maintain operations and services at the level authorized by the previous legislature. Present law includes but is not limited to legally-mandated workload, caseload, or enrollment changes, changes in funding requirements, inflationary or deflationary adjustments, and elimination of one-time appropriations.

New proposals - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

Changes to the budget are made individually through decision packages, which must be approved by the legislature. Decision packages can either change present law or add new proposals approved for funding.

Figure 1
Internal Services Functions
2005 Biennium

Agency/Program or Function
Secretary of State
Records Management
Administrative Rules
Transportation
Motor Pool
Equipment
Revenue
Customer Service Center
Administration
Accounting/Management Support
Procurement and Printing
Information Services, including SABHRS Operations
General Services
Mail and Distribution
Professional Development Center
Payroll
State Employee Benefits
Risk Management/Tort Defense
Fish, Wildlife, and Parks
Administration and Finance
Capitol Grounds Maintenance
Aircraft and Vehicle Usage
Duplicating and Bindery
Environmental Quality
Central Management
Natural Resources and Conservation
Air Operations
Commerce
Local Government Services
Board of Investments
Director/Management Services
Justice
Agency Legal Services
Corrections
Corrections Enterprises
Cook/Chill
Labor and Industry
Professional and Occupational Licensing
Central Services Division
Office of Public Instruction
Centralized Services
Advanced Drivers Education
Montana University System

SUBMISSION DATES

The director of the Office of Budget and Program Planning (OBPP) is required to submit a preliminary budget reflecting the base budget to the LFD by October 10, and a preliminary budget reflecting a present law base by November 1 in the year before a session. The director is further required to submit an entire preliminary budget by November 15. The LFD provides a detailed and comprehensive analysis of the Executive Budget, as well as an analysis of other fiscal policy issues.

BASE BUDGET

The current Executive Budget used actual fiscal 2002 expenditures as recorded on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) as the base for determining a present law budget for the 2005 biennium. Certain items were then excluded in order to create a base that reflects only: 1) the cost of ongoing programs or functions approved by the last legislature; and 2) expenditures authorized by the legislature. OBPP and LFD staff reached agreement on virtually all expenditures removed from the base. The LFD analysis provides an explanation within context of any program in which a base difference remains.

Following is an explanation of each type of expenditure category excluded from the base:

Appropriation Transfers

Section 17-7-301, MCA, allows the Governor to authorize the transfer of funds appropriated for the second year of the biennium to the first year, if the Governor finds that "due to an unforeseen or an unanticipated emergency" the amount appropriated for the first year of the biennium "will be insufficient for the operation and maintenance of the department." Since such transfers do not result from legislative action and may be used for meeting one-time costs, these transfers are excluded from the base. However, if the transfer funds an ongoing cost, OBPP adjusts the present law budgets for the next biennium accordingly.

Budget Amendments

Budget amendments provide temporary authority allowing agencies to spend unanticipated non-general fund revenue received after the legislature has adjourned. This revenue can be used to provide additional services. In accordance with 17-7-402, MCA, budget amendment authority terminates at the end of each biennium and can make no "ascertainable present or future significant commitment for increased general fund support." Expenditures financed through budget amendments are excluded from the base. If an agency wishes to continue an activity financed with a budget amendment in the following biennium, the request must be presented as a new proposal.

One-Time Appropriations

In general, miscellaneous or "cat and dog" appropriations (appropriations made in bills other than the general appropriations act) are considered "one-time" and not continued in the base. The legislature may specify in appropriation acts that an appropriation is not intended to be ongoing and may not be included in the base.

Language Appropriations

In appropriation acts, the legislature may authorize expenditure of funds from a specific source without providing a specific dollar appropriation. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds (that it is required by statute to spend) but is uncertain as to the amount of those funds. In order to be sanctioned by law as an appropriation, the language must, at least, fix a maximum amount that the appropriations may not exceed. Assuming that ongoing expenditures from these sources are one-time only in nature, the expenditures are excluded from the base.

Non-Budgeted Expenditures

Generally Accepted Accounting Principles (GAAP) require agencies to make accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't result in the actual expenditure of funds from the state treasury.

Statutory Appropriations

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law rather than through appropriation bills, which are effective for one biennium only. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation. The statute must then be listed in section 17-7-502, MCA. Currently, there are 71 valid statutory appropriation references listed. Examples of statutory appropriations include reimbursements to local governments and debt service payments.

Other Appropriations

This category includes administrative transfers created by OBPP, continuing appropriations from previous years, internal offset adjustments to appropriations, and miscellaneous appropriations.

ENTITLEMENT AND FORMULA-FUNDED PROGRAMS

Under current state and federal law, certain programs are "entitlement programs," which means that if an individual meets the underlying criteria for qualification, services must be provided (i.e., the person is "entitled" to the service). Projected growth or declines in these programs are funded as part of the present law budget, rather than through new proposals. For example, the legislature has established statutory levels of state support for each child enrolled in Montana public schools. Similarly, federal and state laws require that persons eligible for Medicaid receive specified services or grants. Programs treated as entitlement include K-12 BASE aid, subsidized adoption, foster care, and Medicaid.

PERSONAL SERVICES "SNAPSHOT"

Personal services costs comprise over 46 percent of total agency operating expenditures (excluding capital outlay, grants and benefits, and transfers) in the 2005 biennium Executive Budget.

The Executive Budget is based on a "snapshot" of actual salaries for authorized FTE, as they existed in the last pay period of fiscal 2002. The Executive Budget includes annualization of the pay increases appropriated in fiscal 2002 and 2003.

Benefits are added on an individual FTE basis. Workers' Compensation and Unemployment Insurance rates vary from agency to agency, as each agency has a different rate based upon experience.

VACANCY SAVINGS

Vacancy savings is the difference between the full appropriated cost and the actual cost of authorized employee positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than the amounts appropriated.

During the 1997 biennium, the legislature included varying vacancy savings rates among selected agencies, and among programs within agencies, in order to fund the executive pay plan. A contingency fund containing $500,000 general fund and $1,000,000 in other funds was included for this purpose.

During the 1999 biennium, the legislature applied a uniform 3 percent vacancy savings rate against all positions in state government, with the exception of those positions in agencies with fewer than 20 FTE. The legislature also assumed that any new positions added via new proposals would not be hired at the very beginning of the fiscal year as a result of the need to recruit and to meet other requirements demanding the expenditure of time. Operating under the assumption that such positions would not be filled for the first three months of the fiscal year, the legislature applied a 25 percent vacancy savings rate in the first year. The legislature also provided $2.3 million general fund and $8.8 million in other funds for the biennium in support of a contingency pool for those agencies that could not meet their vacancy savings targets. A further discussion of the pay plan is included in the “Global Executive Budget Proposals” section of this volume.

For the 2001 biennium, the legislature adopted a vacancy savings rate of 3 percent on all personal services except insurance. This rate was not applied to agencies with fewer than 20 FTE, elected officials, university system faculty or to direct care workers within the Department of Corrections. The legislature funded a contingency pool of $700,000 from the general fund and $950,000 in other funding for the biennium.

For the 2003 biennium, the legislature enacted a 4 percent vacancy savings rate on all personal services. As in the 2001 biennium, agencies with fewer than 20 FTE as well as university system faculty were exempt. The legislature also included a contingency fund of $1.3 million general fund and $3.0 million from other funds (the legislative branch also received $200,000 general fund) for the biennium to meet potential costs involved for those agencies that do not meet their vacancy savings targets.

For the 2005 biennium, the Executive Budget proposes a 4 percent vacancy savings rate on all personal services. As in the 2003 biennium, agencies with fewer than 20 FTE as well as university system faculty are exempt. Unlike prior years, the Executive Budget does not contain a contingency fund to meet potential costs in excess of the appropriation.

FIXED COSTS

Agencies are charged fees (called fixed costs) for a variety of services provided by other state agencies. The Executive Budget includes fixed costs for the following services: Department of Administration (DofA) insurance and bonds (62104), DofA warrant writing fees (62113), DofA payroll service fees (62114), Legislative Auditor audit fees (62122), SABHRS (Statewide Accounting, Budgeting, and Human Resources System) operating costs (62148), DofA network fees (62174), messenger services (62307), State Motor Pool leases (62510), DofA rent (62527), capitol complex grounds maintenance (62770), MTPRRIME (Montana Project to Reengineer the Revenue and Information Management Environment, the precursor to SABHRS) debt service costs (62875), and the state fund cost allocation plan (62895).

Figure 2 shows the total amounts included in the Executive Budget for fixed costs.

Figure 2
Fixed Costs
2005 Biennium Executive Budget (in millions)

Subcommittee/Agency	Function	Total
General Government		
Administration	Insurance and Bonds	$ 30.223
	Warrant Writing Fees	1.733
	Payroll Service Fees	0.897
	Data Network Services	19.455
	SABHRS Operating	9.446
	Messenger Services	0.268
	Rent - Buildings	11.506
Legislative Audit Division	Audit Fees	2.799
Natural Resources and Commerce		
Fish, Wildlife, and Parks	Grounds Maintenance	0.653
Various	State Fund Allocation Plan/MTTPRIME Bonds	2.209
Total		$ 79.188

Insurance and Bonds

The Risk Management and Tort Defense Division of the DofA collects premiums from state agencies for: 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and to protect against the potential consequences of other risks. Costs are allocated to agencies based upon actual loss experience and inherent exposure.

Warrant Writing Fees

DofA provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based upon actual utilization of the various types of transactions in the three previous years.

Payroll Service Fees

The State Payroll Program in DofA prepares and distributes payroll for all state agencies. Costs of these services are allocated to agencies based upon the number of paychecks issued for each agency per year.

Audit Fees

The legislative Audit Division charges agencies for the costs of financial compliance audits. These charges are included in agency budgets as biennial appropriations and allocated according to the estimated number of billable hours for each agency audit.

SABHRS Operations Unit

This unit provides all operational support for the Statewide Accounting, Budget, and Human Resources System (SABHRS). Costs were allocated in the Executive Budget based upon the number of full-time equivalent employees.

Data Network Services

The Information Services Division (ISD) of DofA charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe and, via the mainframe, to other agency computers. Costs for this service are allocated to agencies based upon the projected number of personal computers connected to the network each year. A fixed monthly rate per computer is used to determine the overall agency charge.

Messenger Service

The Mail and Distribution Program in DofA charges state agencies for interagency mail pickup and delivery services. Costs for these services are allocated to agencies based upon the volume of mail generated by, and number of daily deliveries to, each agency.

Rent

The General Services Division (GSD) of DofA charges rent to state agencies for costs relative to maintaining office and warehouse space in the capitol complex buildings managed by GSD. Included in the charges are utility, security and janitorial services, mechanical maintenance, and minor maintenance costs including such items as painting, lighting and carpeting. Warehouse costs are allocated to agencies based upon the amount of square footage of office warehouse space occupied; a fixed rate per square foot is used.

Grounds Maintenance

The Parks Division of FWP charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based upon the square footage of office space occupied by a given agency.

MTPRRIME Bond Costs

MTPRRIME was funded using general obligation bonds. The costs of repaying those bonds are allocated to agencies as a fixed cost in the 2005 biennium. Costs were allocated based on the same method used for the SABHRS Operations Unit.

State Fund Cost Allocation Plan (SFCAP)

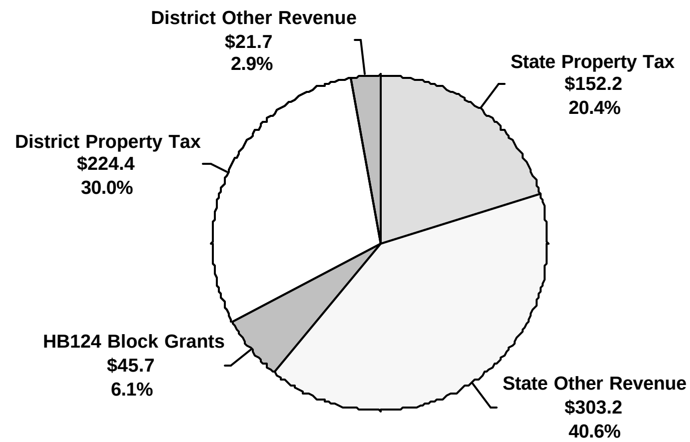
DofA administers the SFCAP, which charges non-general fund agencies and/or programs for those state government operating costs that cannot easily be identified with particular funding sources. Collections are deposited to the general fund to offset a portion of those costs. Operating costs of the following programs are partially recovered through SFCAP collections: State Personnel and the Accounting and Management Support Divisions of DofA, and the Office of Budget and Program Planning in the Governor's Office. Costs are allocated to agencies based upon the following: a) State Personnel - the number of FTE authorized and classified, and the number of negotiated labor contracts held; b) Accounting and Management Support - the number of SABHRS and cash transactions and actual expenditures made; and c) OBPP - the number of FTE employed and budgeted fund expenditures made.

PUBLIC SCHOOL FUNDING – A PRIMER

The purpose of this section is to explain how K-12 education is funded. This section focuses on the major district and county funds for which the state supplies at least some of the funding.

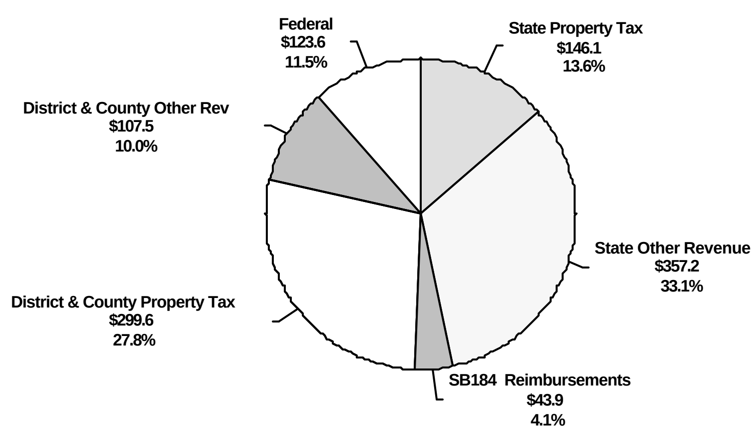
The state share of district general fund revenue has declined over the years. In fiscal 1991, the state's share of district general fund revenue was 71.0 percent. As shown in Figure 3, the state's share of general fund revenue has fallen to 61.0 percent in fiscal 2003. The state's share includes property tax (the 95 mills) and other state tax revenues. The local share includes property taxes levied for schools by the district or the county, as well as other district and county revenue. HB 124 block grants, which include reimbursements associated with HB 20 and SB417, are state payments to districts and county education accounts to reimburse these funds for revenues that now flow to the state.

Figure 3
Fiscal 2003, Millions



GF Revenues = $747.2 million; Source: OPIBUD03.xls, HB124 Block Grants include HB20/SB417 reimbursements

Figure 4
District All Fund Revenues
Fiscal 2001, Millions



All Fund Revenues = $1,077.8 million; SB184 Reimbursements include HB 20/SB417 reimbursments

As shown in Figure 4, the state's share of revenue in all district funds was 46.7 percent in fiscal 2001.

School districts typically may spend out of ten budgeted funds, and many schools spend out of smaller non-budgeted funds. Any fund that is funded by property tax must be budgeted.

The budgeted funds include: 1) general fund; 2) retirement fund; 3) transportation fund; 4) debt service fund; 5) bus reserve fund; 6) adult education fund; 7) tuition fund; 8) building reserve fund; 9) flexibility fund; and 10) technology acquisitions. This primer will focus on the first four of these, since state support in these funds is significant.

DISTRICT GENERAL FUND

The current system of school finance was established in HB 667, passed by the 1993 legislature and first applied to school funding in fiscal 1994. HB 667 created a system of funding schools in which the state mandates the limits within which a school district may budget its general fund expenditures. The maximum budget is the sum of the district's basic per-district entitlement, its per-ANB entitlement, and 175.0 percent of its special education allowable costs. The BASE (or minimum) budget for a district is the sum of 80.0 percent of the district's basic per-district entitlement, 80.0 percent of its per-ANB entitlement, and up to 140.0 percent of its special education allowable costs.

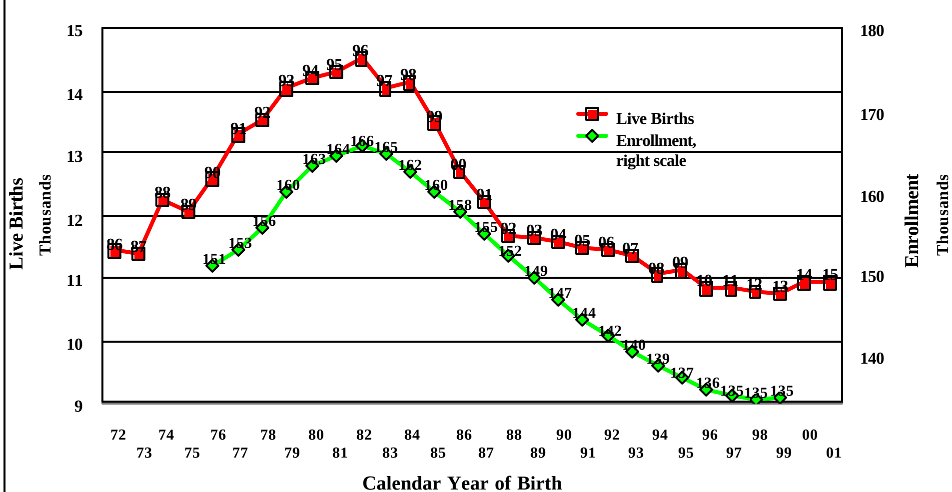
HB 667 allowed schools that had been budgeting above the newly created maximum budget in the past to continue budgeting at that level indefinitely. Subsequently, this grandfather clause was altered in HB 22 (1993 special session), which required district voters to approve any budget authority above the maximum budget.

In fiscal 1994 when the new system was first implemented, many schools had general fund budgets that were below the BASE budget. Districts with budgets below the BASE budget were required to incrementally increase budget authority and budget at the BASE level by fiscal 1998.

ANB and Maximum and BASE Budgets

The maximum and BASE budgets are related by a formula in statute to Average Number Belonging (ANB), which is enrollment in the prior year adjusted by teacher days. As shown in Figure 5, enrollment peaked in fiscal 1996 and has been declining since, mainly as a result of falling birth rates in the mid 1980's through the late 1990's. Recently births have increased, and it is expected that enrollment declines are expected to cease sometime in the next decade.

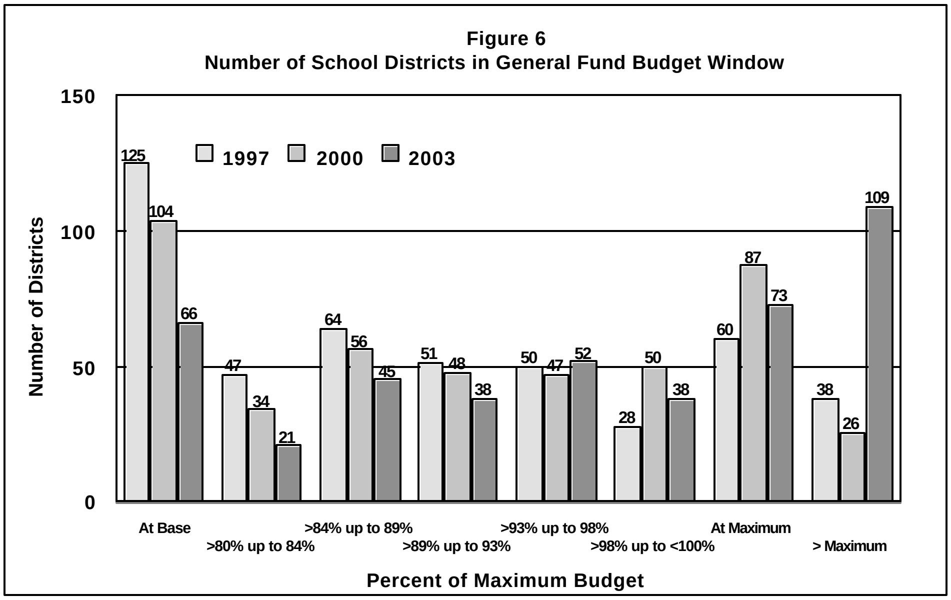
Figure 5
Live Births and K-12 Enrollment in Montana



Data on top line are fiscal years in which children enter 9th grade, and indicate fiscal year for enrollment.

Without legislated changes in the maximum budget, the maximum budget in most school districts will continue to fall, resulting in more districts with maximum budgets.

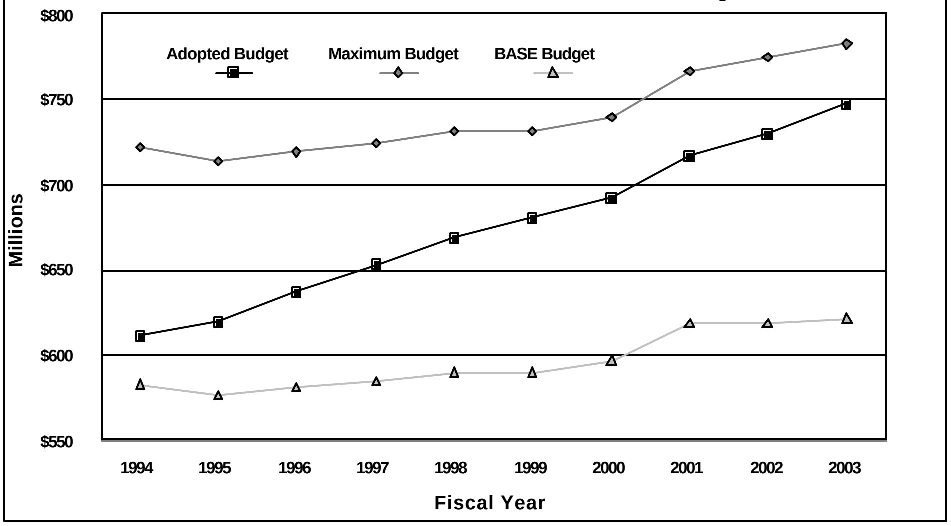
Figure 6 shows the distribution of districts in the general fund budget window in fiscal 1997, 2000, and 2003 for all districts. The adopted general fund budget for each district is divided by the maximum budget for each year. The number of districts in each of the brackets is then counted. A large number of districts budget at the BASE level although the number has declined. Many of these are schools that were required to increase spending to the BASE budget between fiscal 1994 and 1998.



A large and growing number of districts are budgeting above 98.0 percent of the maximum budget. The number of districts budgeting in this area was 123 (27.0 percent of all districts) in fiscal 1997, 163 districts (36.0 percent) in fiscal 2000, and 220 districts (50.0 percent) in fiscal 2003. More schools are budgeting near the maximum because of declines in ANB, which in the absence of legislation, require lower maximum budgets. Beginning in fiscal 2002 and continuing in fiscal 2003, there are substantially more districts budgeting above the maximum budget. This is due to SB390, passed during the 2001 legislative session, which allowed districts to budget above the maximum budget for 5 years with voter approval. These are called “soft caps”. All districts must budget at the maximum budget beginning in fiscal 2007.

As shown in Figure 7, the average general fund budget as a percent of the average maximum budget in fiscal 1994 was about 84.0 percent. This has risen to 95.0 percent in fiscal 2003, primarily as a result of reduced ANB slightly more than offset by legislated entitlement increases.

Figure 7
Historical Trend in School Districts' General Fund Budgets



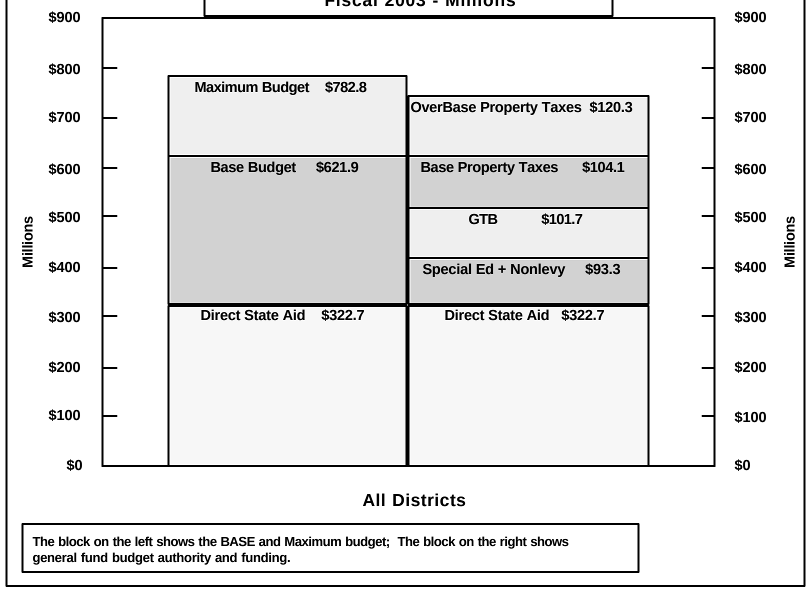
Between fiscal 1997, when ANB was at its peak, and fiscal 2003, ANB fell 8.0 percent. During the period, elementary ANB fell 11.4 percent and high school ANB fell 0.4 percent. In fiscal 2003 there were 13,237 fewer ANB served than in fiscal 1997. During the same period, basic entitlements were increased by the legislature 11.9 percent for both elementary and high school districts. Elementary per-ANB entitlements were increased 16.8 percent and high school per-ANB entitlements were increased by 11.2 percent. Between fiscal 1997 and fiscal 2003, the most severe declines in ANB occurred in the elementary grades. The most severe declines in the future will be in the middle school and high school grades.

Funding the General Fund Budget

As shown in Figure 8, districts' general fund budgets are funded by state and local funds. State funds consist of direct state aid, state guaranteed tax base (GTB), and state special education grants. The sources of local funding are nonlevy revenue (oil, natural gas, and coal receipts, investment interest, and HB 124 block grants), property taxes, and reappropriated fund balances.

Direct state aid is a grant from the state to the district. In fiscal 2003, direct state aid was 44.7 percent of total entitlements used to calculate the maximum budget. The direct state aid percent was 40.0 percent until fiscal 2000 when it was raised to

Figure 8
School District General Fund Budgets
Fiscal 2003 - Millions



41.1 percent. The current level of 44.7 percent was instituted during the May 2000 special session for fiscal 2001. Direct state aid is the first source of revenue considered by a district. Because it is directly related to entitlements, the geographic distribution of direct state aid is directly related to where children live.

The portion of the budget above that funded by direct state aid and below the BASE budget is called the GTB budget. This is funded by a combination of special education revenue from the state, nonlevy revenue, and fund balance reappropriated. The total of these revenue sources was $93.3 million in fiscal 2003.

Special education revenue ($30.9 million in fiscal 2003) reimburses districts for allowable costs associated with special needs children. Nonlevy revenues ($49.1 million in fiscal 2003) are revenues from taxes on oil, natural gas, and coal, and investment earnings and HB 124 block grants.

Beginning in fiscal 2002, HB 124 block grants are payments made by the state to districts to reimburse districts for revenue that now flows to the state. These revenues were motor vehicle taxes, taxes on financial institutions, and reimbursements from the state for legislated reductions in districts' business equipment property tax base in prior sessions. While HB 124 block grants are state appropriations to schools, they do not represent an infusion of new state money into district budgets, but rather replace money that used to be considered local revenue.

Reappropriated fund balances are unreserved general fund balances left over from the previous year (approximately $13.3 million in fiscal 2003). Schools may hold in reserve at most an amount equal to 10.0 percent of the general fund budget, and must reappropriate the rest in the ensuing year.

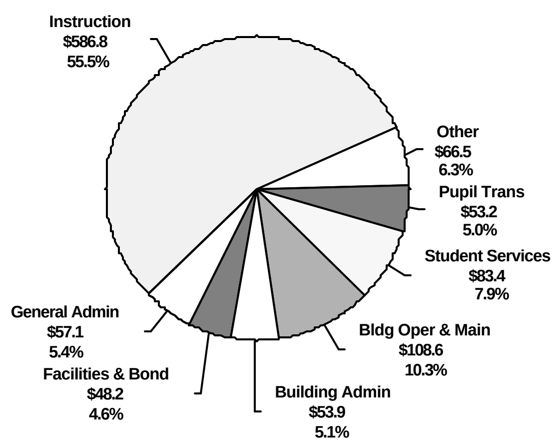
The remaining portion of the GTB area is funded by BASE property taxes ($104.1 million in fiscal 2003) and state GTB aid ($101.7 million in fiscal 2003). The amount of GTB aid a district receives depends on its relative wealth, as measured by taxable value per dollar of direct state aid. A relatively poor district's BASE mill levy generates local property taxes and a certain amount of GTB aid. The poorer the district, the more a BASE mill will be worth in terms of GTB aid. Statewide, the average ratio of GTB aid to BASE property tax revenue is a little greater than one. This may vary from zero for wealthy districts to over ten for poor districts.

Districts that budget above the BASE level must do so out of own-source revenue and tuition from other districts, parents, or the state. Some districts are able to use nonlevy revenue to fund a portion of this budget area, but the vast majority levy overBASE mills against property. OverBASE property taxes are $120.3 million in fiscal 2003, and are a growing source of revenue funding district general fund budgets. OverBase property taxes were only $34.8 million in fiscal 1994.

General Fund Spending by Function

Figure 9 shows spending by school districts by function. Instruction consumes approximately 56 percent of all spending by districts. Administration accounts for another 10.4 percent. The remaining functions include transportation, student services, spending on facilities and other expenses. These data do not include spending from the adult education fund, the building fund, trust funds, and enterprise funds.

Figure 9
School District Spending - By Function - FY 2001



Total spending by districts in fiscal 2001- $1,058 million, excuding building, adult education, trust and enterprise funds

A Short History of Legislative Changes in K-12 Funding

Figure 10 shows the impact of legislation on BASE aid entitlements since fiscal 1994

Figure 10
School District Entitlements - FY 1997 - 2003

Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual	FY2002 Actual	FY2003 Actual
Bill Authorizing Entitlement Chang	HB667	HB22	HB47	HB47	SB100	HB4	HB121	HB121
Basic (Per District) Entitlements								
Elementary	$18,000	$17,190	$18,000	$18,000	$18,000	$18,540	$18,889	$19,244
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%
High School	$200,000	$191,000	$200,000	$200,000	$200,000	$206,000	$209,873	$213,819
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%
Per ANB Entitlements								
Elementary	$3,500	$3,343	$3,376	$3,410	$3,529	$3,763	$3,834	$3,906
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%	1.9%	1.9%
High School	$4,900	$4,680	$4,726	$4,773	$4,821	$5,015	$5,109	$5,205
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%	1.9%	1.9%
Base Budget Components								
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%

The level of entitlements under HB667 was in operation for fiscal 1994 only. The legislature then passed HB22 during the special session of 1993 and cut entitlements by 4.5 percent for fiscal 1995 through fiscal 1997. On average statewide, ANB was increasing in these years.

HB47 was passed by the 1997 legislature and raised per-ANB entitlements beginning in fiscal 1998 by 1 percent per year, and the basic entitlement in fiscal 1998 by 4.7 percent.

SB 100 was passed by the 1999 legislature and increased per-ANB entitlements by 1 percent for high schools and by 3.5 percent for elementary schools in each year of the 2001 biennium. The direct state aid percent was raised from 40.0 percent to 41.1 percent in fiscal 2000 and to 41.8 percent in fiscal 2001. SB 100 also increased special education funding by approximately $1.5 million per year.

Then in special session in May 2000, HB 4 further raised the per-ANB entitlements in fiscal 2001 by 3.0 percent for both elementary and high school, and raised the direct state aid percent to 44.7 percent.

During the 2001 legislative session, HB 121 raised entitlements by 1.88 percent in fiscal 2002 and by an additional 1.88 percent in fiscal 2003. In addition, SB 390 created a new flexibility account from which districts could spend for nearly the same purposes as the district general fund. The legislature funded the district flexibility accounts with $5.0 million in state general fund dollars. This was reduced to $4.3 million in the August 2002 special session.

Special Education

The state will pay approximately $34.9 million in fiscal 2003 in special education grants and reimbursements to districts and special education cooperatives. Special education cooperatives are groups of districts offering special education services. Districts receive about 90.0 percent of this money in their general funds and spend it for services to children with various disabilities or impairments. The remainder flows to special education cooperatives that provide special education services to its members. The disabilities range from speech-language impairments and physical impairments to multiple disabilities.

In fiscal 2001, districts and coops spent $78.3 million in state and local contributions and $14.5 million in federal contributions on the allowable costs associated with the education of impaired students. Allowable costs are defined by the state, which provides grants for special education instruction and related services. State reimbursements are made to schools with extraordinary special education costs. As costs have risen, the amount of reimbursements has also risen, and the amounts of instructional block grants and related services grants have fallen.

The state special education grants and reimbursements flow to district general funds and are incorporated in calculating a district’s maximum and BASE general fund budget limits. For each dollar increase in district receipts of state special education dollars, the maximum budget of the district increases by $1.75 and the BASE budget increases by $1.40. Increases in special education receipts by districts also increase the state GTB aid paid to a district, since GTB aid depends on the level of the BASE budget.

Special education students were about 12.0 percent of the student population in fiscal 2001. Enrollments of special education students grew by close to 2 percent per year between fiscal years 1991 and 1994, but growth in special education enrollments has grown slowly since then. A new state funding system was put in place in fiscal 1994 that granted districts state special education dollars based on the number of ANB in the entire district. The old system had granted such dollars based on the number of identified special education students in each district.

The amount the state appropriates in special education grants to districts and cooperatives remained between $32.0 and $33.0 million between fiscal 1989 and 1999, but has risen to $34.9 million in fiscal 2003. Districts and coops spent $40.3 million in fiscal 1990 for special education programs and $78.3 million in fiscal 2001, an annual growth rate of 7.7 percent per year. The state share of these costs has fallen commensurately.

Districts spend more on special education students than regular students. Spending for special education students was 177.0 percent of spending for regular students in fiscal 1998, and that percentage was up from 157.0 percent in fiscal 1993.

Voting Rules

Many of the decisions regarding the level and funding of general fund budgets must by law be referred to district voters. Beginning in fiscal 2001, the general fund voting provisions for districts adopting a general fund budget between the BASE and the maximum budget limits were amended to require voter approval for an increase in overBASE property tax revenue. Previous law had required a vote in order to increase ensuing year budgets above current year budgets regardless of the property tax revenue consequences. Under the new law, if an increase in budget authority can be funded without increasing overBASE property taxes revenue, the budget increase does not require voter approval. A 4 percent limitation on annual budget growth, or on annual budget growth per ANB, was in effect until July 1, 2001. HB 164, passed during the 2001 legislative session eliminated the growth cap, and districts may now increase their general fund budget by any amount up to the maximum with voter approval.

The 1999 legislature also changed the budgeting rules for districts with declining enrollments. General fund budget limitations were amended for districts that are: 1) budgeting between the BASE and maximum budgets; and 2) have declining ANB populations. If ANB declines less than 30.0 percent and the district's current year adopted budget exceeds the district's ensuing year maximum budget, the district may adopt a budget for the ensuing year that is the greater of the current year budget or the ensuing year's budget, subject to voter approval. The district may not exceed its maximum budget limit for more than five consecutive years.

If ANB declines by 30.0 percent or more and the district's current year adopted budget exceeds the ensuing year's maximum budget, the district must reduce the range between the district's current year budget and the ensuing year's maximum budget by:

- 20.0 percent in the first year
- 25.0 percent in the second year
- 33.3 percent in the third year
- 50.0 percent in the fourth year
- the remainder of the range in the fifth year

Districts that have general fund budgets exceeding the maximum budget must annually ask voters to approve the part of the budget in excess of the maximum. However, the budget adopted for the current year may not exceed the lesser of: 1) the adopted budget for the prior year; or 2) the district current maximum budget plus the over-maximum budget amount adopted for the prior year. If a district's budget in the current year is below the BASE budget in the upcoming year, either due to ANB increases or legislated increases in entitlements, district trustees must increase the budget to the BASE budget level and no voter approval is required.

Effective in fiscal 2000, the regular school and trustee election date is changed to the first Tuesday after the first Monday in May. Only one levy election may be held in a calendar quarter.

DISTRICT TRANSPORTATION BUDGET

Montana law provides for two types of public school transportation - a publicly funded school bus program and/or individual transportation contracts with a student's parents or guardian. School bus transportation may be provided directly by the school district, or the trustees of a district may contract with a private contractor to provide bus transportation for eligible students.

The trustees of a district may provide school bus transportation to any pupil of a public or private school. However, the district will receive reimbursement from the state and county only for eligible transportees. An eligible transportee must:

- Be a resident of the State of Montana and attend a public school in Montana
- Be between the ages of 5 and 21 or be a preschool child with disabilities between the ages of 3 and 6
- Reside at least 3 miles from the nearest operating public elementary school or high school
- Be considered to reside with his or her parent or guardian, who maintains legal residence within the boundaries of the district furnishing the transportation, regardless of where the eligible transportee lives when attending school

The trustees of a district are not required by law to provide pupil transportation unless directed to do so by the county transportation committee. However, if the trustees decide to furnish transportation for any eligible transportee, they must ensure transportation for all eligible transportees.

On-Schedule Costs

A district's transportation budget is funded by receipt of state reimbursements for on-schedule costs, an amount which is matched by the county, and by district revenues, which fund "over-schedule" costs.

On-schedule costs are defined by the legislature and are expressed on a per mile basis. The per mile schedule costs depend on the size of the bus and are adjusted depending on the extent that the bus is filled with riders. On-schedule costs are determined as the product of the per mile amount times miles traveled (including miles within the 3 mile zone) times 180 days. The state general fund reimbursement is one-half this amount or one-half the amount a district budgets for transportation, whichever is less. The county must match the state reimbursement amount with funds derived from the county school transportation fund. County revenues in the county transportation fund include nonlevy revenue and property tax revenues.

District over-schedule costs are the difference between the transportation fund budgeted amount and state and county on-schedule reimbursements. Some districts are able to provide transportation services for the on-schedule amount, but the vast majority of districts incur costs above the on-schedule amount. On-schedule costs vary between 85 cents per mile per day and $1.80 per mile per day. Larger districts generally have higher per mile costs than small districts. Small districts have generally higher costs per ANB, and per ANB per mile, than do large districts. Districts fund the over-schedule amount through a combination of nonlevy revenues and district property taxes. District trustees may budget the over-schedule amount at their discretion and are not required to ask voters to approve that level. For on-schedule costs, the county superintendent determines the required property tax requirements, and the county commissioners set the required levy.

In fiscal 2001, total district spending was $43.9 million. On schedule costs were $21.0 million of which half was paid by the county and half by the state.

Some districts budget for transportation but do not engage in providing transportation. These districts do not own buses and do not contract with a private bus company. In many cases, these districts coordinate their transportation needs with a nearby district. For instance, many elementary districts coordinate with their high school district, if the high school is in the same community.

Approximately one-third of the bus routes in Montana are contracted with private bus companies. These contracts are usually observed in the larger districts. Some small districts, however, also contract and may contract with many private individuals to provide bus service. Contracts in the larger districts are often multi-year, and some provide inflation adjustments and/or gas price adjustments. The contracts are usually on a per mile basis or on a yearly basis for a set number of miles per day. The bus company usually must provide specially equipped buses and bus aides if necessary.

School districts may also contract with parents or guardians of pupils in need of transportation. Under section 20-10-142, MCA, the state and county must reimburse a district that makes a contract with a parent or guardian for transportation of eligible transportees at a rate of 21.25 cents per mile per day. The district may contract with a parent at a higher rate, and in fact federal rules regarding transportation of special needs students require that parents be reimbursed by the district at 29 cents per mile. Allowable miles are determined by multiplying the distance between the eligible transportee's residence and school, minus 6 miles. The total reimbursement is limited to one round trip per day. Districts with parents who transport their children to the nearest bus stop on an approved route are also reimbursed 25 cents per mile per day, with 3 miles deducted from the distance between the home and the bus stop.

RETIREMENT FUND

School districts employing personnel who are members of the teachers retirement system or other defined retirement systems must establish retirement funds from which to pay the districts' contributions to the systems. The amount each district must pay into the retirement fund is set by statute and is a set percentage of the employee's annual wage. Thus the spending requirements in the retirement fund increase with increases in wages and in the number of employees. Also, because teacher wages are paid from the district general fund, the level of spending in the retirement fund is closely related to the level of spending in the general fund. Retirement costs associated with salaries in other state and federal funds are also paid for out of the district retirement fund.

The retirement fund is managed at the county level. The county collects the money and deposits it in district retirement accounts. The district then pays for the retirement contributions. The county retirement fund is funded by nonlevy revenue, state GTB, and local property taxes. A county is eligible for GTB if its taxable value per ANB is less than 121.0 percent of the state average taxable value per ANB. The amount of state GTB varies inversely with the value of a county's taxable property per ANB. Thus, less wealthy counties receive more GTB aid than do relatively more wealthy counties. The retirement fund has been a nonvoted fund. That is, the county superintendent determines the amount of the levy, and the county commissioners fix and set the levy without putting the issue before the voters.

The total payment to districts by counties in fiscal 2001 was $91.3 million. The state GTB payment to counties for retirement purposes was $21.1 million in fiscal 2001.

DEBT SERVICE FUND

School districts utilize a debt service fund to make debt service payments on bonds that have been sold to investors. The sale of bonds may be for purposes of capital construction, purchase of certain equipment or vehicles, refinancing past bond issues, or for funding a judgement against a district. Under current law, the state provides capital outlay reimbursements to schools with debt service payments associated with bonds that were sold after July 1, 1991.

Under a formula in statute, a school district's facility reimbursement is a set dollar amount per ANB in the district, which varies depending whether the student is in grades 1-6, 7-8 or in high school. In order for a school to receive a capital outlay reimbursement from the state, it must be GTB-eligible. Its taxable value per ANB must be below 121.0 percent of the state average taxable value per ANB. If a district is GTB-eligible, its school facility reimbursement is the lesser of its actual debt service expenditures or the calculated reimbursement. When the total statewide available reimbursements required exceed the amount available in the state appropriation, the reimbursements are prorated to the eligible districts.

The number of districts receiving school facility payments has grown from 14 districts in fiscal 1994 to 79 districts in fiscal 2002. The state appropriation has grown from $1.0 million in fiscal 1994 to $4.4 million in fiscal 2003. In the 1990's, the growth in demand by districts for school facility payments has outstripped the growth in the level of the state appropriation. In fiscal 1994, the pro-rata percentage was 90.0 percent and in fiscal 1998 it was 79.0 percent. However, beginning in fiscal 2000, the pro-rata percent was 100 percent. This declined in fiscal 2001 to 97.7 percent and then was 100.0 percent again in fiscal 2002.

The legislature passed SB 457 during the 2001 legislative session which allowed districts to use up to 25.0 percent of their federal impact aid revenues for debt service. Federal impact aid revenues flow mostly to districts on Indian reservations. The bill may increase debt service spending by districts.

GENERAL FUND STATUS SHEET

The general fund status sheet (GFSS) is analogous to your personal checkbook register. Your bank balance fluctuates either up or down as you make deposits and expend monies. Similarly, the GFSS simply measures the state's financial condition as the legislature adjusts revenue flows (taxation policies) and appropriates funds (authorizes expenditures).

The GFSS is prepared during legislative sessions in order to provide the legislature with a current projection of the financial status of the general fund account. This budgetary status sheet is usually prepared at least once a week and serves as a "work in progress" tool to assist the legislature in balancing the state's general fund budget. Financial information on revenue estimates, taxation legislation, and appropriation measures are the basic components of the GFSS. The status sheet is usually prepared on Fridays and distributed either late Friday night or early Saturday morning.

The starting point for the status sheet is the projected general fund balance *before* any legislative action has been taken. This balance is based on revenue estimates adopted by the Revenue and Transportation Interim Committee (RTIC) on November 19, 2002, agency base budgets for fiscal 2002 as assumed for fiscal 2004 and 2005, LFD estimates for all statutory appropriations, fund balance adjustments, residual equity transfers, and the Executive Budget recommendations for supplemental appropriations.

The status sheet also shows any proposed legislation that has general fund fiscal impact (revenue or disbursement). These bills are posted to the document after any committee takes positive executive action. Subsequent amendments to bills are also incorporated into the document once they have been adopted by a committee. The projected ending balance *after* legislative action to date is provided to show the legislature a "point in time" status of the general fund account.

The status sheet also includes all general fund bills that could change the level of spending for state agencies. These bills, categorized as "potential appropriations," result from legislation that changes the duties and functions of state agencies without making a corresponding appropriation adjustment. These adjustments are considered by the House Bill 2 Conference Committee toward the end of the legislative session. These "potential" spending changes are *not* included in the projected ending balance until *after* legislative action has been taken.

Attached to the status sheet is a summary of budget development by joint appropriation subcommittees. These summaries show the budgets as approved by the subcommittees, as compared to the base budget for fiscal 2002. Both general fund and all funds detail are provided.

The information shown on the next page is an example of what the first GFSS will look like.

LFD staff are available to assist legislators in interpreting the general fund status sheet.

Legislative Fiscal Division
General Fund Status Sheet

2003 Biennium (Figures In Millions)

12/20/2002	03:05 PM	90 th Legislative Day			Status #13

Fiscal Condition Without Legislative Action

Beginning Fund Balance(Without Feed Bill & Supplementals)		$130.793	+	
Revenue & Taxation Committee Revenue Estimates		2,400.465	+	
Base Appropriations Using Fiscal 2000		(2,090.916)	-	
Estimated Reversions & 2003 Session Cost		(1.001)	-	
Estimated Statutory Appropriations		(96.730)	-	
Estimated Transfers		(9.700)	-	
Estimated Adjustments & Residual Transfers		0.000	+	
Ending Fund Balance Without Legislative Action			=	**$332.911**

Summary of Legislative Action

Revenue Adjustments

HJR 2 Revenue Estimates			+	**29.765**
House Taxation	FY 2001=$5.624 FY 2002-2003=$6.99	12.614		
House Floor	No Change	0.000		
Senate Taxation	FY 2001=$9.231 FY 2002-2003=$2.24	11.477		
Senate Taxation	Fund Balance Adjustment for FY 2000	5.674		
Senate Floor	No Change	0.000		
Conference	Not Required	0.000		
Revenue Legislation (See Table 1 For Detailed Bill Listing)			+	**356.396**

Appropriation Adjustments

	Present Law	New Proposal		
HB0002 General Appropriations Act			-	**(227.928)**
General Government & Transportation	(86.477)	103.276		
Health & Human Services	(50.537)	(27.897)		
Natural Resources & Commerce	(2.917)	(73.328)		
Corrections & Public Safety	(22.912)	0.874		
Education	(28.245)	(39.765)		
Totals	($191.088)	($36.840)		
Other Appropriation Legislation (See Table 1 For Detailed Bill Listing)			-	**(437.320)**
Total Legislative Action			-	**($279.087)**

Fiscal Condition With Legislative Action	**$332.911**	-	**($279.087)**	=	**$53.824**

Legislative Fiscal Division
General Fund Status Sheet

2005 Biennium (Figures In Millions)

01/03/2003	10:15 AM	1st Legislative Day	Status #1

Table 1 - Detail of Legislative Action

	Bill Number	Short Description of Proposed Legislation	Revenue Impact	Appropriation Impact	Potential Impact *	Total Impact
LAW	HB0001	Feed bill	0	(6.700)	0	-6.7
		Total of Legislative Action	**$356.396**	**($437.320)**	**($2.649)**	**($83.573)**

* Potential appropriations result from legislation changing the duties and functions of state agencies without a corresponding appropriation adjustment. These adjustments will be considered in House Bill 2 conference committee towards the end of the legislative session.

BUDGET COMPARISON METHODOLOGY

The legislature has traditionally used budget comparisons as a tool to assess budget performance and growth patterns in the state budget.

A great deal of interest, confusion, and controversy developed in recent years over the size of the state budget and methods of comparison. The state budget is complex, and the methods used to compute the comparisons can vary considerably.

In view of the confusion over comparisons, the 1997 legislature passed SB 35, sponsored by the Legislative Finance Committee (LFC), which established a statutory methodology (17-7-151, MCA) for calculating budget comparisons.

This section summarizes the major tenets of the statutory budget comparison. This methodology is intended for those comparisons that are made before, during, and immediately following legislative sessions to measure budget performance and growth. The major tenets of the methodology include:

1. The measure of budget performance will be total state expenditures of funds (projected) obtained from taxes, licenses, and certain fees. This includes federal funds.
2. The unit of measure for the comparisons will be actual expenditures in the first year plus appropriations in the second year of the current biennium, compared to appropriations in the next biennium.
3. The comparisons must be fair and balanced. That is, the same attributes are to be included on both sides of the comparison, and to be calculated using like methods.
4. The Legislative Fiscal Analyst and the Governor's Budget Director will work together to reach agreement on estimates to be included in the projections. Where there are irreconcilable differences, the LFD is to explain them as part of the budget analysis.
5. Both the Legislative Fiscal Analyst and the executive are required to use the statutory methodology for budget comparisons. This is to ensure consistency of application and avoid manipulation of comparisons.

The methodology includes all appropriations and projected expenditures, as stated in item number 1 above. Statute lists the types that must be included, but specifically excepts certain expenditures to eliminate duplicate costs, non-operational costs, transfers, enterprise operations, and fiduciary funds.

The following components (fund and appropriation type) are to be included in budget comparisons:

- General fund, state special, and federal revenue
- Proprietary funds that require an appropriation
- Cash appropriations for the Long Range Building Program
- Agency Funds – only tax distributions to local governments

The following components are to be excluded from the comparisons for the reasons shown:

- o Eliminate double counting:
  - o Debt Service Funds
  - o Capital Project Funds (except cash appropriations)
  - o Internal Service Funds (Proprietary)
  - o Administrative/Agency Transfer Appropriations
- o Eliminate Enterprise/Corporate Components:
  - o Enterprise Funds (Proprietary)
  - o University Funds - Unrestricted
  - o University Funds - Other
- o Eliminate Fiduciary Funds:
  - o Agency Funds (except tax distributions)
  - o Expendable Trust Funds
  - o Non-expendable Trust Funds
  - o Pension Trust Funds
- o Non-Budgeted Items:
  - o Non-cash accounting entries
  - o Private Funds (state special revenue)

The Legislative Fiscal Division budget comparisons are presented on pages 58 and 59 of this volume, and were prepared using the prescribed methodology in 17-7-151, MCA.

INDEX TO OTHER LFD BUDGET REFERENCE DOCUMENTS

In addition to the *Legislative Budget Analysis – 2005 Biennium* (Volumes I through IV), there are several other reference documents that legislators and other interested parties can use as a source of information concerning budget and other fiscal matters. A limited number of reports of past biennia are available for reference in the LFD office (photo copies of pages of interest can be made). Training publications and brochures are available for distribution and on the LFD website. Check with an LFD staff member for assistance.

PREVIOUS REPORTS

The *Legislative Budget Analysis* is prepared at the beginning of each biennium and the *Legislative Fiscal Report* is published at the end of each session. The latter is a record of legislative actions that resulted from the enactment of House Bill 2 and other appropriation legislation, as well as revenue estimation and discussion of other fiscal issues.

- The *Legislative Budget Analysis* for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library
- The *Legislative Fiscal Report* for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library. Early versions of this report were titled the *Appropriations Report*

TRAINING PUBLICATIONS

Training material prepared by the LFD include the following:

- *Understanding State Finances and the Budgeting Process* (A Reference Manual for Legislators) is a helpful guide for persons wanting more detailed information concerning fiscal matters
- *HB 2 the Barbarian* (How to Make HB 2 Implement Public Policy as Determined by the Legislature) describes the intricacies of developing the general appropriations act

FISCAL POCKET GUIDES

A variety of brochures have been prepared to provide summary information concerning select topics important to legislators and other interested parties.

- Basic State Finances
- Bed Tax
- Fiscal Training Opportunities
- General Fund Fiscal 2002
- Higher Education Funding
- Medicaid
- Montana Highway Funding
- Montana's Budgeting Process
- Pertinent State Statistics
- Resource Indemnity Trust
- TANF (temporary assistance to needy families)

Under Construction

- Coal Tax
- K-12 Education Funding
- Local Government Funding
- Tobacco Trust

The LFD would welcome suggestions for other topics for pocket guides.

AGENCY BUDGET COMPARISONS BY FUND

GENERAL FUND

As defined in 17-2-102, MCA, the general fund “accounts for all financial resources except those required to be accounted for in another fund.” The general fund funds the general operations of state government.

In Figure 1, general fund shows a slight increase of $5.6 million, or less than 1 percent. This change is misleading, however, in that fiscal 2002 includes over $45 million general fund for support to K-12 education reclassified as state special revenue and funded through statutory appropriation beginning in fiscal 2003. If this factor is accounted for, general fund increases $51.2 million, or 2.3 percent, as shown in the last line of the table.

The change is a net of increases and decreases. As shown in table, the impact among various agencies differs widely. Major increases include the following.

- $18.9 million for full biennium funding of the district courts - because the state assumed operation of the courts in fiscal 2003, only one year of costs are included in the 2003 biennium
- Increases in caseload in the Department of Corrections and the Department of Public Health and Human Services, partially offset by reductions in K-12 education enrollments
- Increases in the Department of Natural Resources and Conservation due to reductions in fiscal 2003 and transfers of general fund in that year to fiscal 2002 to fund fiscal 2002 fire costs
- A fund switch in fiscal 2003 that funded the Motor Vehicle Division in the Department of Justice with state special revenue - The executive proposes to fund the division with general fund in the 2005 biennium

These increases are significantly offset with numerous funding switches and other reductions within individual agencies.

Figure 1
General Fund Comparison
03 Biennium Versus Executive Budget 05 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2002	Adjusted Authorized Fiscal 2003	Total Exec. Budget Fiscal 2004	Total Exec. Budget Fiscal 2005	Total Adjusted Fiscal 02-03	Total Exec. Budget Fiscal 04-05	Difference 05 Biennium - 03 Biennium	% Change 03 Biennium 05 Biennium
1104	Legislative Branch	$7,670,815	$8,225,675	$9,170,148	$8,595,556	$15,896,490	$17,765,704	$1,869,214	11.76%
2110	Judiciary	9,354,970	28,836,320	28,838,402	29,697,416	38,191,290	58,535,818	20,344,528	53.27%
3101	Governor's Office	4,046,816	4,321,411	4,341,641	4,278,051	8,368,227	8,619,692	251,465	3.00%
3202	Commissioner of Political Prac	331,665	354,800	322,913	317,525	686,465	640,438	(46,027)	-6.70%
3401	State Auditor's Office	334,795	323,345	0	0	658,140	0	(658,140)	-100.00%
3501	Office of Public Instruction	560,554,778	515,643,836	509,129,075	513,892,683	1,076,198,614	1,023,021,758	(53,176,856)	-4.94%
4107	Crime Control Division	1,794,097	1,814,472	1,645,059	1,647,129	3,608,569	3,292,188	(316,381)	-8.77%
4110	Department of Justice	23,647,394	16,660,622	23,343,919	22,962,721	40,308,016	46,306,640	5,998,624	14.88%
5101	Board of Public Education	166,141	175,677	157,206	154,935	341,818	312,141	(29,677)	-8.68%
5102	Commissioner of Higher Ed	138,589,358	134,409,216	136,687,535	136,687,537	272,998,574	273,375,072	376,498	0.14%
5113	School for the Deaf & Blind	3,506,495	3,407,295	3,506,495	3,506,495	6,913,790	7,012,990	99,200	1.43%
5114	Montana Arts Council	339,050	319,085	300,341	301,507	658,135	601,848	(56,287)	-8.55%
5115	Library Commission	1,774,096	1,794,981	1,895,629	1,639,776	3,569,077	3,535,405	(33,672)	-0.94%
5117	Historical Society	1,803,840	1,841,243	1,751,368	1,737,297	3,645,083	3,488,665	(156,418)	-4.29%
5201	Dept. of Fish,Wildlife & Parks	281,816	277,491	255,430	256,437	559,307	511,867	(47,440)	-8.48%
5301	Dept of Environmental Quality	3,546,942	3,932,764	3,548,343	3,534,154	7,479,706	7,082,497	(397,209)	-5.31%
5401	Department of Transportation	0	0	0	0	0	0	0	
5603	Department of Livestock	521,689	629,059	528,105	531,618	1,150,748	1,059,723	(91,025)	-7.91%
5706	Dept Nat Resource/Conservation	16,205,128	11,941,073	17,852,487	17,893,868	28,146,201	35,746,355	7,600,154	27.00%
5801	Department of Revenue	28,078,749	29,477,174	30,431,135	29,999,885	57,555,923	60,431,020	2,875,097	5.00%
6101	Department of Administration	4,195,717	4,059,191	3,774,470	3,803,948	8,254,908	7,578,418	(676,490)	-8.20%
6102	Appellate Defender	0	183,760	188,469	189,023	183,760	377,492	193,732	105.43%
6201	MT Dept of Agriculture	730,339	756,302	692,638	658,467	1,486,641	1,351,105	(135,536)	-9.12%
6401	Dept of Corrections	96,890,254	98,313,667	104,218,673	105,638,205	195,203,921	209,856,878	14,652,957	7.51%
6501	Department of Commerce	1,967,443	1,793,397	2,204,638	2,201,594	3,760,840	4,406,232	645,392	17.16%
6602	Labor & Industry	1,969,954	1,173,877	1,863,083	1,860,937	3,143,831	3,724,020	580,189	18.45%
6701	Dept of Military Affairs	2,974,227	3,067,978	3,163,957	3,140,598	6,042,205	6,304,555	262,350	4.34%
6901	Public Health & Human Services	260,341,982	265,184,033	262,301,509	268,902,398	525,526,015	531,203,907	5,677,892	1.08%
	Total	$1,171,618,550	$1,138,917,744	$1,152,112,668	$1,164,029,760	$2,310,536,294	$2,316,142,428	$5,606,134	0.24%
	Adjusted for OPI Fund Switch	$1,125,977,933	$1,138,917,744	$1,152,112,668	$1,164,029,760	$2,264,895,677	$2,316,142,428	$51,246,751	2.26%

STATE SPECIAL REVENUE

As defined in 17-2-102, MCA, the state special fund "consists of money from state and other non-federal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or non-federal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation."

In Figure 2, state special revenue increases $189.4 million, or 24.9 percent. Almost 64 percent of the increase is attributable to increases in highways state special revenue account (HSSRA) spending in the Department of Transportation. The large increase is primarily due to the addition of bond proceeds to accelerate work on Highway 93, which adds $87.6 million.

Other significant increases include:

- The Department of Public Health and Human Services due primarily to a change in allocation of some tobacco settlement proceeds to state special revenue accounts as a result of the passage of I-146, and additional county funds available as a result of intergovernmental transfers
- The Office of Public Instruction for a proposal to use funds diverted from the Treasure State Endowment Program for school facility payments
- The Department of Environmental Quality for potential bond payments
- The Department of Fish, Wildlife, and Parks due primarily to various adjustments funded with the general license account

Figure 2
State Special Revenue Fund Comparison
03 Biennium Versus Executive Budget 05 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2002	Adjusted Authorized Fiscal 2003	Total Exec. Budget Fiscal 2004	Total Exec. Budget Fiscal 2005	Total Adjusted Fiscal 02-03	Total Exec. Budget Fiscal 04-05	Difference 05 Biennium - 03 Biennium	% Change 03 Biennium 05 Biennium
1104	Legislative Branch	$2,178,043	$1,903,935	$2,340,000	$1,683,479	$4,081,978	$4,023,479	($58,499)	-1.43%
1112	Consumer Counsel	1,022,534	1,233,970	1,210,683	1,218,271	2,256,504	2,428,954	172,450	7.64%
2110	Judiciary	710,015	1,782,519	2,643,354	2,619,795	2,492,534	5,263,149	2,770,615	111.16%
2115	Mt.Chiropractic Legal Panel	3,776	15,000	15,000	15,000	18,776	30,000	11,224	59.78%
3101	Governor's Office	247,969	454,545	586,105	594,214	702,514	1,180,319	477,805	68.01%
3401	State Auditor's Office	3,171,444	3,488,146	4,227,117	4,285,010	6,659,590	8,512,127	1,852,537	27.82%
3501	Office of Public Instruction	1,092,119	942,620	5,041,565	5,304,373	2,034,739	10,345,938	8,311,199	408.47%
4107	Crime Control Division	0	0	0	0	0	0	0	
4110	Department of Justice	21,081,629	30,592,258	29,549,768	24,507,428	51,673,887	54,057,196	2,383,309	4.61%
4201	Public Service Regulation	2,533,459	3,381,868	2,773,630	2,658,407	5,915,327	5,432,037	(483,290)	-8.17%
5101	Board of Public Education	143,155	181,194	185,003	186,852	324,349	371,855	47,506	14.65%
5102	Commissioner of Higher Ed	12,618,636	13,066,460	13,101,000	13,228,999	25,685,096	26,329,999	644,903	2.51%
5113	School for the Deaf & Blind	235,065	346,065	341,676	342,082	581,130	683,758	102,628	17.66%
5114	Montana Arts Council	140,829	137,416	158,100	153,223	278,245	311,323	33,078	11.89%
5115	Library Commission	666,421	622,645	814,815	785,700	1,289,066	1,600,515	311,449	24.16%
5117	Historical Society	426,471	580,876	540,333	544,316	1,007,347	1,084,649	77,302	7.67%
5201	Dept. of Fish,Wildlife & Parks	33,971,373	36,649,336	39,934,461	38,882,011	70,620,709	78,816,472	8,195,763	11.61%
5301	Dept of Environmental Quality	22,494,902	41,336,025	53,319,394	15,520,037	63,830,927	68,839,431	5,008,504	7.85%
5401	Department of Transportation	149,258,584	194,283,614	222,102,788	242,424,063	343,542,198	464,526,851	120,984,653	35.22%
5603	Department of Livestock	6,622,614	7,075,829	7,104,865	7,029,072	13,698,443	14,133,937	435,494	3.18%
5706	Dept Nat Resource/Conservation	14,617,396	14,349,317	18,888,500	16,297,805	28,966,713	35,186,305	6,219,592	21.47%
5801	Department of Revenue	424,485	444,154	549,156	553,163	868,639	1,102,319	233,680	26.90%
6101	Department of Administration	2,673,474	2,852,132	3,612,596	3,639,482	5,525,606	7,252,078	1,726,472	31.24%
6102	Appellate Defender	178,910	0	0	0	178,910	0	(178,910)	-100.00%
6201	MT Dept of Agriculture	7,156,170	8,151,113	8,469,155	8,374,611	15,307,283	16,843,766	1,536,483	10.04%
6401	Dept of Corrections	1,668,004	1,725,843	2,156,131	2,153,325	3,393,847	4,309,456	915,609	26.98%
6501	Department of Commerce	2,556,211	2,739,941	2,763,712	1,750,416	5,296,152	4,514,128	(782,024)	-14.77%
6602	Labor & Industry	22,630,948	21,344,366	24,722,009	24,747,720	43,975,314	49,469,729	5,494,415	12.49%
6701	Dept of Military Affairs	151,344	409,529	1,628,074	1,707,020	560,873	3,335,094	2,774,221	494.63%
6901	Public Health & Human Services	23,836,105	35,005,021	38,738,195	40,334,583	58,841,126	79,072,778	20,231,652	34.38%
	Total	$334,512,085	$425,095,737	$487,517,185	$461,540,457	$759,607,822	$949,057,642	$189,449,820	24.94%

FEDERAL SPECIAL REVENUE

As defined in 17-2-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation of state government."

Federal revenue increases by $202.5 million, or 7.6 percent. Two near offsetting accounting adjustments skew the totals in two agencies.

- In the Department of Commerce, federal Housing and Urban Development (HUD) funding was reduced by over $80 million. The funds will still be received by the state, but will be accounted for as enterprise funds, which do not require an appropriation.
- Food stamps benefits, which were previously unbudgeted, must now be accounted for as expenditures and appropriated in HB 2. This change adds $69.5 million to the budget of the Department of Public Health and Human Services

Significant changes are in the following agencies:

- About $127 million in the Department of Public Health and Human Services for caseload adjustments, refinancing efforts, and the receipt of expanded and new federal grants. This increase is the net of reduced federal funds due to the proposed reduction in many human services programs.
- $38.2 million for new and expanded grants in the Office of Public Instruction, including significant new funds for the federal "No Child Left Behind" initiative
- $12.1 million in the Department of Fish, Wildlife, and Parks for a variety of new and expanded programs and operational increases
- $11.8 million in the Department of Transportation for construction and planning, and for airport rehabilitation

Figure 3
Federal Special Revenue Fund Comparison
03 Biennium Versus Executive Budget 05 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2002	Adjusted Authorized Fiscal 2003	Total Exec. Budget Fiscal 2004	Total Exec. Budget Fiscal 2005	Total Adjusted Fiscal 02-03	Total Exec. Budget Fiscal 04-05	Difference 05 Biennium - 03 Biennium	% Change 03 Biennium 05 Biennium
2110	Judiciary	$373,587	$419,664	$390,684	$390,018	$793,251	$780,702	($12,549)	-1.58%
3101	Governor's Office	45,279	2,046,926	2,110,444	110,427	2,092,205	2,220,871	128,666	6.15%
3501	Office of Public Instruction	93,898,407	119,309,035	123,391,845	128,036,978	213,207,442	251,428,823	38,221,381	17.93%
4107	Crime Control Division	10,303,972	12,516,813	10,422,968	10,418,938	22,820,785	20,841,906	(1,978,879)	-8.67%
4110	Department of Justice	2,700,049	3,152,297	3,546,780	3,537,874	5,852,346	7,084,654	1,232,308	21.06%
4201	Public Service Regulation	12,507	14,193	13,782	13,634	26,700	27,416	716	2.68%
5102	Commissioner of Higher Ed	39,411,623	53,860,436	42,020,644	45,022,470	93,272,059	87,043,114	(6,228,945)	-6.68%
5113	School for the Deaf & Blind	88,898	88,898	96,696	96,696	177,796	193,392	15,596	8.77%
5114	Montana Arts Council	464,530	490,471	599,116	599,086	955,001	1,198,202	243,201	25.47%
5115	Library Commission	936,567	1,074,826	1,705,694	780,694	2,011,393	2,486,388	474,995	23.62%
5117	Historical Society	683,747	898,276	740,557	741,402	1,582,023	1,481,959	(100,064)	-6.33%
5201	Dept. of Fish,Wildlife & Parks	11,077,892	11,777,540	18,199,723	16,781,024	22,855,432	34,980,747	12,125,315	53.05%
5301	Dept of Environmental Quality	16,216,721	21,180,590	26,289,180	21,408,547	37,397,311	47,697,727	10,300,416	27.54%
5401	Department of Transportation	283,381,456	369,141,124	343,881,402	320,437,451	652,522,580	664,318,853	11,796,273	1.81%
5603	Department of Livestock	524,873	558,424	1,575,886	1,579,399	1,083,297	3,155,285	2,071,988	191.27%
5706	Dept Nat Resource/Conservation	1,683,292	1,877,287	1,947,167	1,865,297	3,560,579	3,812,464	251,885	7.07%
5801	Department of Revenue	2,328,482	2,487,603	2,372,117	2,362,317	4,816,085	4,734,434	(81,651)	-1.70%
6101	Department of Administration	503,119	65,393	2,912,708	662,594	568,512	3,575,302	3,006,790	528.89%
6201	MT Dept of Agriculture	946,465	2,134,693	3,550,539	1,547,546	3,081,158	5,098,085	2,016,927	65.46%
6401	Dept of Corrections	750,280	985,955	397,053	397,053	1,736,235	794,106	(942,129)	-54.26%
6501	Department of Commerce	39,516,074	68,699,644	17,248,691	13,514,371	108,215,718	30,763,062	(77,452,656)	-71.57%
6602	Labor & Industry	31,976,879	39,352,162	35,417,330	35,398,105	71,329,041	70,815,435	(513,606)	-0.72%
6701	Dept of Military Affairs	6,982,250	7,360,862	13,004,353	13,003,140	14,343,112	26,007,493	11,664,381	81.32%
6901	Public Health & Human Services	643,498,934	745,531,834	779,982,932	805,322,481	1,389,030,768	1,585,305,413	196,274,645	14.13%
	Total	$1,188,305,883	$1,465,024,946	$1,431,818,291	$1,424,027,542	$2,653,330,829	$2,855,845,833	$202,515,004	7.63%

PROPRIETARY REVENUE

As defined in 17-2-102, MCA, proprietary funds are designated as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e. expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes." Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursed basis."

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds are not reflected in the table.

Proprietary funds show an overall decrease primarily due to the elimination of a debt service expense in the Montana State Lottery.

Figure 4
Proprietary Fund Comparison
03 Biennium Versus Executive Budget 05 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2002	Adjusted Authorized Fiscal 2003	Total Exec. Budget Fiscal 2004	Total Exec. Budget Fiscal 2005	Total Adjusted Fiscal 02-03	Total Exec. Budget Fiscal 04-05	Difference 05 Biennium - 03 Biennium	% Change 03 Biennium 05 Biennium
3501	Office of Public Instruction	$90,791	$100,000	$0	$0	$190,791	$0	($190,791)	-100.00%
4110	Department of Justice	689,888	784,385	809,244	804,574	1,474,273	1,613,818	139,545	9.47%
5117	Historical Society	772,904	879,076	896,085	899,181	1,651,980	1,795,266	143,286	8.67%
5201	Dept. of Fish,Wildlife & Parks	0	0	0	0	0	0	0	
5301	Dept of Environmental Quality	0	0	0	0	0	0	0	
5401	Department of Transportation	0	0	0	0	0	0	0	
5801	Department of Revenue	1,975,037	2,009,392	1,993,383	1,999,608	3,984,429	3,992,991	8,562	0.21%
6101	Department of Administration	7,862,145	8,822,152	8,593,053	7,338,724	16,684,297	15,931,777	(752,520)	-4.51%
6201	MT Dept of Agriculture	241,801	334,858	320,214	321,521	576,659	641,735	65,076	11.29%
6401	Dept of Corrections	420,102	595,029	538,816	549,311	1,015,131	1,088,127	72,996	7.19%
6501	Department of Commerce	0	0	0	0	0	0	0	
6602	Labor & Industry	43,126	62,286	67,956	67,851	105,412	135,807	30,395	28.83%
	Total	$12,095,794	$13,587,178	$13,218,751	$11,980,770	$25,682,972	$25,199,521	($483,451)	-1.88%

ALL FUNDS

The final comparison table is a composite by agency of the preceding tables, and shows an increase of $396.3 million, or almost 7 percent. Adjusted for the interest and income revenues for K-12 education, the increase is $441.9 million, or 7.8 percent.

Figure 5
All Funds Comparison
03 Biennium Versus Executive Budget 05 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2002	Adjusted Authorized Fiscal 2003	Total Exec. Budget Fiscal 2004	Total Exec. Budget Fiscal 2005	Total Adjusted Fiscal 02-03	Total Exec. Budget Fiscal 04-05	Difference 05 Biennium - 03 Biennium	% Change 03 Biennium 05 Biennium
1104	Legislative Branch	$9,848,858	$10,129,610	$11,510,148	$10,279,035	$19,978,468	$21,789,183	$1,810,715	9.06%
1112	Consumer Counsel	1,022,534	1,233,970	1,210,683	1,218,271	2,256,504	2,428,954	172,450	7.64%
2110	Judiciary	10,438,572	31,038,503	31,872,440	32,707,229	41,477,075	64,579,669	23,102,594	55.70%
2115	Mt.Chiropractic Legal Panel	3,776	15,000	15,000	15,000	18,776	30,000	11,224	59.78%
3101	Governor's Office	4,340,064	6,822,882	7,038,190	4,982,692	11,162,946	12,020,882	857,936	7.69%
3202	Commissioner of Political Prac	331,665	354,800	322,913	317,525	686,465	640,438	(46,027)	-6.70%
3401	State Auditor's Office	3,506,239	3,811,491	4,227,117	4,285,010	7,317,730	8,512,127	1,194,397	16.32%
3501	Office of Public Instruction	655,636,095	635,995,491	637,562,485	647,234,034	1,291,631,586	1,284,796,519	(6,835,067)	-0.53%
4107	Crime Control Division	12,098,069	14,331,285	12,068,027	12,066,067	26,429,354	24,134,094	(2,295,260)	-8.68%
4110	Department of Justice	48,118,960	51,189,562	57,249,711	51,812,597	99,308,522	109,062,308	9,753,786	9.82%
4201	Public Service Regulation	2,545,966	3,396,061	2,787,412	2,672,041	5,942,027	5,459,453	(482,574)	-8.12%
5101	Board of Public Education	309,296	356,871	342,209	341,787	666,167	683,996	17,829	2.68%
5102	Commissioner of Higher Ed	190,619,617	201,336,112	191,809,179	194,939,006	391,955,729	386,748,185	(5,207,544)	-1.33%
5113	School for the Deaf & Blind	3,830,458	3,842,258	3,944,867	3,945,273	7,672,716	7,890,140	217,424	2.83%
5114	Montana Arts Council	944,409	946,972	1,057,557	1,053,816	1,891,381	2,111,373	219,992	11.63%
5115	Library Commission	3,377,084	3,492,452	4,416,138	3,206,170	6,869,536	7,622,308	752,772	10.96%
5117	Historical Society	3,686,962	4,199,471	3,928,343	3,922,196	7,886,433	7,850,539	(35,894)	-0.46%
5201	Dept. of Fish,Wildlife & Parks	45,331,081	48,704,367	58,389,614	55,919,472	94,035,448	114,309,086	20,273,638	21.56%
5301	Dept of Environmental Quality	42,258,565	66,449,379	83,156,917	40,462,738	108,707,944	123,619,655	14,911,711	13.72%
5401	Department of Transportation	432,640,040	563,424,738	565,984,190	562,861,514	996,064,778	1,128,845,704	132,780,926	13.33%
5603	Department of Livestock	7,669,176	8,263,312	9,208,856	9,140,089	15,932,488	18,348,945	2,416,457	15.17%
5706	Dept Nat Resource/Conservation	32,505,816	28,167,677	38,688,154	36,056,970	60,673,493	74,745,124	14,071,631	23.19%
5801	Department of Revenue	32,806,753	34,418,323	35,345,791	34,914,973	67,225,076	70,260,764	3,035,688	4.52%
6101	Department of Administration	16,167,510	16,731,923	19,404,369	15,963,117	32,899,433	35,367,486	2,468,053	7.50%
6102	Appellate Defender	178,910	183,760	188,469	189,023	362,670	377,492	14,822	4.09%
6201	MT Dept of Agriculture	9,074,775	11,376,966	13,032,546	10,902,145	20,451,741	23,934,691	3,482,950	17.03%
6401	Dept of Corrections	99,728,640	101,620,494	107,310,673	108,737,894	201,349,134	216,048,567	14,699,433	7.30%
6501	Department of Commerce	44,039,728	73,232,982	22,217,041	17,466,381	117,272,710	39,683,422	(77,589,288)	-66.16%
6602	Labor & Industry	56,620,907	61,932,691	62,070,378	62,074,613	118,553,598	124,144,991	5,591,393	4.72%
6701	Dept of Military Affairs	10,107,821	10,838,369	17,796,384	17,850,758	20,946,190	35,647,142	14,700,952	70.18%
6901	Public Health & Human Services	927,677,021	1,045,720,888	1,081,022,636	1,114,559,462	1,973,397,909	2,195,582,098	222,184,189	11.26%
	Total	$2,707,465,367	$3,043,558,660	$3,085,178,437	$3,062,096,898	$5,751,024,027	$6,147,275,335	$396,251,308	6.89%
	Adjusted for OPI Fund Switch	$2,661,824,750	$3,043,558,660	$3,085,178,437	$3,062,096,898	$5,705,383,410	$6,147,275,335	$441,891,925	7.75%

TRUST FUND BALANCES

Montana has a number of constitutional and statutory trusts that provide interest income (over $82 million per year) to fund state government operations. While the legislature spent the principal of the education trust, slowed the flow of revenue into the coal tax trust and parks acquisition trust, and eliminated the growth of the resource indemnity tax trust, substantial balances remain.

1999 LEGISLATURE

The Fifty-sixth Legislature in the 1999 session reduced the rate of growth in many of the trusts by passing legislation that redirected incoming revenues. The Fifty-sixth Legislature passed legislation that reduced the fiscal 2001 ending fund balance for all trusts combined by an estimated $26 million when compared with pre-session estimates. The reduction in revenue growth was the greatest for the Permanent Coal Tax Trust, the Treasure State Endowment, and the Common School Fund. The legislature substantially enhanced the revenue growth into the noxious weed trust and marginally increased revenue into the Resource Indemnity Trust.

2001 LEGISLATURE

The Fifty-seventh Legislature in the 2001 session enacted several measures impacting state trust funds.

1. House Bill 444 appropriated to the Department of Justice $990,000 for the 2003 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund;
2. House Bill 610, beginning fiscal 2004, reduces the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent and increases the amount deposited to the permanent fund from 0 percent to 12.5 percent;
3. the passage of Senate Bill 495 resulted in the sale of the common school trust's mineral production rights and the diversion of future royalties that would have been deposited in the trust. As a result of the sale, the balance of the common school trust increased by $46.4 million, but future growth in the trust was severely curtailed. For further information and analysis of Senate Bill 495, contact the Legislative Fiscal Division for a copy of the two-part report: "Senate Bill 495 – Implementation, Impacts and Implications";
4. the resource indemnity trust reached $100 million in fiscal 2002, any amount in excess of $100 million because available for the legislature to appropriate. In House Bill 2, the legislature appropriated all the estimated $1.1 million excess in fiscal 2003, thus reducing the trust balance.

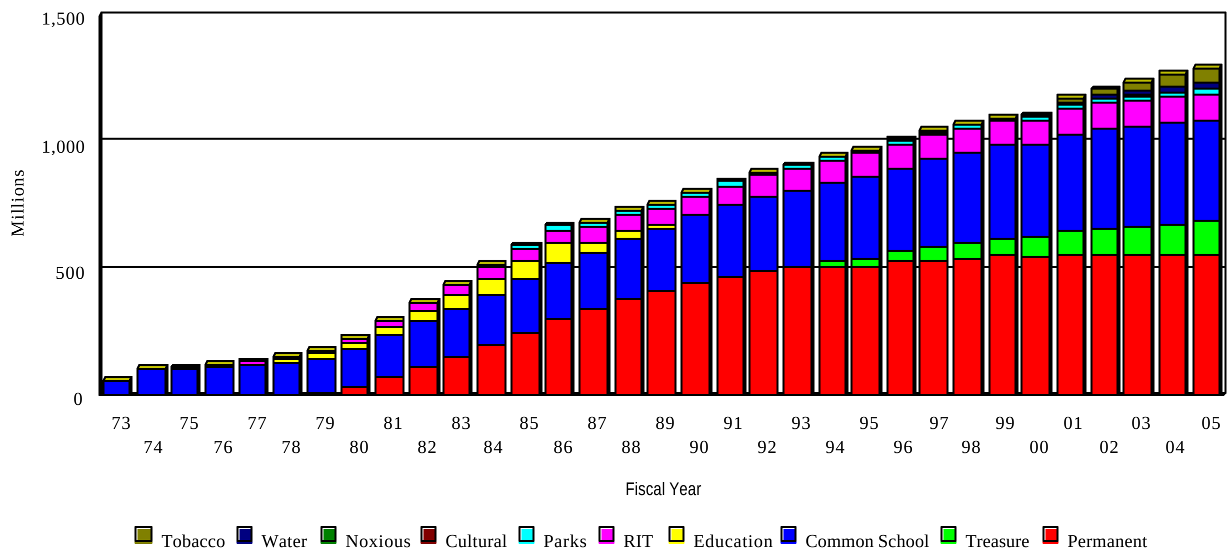
Figures 1 and 2 show the history of the ten major trusts since fiscal 1973. Forecasted amounts are shown for fiscal years 2003, 2004 and 2005, and are based on assumptions contained in House Joint Resolution 2 (HJR 2).

Following is a description of each trust and the income it generates. Also shown are expected interest earnings from each trust in fiscal years 2003, 2004, and 2005.

Figure 1
Selected Trust Fund Balances
Including Projected Investment Earnings

	Fiscal Year	Permanent Coal Tax Trust Fund	Treasure St Endowment Trust Fund	Common School Trust Fund	Education Trust Fund	Resource Indemnity Trust Fund	Parks Acquisition Trust Fund	Cultural Protection Trust Fund	Noxious Weed Trust Fund	Regional Water Trust Fund	Tobacco Trust Fund	Total Trust Funds
A	73	0	0	64,223,773	0	0	0	0	0	0	0	64,223,773
A	74	0	0	108,998,870	0	1,141,385	0	0	0	0	0	110,140,255
A	75	0	0	113,064,188	0	3,287,456	0	0	0	0	0	116,351,644
A	76	0	0	117,849,628	2,227,793	5,552,291	278,725	0	0	0	0	125,908,437
A	77	0	0	123,281,528	6,039,530	8,232,247	758,308	0	0	0	0	138,311,613
A	78	6,268,262	0	129,949,247	8,983,763	10,646,851	1,174,356	0	0	0	0	157,022,479
A	79	16,940,538	0	137,716,735	12,339,549	12,574,209	1,475,732	0	0	0	0	181,046,763
A	80	39,964,765	0	147,527,943	23,905,146	16,204,531	3,565,371	0	0	0	0	231,167,756
A	81	75,187,459	0	163,163,556	33,624,170	21,165,464	5,325,746	0	0	0	0	298,466,395
A	82	118,336,314	0	176,467,865	44,338,477	28,328,946	7,480,418	0	0	0	0	374,952,020
A	83	158,358,806	0	189,390,417	52,665,410	36,181,889	9,481,542	0	0	0	0	446,078,064
A	84	202,936,358	0	201,319,109	60,925,268	42,986,128	11,565,460	0	0	0	0	519,732,323
A	85	252,420,524	0	214,764,544	70,500,922	47,396,179	13,859,181	0	0	0	0	598,941,350
A	86	309,384,250	0	217,677,906	79,761,708	53,039,675	16,222,131	0	443,184	0	0	676,528,854
A	87	339,883,180	0	227,687,073	44,091,429	56,861,627	16,613,608	0	824,550	0	0	685,961,467
A	88	381,180,287	0	239,553,633	33,671,110	61,750,961	16,581,042	0	1,070,972	0	0	733,808,005
A	89	411,838,993	0	254,128,428	8,651,477	66,665,000	16,608,706	0	1,320,720	0	0	759,213,324
A	90	446,511,416	0	268,496,362	0	72,811,618	17,936,701	0	1,688,370	0	0	807,444,467
A	91	470,322,655	0	280,326,496	0	77,324,921	18,882,548	0	2,121,973	0	0	848,978,593
A	92	496,465,569	0	291,753,603	0	82,489,898	12,588,366	7,051,506	2,584,254	0	0	892,933,196
A	93	511,474,640	0	300,782,863	0	86,890,369	12,538,119	6,863,579	2,534,844	0	0	921,084,414
A	94	511,754,471	20,520,830	310,735,129	0	89,316,268	12,538,119	7,025,290	2,518,875	0	0	954,408,982
A	95	515,470,287	31,793,125	321,265,835	0	91,614,674	12,538,119	7,296,373	2,544,390	0	0	982,522,803
A	96	530,144,251	42,262,548	331,630,225	0	93,152,864	12,998,633	7,518,157	2,502,197	0	0	1,020,208,875
A	97	538,223,210	52,210,048	347,298,490	0	94,584,643	13,483,000	3,846,000	2,527,953	0	0	1,052,173,344
A	98	545,789,038	61,800,580	355,329,490	0	95,582,249	14,005,728	3,852,201	2,537,621	0	0	1,078,896,907
A	99	555,204,609	68,334,808	365,188,709	0	94,991,658	14,399,076	3,852,202	2,471,388	0	0	1,104,442,450
A	00	553,031,020	81,347,120	359,661,156	0	96,404,163	14,834,592	4,050,384	3,635,000	3,441,977	0	1,116,405,412
A	01	557,477,352	92,182,012	384,741,584	0	100,373,547	15,376,300	4,257,671	4,760,000	7,389,930	10,819,202	1,177,377,598
A	02	555,718,038	105,383,384	394,132,998	0	102,065,653	15,777,802	4,454,360	4,760,000	11,914,241	23,203,091	1,217,409,567
Fund Balance Forecast												
F	03	555,718,000	116,352,000	396,176,000	0	99,999,990	15,778,000	4,454,000	4,760,000	15,570,000	36,061,000	1,244,868,990
F	04	559,342,000	123,600,000	398,219,000	0	99,999,990	16,167,000	4,647,000	4,760,000	19,194,000	47,597,000	1,273,525,990
F	05	562,715,000	130,345,000	400,262,000	0	99,999,990	16,531,000	4,828,000	4,760,000	22,567,000	59,494,000	1,301,501,990
Investment Earnings Forecast												
F	03	36,825,000	7,201,000	26,503,000	0	7,376,000	1,114,000	314,000	333,200	1,151,000	1,741,000	82,558,200
F	04	37,249,000	7,871,000	26,693,000	0	7,377,000	1,127,000	322,000	333,200	1,404,000	2,464,000	84,840,200
F	05	37,920,000	8,472,000	26,922,000	0	7,379,000	1,153,000	337,000	333,200	1,670,000	3,253,000	87,439,200

Figure 2
Cumulative Balances of Trust Funds



LFD COMMENT Various restrictions, either constitutional or statutory, prohibit or restrict the expenditure of all or a portion of trust fund balances. For example, the Constitution prohibits expenditure of money in the resource indemnity tax trust until the balance reaches $100 million. Since the balance of this trust is at this limit, any additional trust balance can be spent. Figure 3 shows the 9 trust funds, their fiscal 2002 balances, and the restrictions for spending the balances.

Figure 3
Selected Trust Funds
Balances and Restrictions

Restriction/Trust Fund	Fiscal 2002 Balance	Restrictions
Statutory		
Parks Acquisition Trust	$15,777,802	None
Noxious Weed Management	4,760,000	Except for $2.25 million, balance can be spent
Cultural Trust	4,454,360	None
Subtotal	$24,992,162	
Constitutional		
Permanent Coal Severance Tax Trust	$555,718,038	Inviolate, except by 3/4 vote of each house
Common School Trust	394,132,998	Inviolate, guaranteed by state against loss or diversion
Treasure State Endowment Trust	105,383,384	Inviolate except by 3/4 vote of each house
Resource Indemnity Tax Trust	102,065,653	Inviolate, $100 million guaranteed by state against loss or diversion
Tobacco Settlement Trust	23,203,091	Inviolate, except by 2/3 vote of each house
TSE Regional Water System Trust	11,914,241	Inviolate, except by 3/4 vote of each house
Subtotal	$1,192,417,405	
Total	$1,217,409,567	

CONSTITUTIONAL TRUSTS

Permanent Coal Tax Trust

Article IX, Section 5 of the Montana Constitution requires that at least 50 percent of all coal severance tax revenue be deposited in a permanent coal tax trust fund, and that the principal of the trust "shall forever remain inviolate unless appropriated by a vote of three-fourths of the members of each house of the legislature." By statute, interest earned on this trust that is not earmarked for other programs is distributed 100 percent to the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent coal tax trust fund is an important general fund revenue source. During the period of fiscal 1981 through fiscal 2002, $750.7 million in interest from this trust was deposited in the combined general fund/school equalization account (SEA). In fiscal 2002, permanent coal tax trust fund interest provided 3.0 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25 percent of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 legislatures gave authority to the Montana Science and Technology Alliance (MSTA) for the use of $12.5 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 legislature authorized MSTA to invest an additional $11.0 million from the in-state investment program.

The payback of principal from MSTA loans returns to the trust. Before July 1, 1993, the interest from MSTA loans was distributed in the same manner as other interest earned on the permanent coal tax trust fund. House Bill 394, enacted by the 1993 legislature, created a special revenue account into which all interest earned from MSTA loans is deposited and from which MSTA expenses will be paid, with the balance returning to the trust.

The 1991 legislature also appropriated $3.25 million from the permanent coal tax trust fund for the Microbusiness Development Act. These funds provided capital to microbusiness development corporations that provide loans and technical assistance to qualified small businesses. Interest earnings and loan repayments were retained by the program to finance administrative costs and future loans.

During the January 1992 special session, the legislature authorized the creation of a school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provided up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as all other interest earned on the permanent coal tax trust fund. This legislation expired on January 1, 1993. House Bill 667, passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid was the school equalization account (SEA). The contingency fund will continue to exist until calendar 2012 when the bonds will be retired.

In the June 1992 election, voters approved a referendum to create the treasure state endowment fund (TSEF) within the permanent coal tax trust fund. The fund received a $10.0 million grant from the trust principal in fiscal 1994 and will receive half the funds deposited in the trust during fiscal 1995 through fiscal 2013. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation and authorized by the legislature.

During the November 1993 special session, the legislature authorized SB 4 that required the cash balance in the coal tax bond fund as of July 1, 1993 be deposited in the permanent coal tax trust fund. The total amount transferred was $31.1 million. SB 4 also changed the distribution mechanism by requiring the 50 percent coal severance tax revenue allocation be deposited in the TSEF and the permanent coal tax trust fund on an equal basis. Prior to SB 4, coal severance tax revenue earned on production taking place beginning July 1, 1993, was to have been deposited in TSEF. In the following fiscal year, one-half of the previous year's inflow was to have been deposited in the permanent coal tax trust fund, and the TSEF was to retain the rest. Without SB 4, the permanent coal tax trust fund would not have received any coal severance tax revenue during fiscal 1994.

The 1993 legislature passed HB 401, which authorized a loan to the Department of Environmental Quality (DEQ), (formerly the Department of Health and Environmental Sciences) from the permanent coal tax trust fund for technical, litigation, and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.6 million for the 1995 biennium and $5.2 million to repay principal and interest to the general fund for litigation costs incurred in the 1993 biennium. As of December 1994, $6.3 million had been withdrawn from the permanent coal tax trust to pay for litigation expenses. Since then, the case has been settled and money returned to the permanent trust (see the write-up of HB 110 enacted by the 1997 legislature).

1995 Legislative Action

HB 305 authorized a loan to the Department of Justice from the permanent coal tax trust for the purpose of conducting the litigation and natural resource claims against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.4 million for the 1997 biennium. The bill also extended loans made for the same purpose during the 1995 biennium. As of May 1998, $9.8 million had been withdrawn from the permanent coal tax trust to pay litigation expenses.

HB 354 expanded appropriations for the Microbusiness Financing Act, which provides loans to businesses employing less than ten employees and generating less than $500,000 in gross revenue annually. The expansion of this program doubled the previous appropriation to $3.25 million of investable coal tax trust funds made available to the Microbusiness Finance Program in the Department of Commerce. Beginning July 1, 1995, HB 354 also increased maximum loan amounts per individual loan from $20,000 to $35,000. The program provides financing for working capital assets and fixed asset acquisition with more flexible repayment terms than those offered by commercial institutions. Payback of interest and principal of the loan amounts are used for administrative purposes and for financing new microbusiness loans.

SB 38 authorized the Job Investment Act under which the Department of Commerce may loan a portion of the permanent coal tax trust to businesses to create and retain jobs in Montana. A loan to a qualified business may not exceed $500,000, and the department is to report annually to the Revenue and Taxation Committee. The legislation also reduced the amount of permanent coal tax trust funds that the Board of Investments allows the Montana Board of Science and Technology Development to invest in seed capital loans and mezzanine loans from $15.5 million to $12.5 million. The bill also increased the amount of permanent coal tax trust funds available for research and development projects from $8.1 million to $11.1 million. In the past, these funds were used primarily as loans to the University System. Under SB 38, these funds were granted to the University System for research and development projects. As of October 1, 1998, $25.7 million had been loaned or granted to Montana businesses and the university system.

SB 83 abolished the distribution of coal trust interest to the SEA. Under previous law, 15 percent of coal trust interest earnings were deposited in the SEA and 85 percent in the general fund. As a result of SB 83, 100 percent of coal trust interest earnings are deposited in the general fund in fiscal 1996 and beyond.

1997 Legislative Action

HB 110 appropriated to the Department of Justice $2.5 million in state special revenue to be used for continuing litigation expenses associated with the Atlantic Richfield case. The appropriation was for expenses incurred during the 1999 biennium, and, upon settlement of the case, the amount used plus interest was to be returned to the general fund. The case was settled in June of 1998 for $215 million. On June 24, 1998, $15 million was deposited into Short-Term Investment Pool (STIP) for payment to the permanent trust and the general fund. In the middle of October 1998, $12.2 million was transferred to the permanent trust, including $9.8 million in principal and $2.4 million in interest. In the middle of November 1998, $1.9 million was transferred to the general fund. This transfer was made up of principal ($1.4 million) and interest ($0.5 million) and constituted repayment of general fund loans going back to fiscal 1983 when the case began.

The legislature amended the allocation of coal severance taxes under 15-35-108, MCA. In HB 14, the 1997 legislature authorized the issuance of general obligation bonds to fund the purchase of Virginia City and Nevada City properties. In HB 5, the legislature allocated 1.3 percent of coal severance tax revenue to pay the debt service on the bonds, which have a term of ten years. Coal tax revenue will be distributed to the Long-Range Building Program (LRBP) debt service account for fiscal 1998 through 2007. This allocation diverts coal severance tax revenue that would otherwise be deposited in the general fund. Based on revenue estimates in HJR 2, this change in allocation resulted in a loss to the general fund of $0.5 million in fiscal 1998 and 1999. Once the ten-year period has expired, the 1.3 percent allocation will revert to the general fund.

HB 5 also eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic (C&A) trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of Virginia City and Nevada City. This appropriation resulted in a loss of trust interest revenue that otherwise would have been used to fund C&A projects during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. Based on revenue estimates in HJR 2, this part of HB 5 resulted in a loss to the general fund of $91,736 and

$93,195 for fiscal 1998 and 1999, respectively. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

HB 578 abolished the Montana Board of Science and Technology beginning July 1, 1999. The amount of money committed for research and development ($11.1 million) and for seed capital loans ($12.5 million) was allowed to be disbursed until July 1, 1999. Any money under these caps that has not been committed, except for $915,000, was returned to the coal tax trust. The Board continued to provide seed capital loans of up to $700,000 to existing seed capital companies until July 1, 1999 or until an amount of $915,000 was reached; however, up to $75,000 could have been used for administrative expenses. Beginning April 1, 1997, the proceeds from seed capital loans must be deposited in the coal tax trust. However, during fiscal 1998, $250,000 of seed capital income, as well as $150,000 of job investment loan income, must be used to fund the judges' retirement system. Also beginning April 1, 1997, and ending July 1, 1999, up to $2.0 million in income and interest from research and development loans at Montana public universities may be granted to research and development (R&D) projects at the universities. After July 1, 1999, all repayment proceeds from both seed capital loans and R&D loans in excess of $4.4 million must be deposited in the coal severance tax permanent fund. The amount of $4.4 million presumably may continue to be loaned out by the Department of Commerce under a business investment strategy plan, which must be reported to the Fifty-sixth Legislature.

1999 Legislative Action

Beginning July 1, 1999, HB 260 imposed a new coal license tax on the contract sales price of coal and reduced the coal severance tax liability for coal producers by allowing a credit against the coal severance tax in the amount of 101.5 percent of coal license tax liability. Thus, coal producers would realize a reduction of 1.5 percent in tax liability on coal production. The total reduction in coal severance tax collections was expected to be $20.7 million in fiscal 2000 and $19.6 million in fiscal 2001. The new coal license tax was expected to generate $20.4 million in fiscal 2000 and $19.3 million in fiscal 2001. The legislation, in combination with HB 69 and SB 220, provided a new distribution of coal severance taxes and specified a distribution for the new coal license tax. Under the new distribution, none of the coal severance revenue would have been distributed to the permanent trust. Instead, 37.5 percent of the reduced coal severance tax revenue stream would have been deposited in the treasure state endowment trust fund, and 12.5 percent would have been deposited in a new TSEF regional water system account (SB220). The remaining distribution of the coal severance tax would be deposited as under previous law, except that the amount (1.3 percent) to long range building program debt service would have been directly deposited in the general fund as per HB 69. Coal severance tax revenue deposited in the permanent fund would be reduced by $8.3 million in fiscal 2000 and would by $7.9 million in fiscal 2001. None of the new coal license tax would have been allocated to the permanent fund. Coal severance tax revenue deposited in the TSEF would have been reduced by $3.6 million in fiscal 2000 and $3.4 million in fiscal 2001. The revenue diversions in the each trust, as well as some of the revenue from the new coal license tax, would have been deposited into spendable accounts used for ongoing projects and payments associated with infrastructure loans and grants, agricultural seed capital, and research and commercialization loans and grants.

However, on January 20, 2000, the Montana Supreme Court found that HB 260 violated Article IX, Section 5, of the Montana Constitution and enjoined enforcement of the new coal producer's license tax. This rendered most of the legislation and appropriations meaningless. The decision did not affect the establishment of the research and commercialization expendable trust. Coordination with SB 220 also was not affected, allowing the establishment of the treasure state endowment regional water system trust and the distribution of coal severance tax to the trust and the TSEF remain intact.

HB 69 eliminates the distribution of coal severance tax revenue to the long range building debt service account that was used to pay bonds issued for the purchase of Virginia City and Nevada City property. Beginning July 1, 1999, the revenue is deposited in the general fund and the bond service payments are made by the general fund.

Beginning July 1, 1999, SB 220 created a new treasure state endowment regional water system fund into which is deposited 25 percent of one-half of all coal severance receipts. The other 75 percent of one-half of coal severance receipts flows into TSEF.

2001 Legislative Action

The Fifty-seventh Legislature in the 2001 session enacted HB 444 that appropriated $990,000 for the 2003 biennium to the Department of Justice as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund is expected to be $17,573 in fiscal 2002 and $52,718 in fiscal 2003. Any reimbursements received must be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

Beginning fiscal 2004, HB 610 reduces the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent and increases the amount of total collections deposited to the permanent fund from 0 percent to 12.5 percent. These changes will result in greater interest earnings for the general fund and lower interest earnings for Treasure State Endowment Program beginning fiscal 2004.

In conjunction with HB 41, SB 495 changes the portion of school funding provided by the common school trust. The main points of the legislation are:
interest and income from the common school trust are deposited to a subfund of the general fund called the guarantee account;
the Department of Natural Resources and Conservation is authorized to purchase the mineral production rights from the common school trust;

1. a loan of up to $75 million from the coal severance trust permanent fund will be used to purchase the mineral production rights and deposited in the common school trust (the actual transaction was $46.4 million);
2. any mineral royalties from the purchased rights are deposited to the guarantee account;
3. after principal and interest payments on the loan used to purchase the mineral production rights are paid, the remaining money in the guarantee account is available for distribution to school districts; and
4. upon electorate approval of a constitutional amendment (contained in SB 493), the public school trust may be invested in private corporate capital stock.

Although it was estimated that the cost of the mineral production rights would be $37.4 million, the actual amount loaned from the coal severance permanent fund was $46.4 million. It is estimated that the loss of interest earnings that would have been deposited to the general fund is $3.2 million in each year of the 2005 biennium. The legislation required a three-quarters vote of each house of the legislature.

Coal tax revenue flowing into the permanent coal tax trust fund is also used to secure state bonds issued to finance water resource development projects and activities. From 1981 (when the legislature authorized this bonding program) to the end of fiscal 2001, $147.3 million in water development projects throughout the state have been authorized with revenue from these bonds.

Coal tax revenue is first deposited into the school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provides up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. The contingency fund has provided backing for $24.607 million in school bonds for 16 schools. The average balance in the contingency fund has been slightly more than $2.0 million.

In the August 2002 special legislative session the legislature passed House Bill 4 and House Bill 7. Combined, these bills changed the guarantee account from a subfund in the general fund to a state special revenue fund and statutorily appropriated the money for schools.

Common School Trust

Article X, Sections 2 and 3 of the Montana Constitution require that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust. In addition, 95 percent of all rents, royalties, and other income received from leasing of school lands is to be used for public schools with the remaining 5 percent invested in the trust.

During the January 1992 special session, the legislature passed HB 3, which provided that 95 percent of the revenue from state timber sales (approximately $4.9 million) be deposited in the SEA during the 1993 biennium, with the remaining 5 percent deposited in the trust.

The 1993 legislature passed HB 652, which continued the practice of diverting 95 percent of timber revenue to the SEA during the 1995 biennium. The loss in revenue to the common school trust during the 1995 biennium was approximately $9.1 million. HB 667, also passed during the 1993 legislative session, continued this practice indefinitely. The loss of revenue to the common school trust during the 1997 biennium was approximately $9.7 million.

1995 Legislative Action

HB 50 made permanent certain provisions regarding the sale of timber on state lands. HB 50 was expected to result in additional sales of timber during the 1997 biennium. However, additional costs associated with the sale of timber were also expected to be incurred. These costs were deducted from timber sale revenues.

HB 201, passed by the 1995 legislature, required the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet, contingent on a study to determine the appropriate level of annual sustainable yield. HB 201 capped the amount of timber sale revenue deposited in the general fund (formerly the school equalization account, which was abolished in SB 83) from the common school trust at an average annual sale value of 18 million board feet. Any excess timber sale revenue from the common school trust is to be deposited in the general fund, but "earmarked" for deposit in school districts' newly established technology acquisition fund to buy technological equipment and provide technical training for school district personnel.

HB 201 also affected timber sale revenue because it diverted timber sale revenue before it was deposited in the general fund to pay for costs associated with increasing timber sales. The total revenue effect was expected to be a loss of $1.1 million to the general fund during the 1997 biennium.

HB 274, passed by the 1995 legislature, granted the Department of State Lands broader discretion to expedite sales of state timber in emergency situations and limited access situations. Effective in fiscal 1996, as a result of the natural resources reorganization bill (SB 234), the forestry function was transferred from the Department of State Lands to the Department of Natural Resources and Conservation.

SB 83 de-earmarked all interest from the common school trust and income earned on common school lands. Henceforth, these revenues flow into the general fund.

1997 Legislative Action

The 1997 legislature passed legislation that impacted the flow of timber revenue into the common school trust by appropriating timber revenue for use by the DNRC to enhance timber sales during the 1999 biennium. The amounts appropriated, $1.2 million and $1.3 million in respective years of the biennium, were diverted from the revenue stream before the allocation of 5 percent of revenue to the trust.

House Bill 2 appropriated anticipated timber sale revenue in excess of that associated with 18 million board feet for deposition in schools' technology acquisition funds. The purpose of the fund is to allow each district to buy technological equipment and provide technical training for school district personnel. The amounts appropriated were $1.5 million in fiscal 1998 and $2.8 million in fiscal 1999, or the amount of "excess" revenue in each year, whichever is less. However, no payment was made in fiscal 1999, but $3.4 million is expected to be spent during the 2001 biennium.

1999 Legislative Action

SB 48 made significant changes in funding the Trust Land Management Division in the Department of Natural Resources and Conservation. The legislation diverted a portion of the following money (previously deposited into the corpus of the land trust funds) from ten land trusts administered by the department: 1) mineral royalties; 2) the proceeds or income from the sale of easements and timber (except timber from public school lands); and 3) 5 percent of the interest and income previously credited annually to the public school fund. The money was diverted to a state special revenue account to pay costs of administering state trust lands. The legislation provided limitations on the amount of diverted revenue and the amount of the appropriations: 1) the diverted revenue was limited to 1-1/8 percent of the book value balance in each of the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the previous fiscal year revenue deposited into the capitol building land grant trust fund; and 2) appropriations of the money were limited to 1-1/8 percent of the book value balance in the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the revenue deposited in the capitol building land grant trust fund in the last completed fiscal year prior to the new biennium. In HB 2, the legislature replaced $7.1 million of general fund appropriations with state special revenue provided by this legislation.

Therefore, deposits to land trusts (primarily the Common School Trust) were reduced by $7.1 million over the biennium, approximately $3.5 million per year.

2001 Legislative Action

Although SB 495 potentially could have increase the balance of the common school trust by $75 million due to the sale of its mineral production rights, the increase depended on the amount of rights purchased by DNRC and the sale price. The actual purchase price of the mineral production rights was $46.4 million and this amount was deposited to the trust. Since future royalties from any sold mineral production rights are no longer deposited in the common school trust, the future growth of the trust is severely curtailed. For further information and analysis of Senate Bill 495, contact the Legislative Fiscal Division for a copy of the two-part report: “Senate Bill 495 – Implementation, Impacts and Implications”.

Resource Indemnity Trust

Article IX, Section 2 of the Montana Constitution and Title 35, Chapter 38, MCA, require that certain resource extraction taxes be placed in a trust. The principal of the resource indemnity trust "shall forever remain inviolate in an amount of one hundred million dollars ($100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches $100 million, any additional tax revenue may be appropriated.

During the July 1992 special session, the legislature imposed a one-year surtax on resource indemnity tax liability and allocated collections from the surtax to the general fund. During the 1993 legislative session, the legislature passed HB 608 that decreased the amount of resource indemnity and groundwater assessment (RIGWA) tax proceeds deposited in the trust during the 1995 biennium from 85.9 percent per year to 55.9 percent, or approximately $5.0 million. The bill further reduced the amount of RIGWA tax revenue deposited in the trust to 45.9 percent beginning July 1, 1995. During the 1995 session, the legislature replaced a portion of RIGWA tax proceeds with oil and gas tax proceeds due to a bill to simplify oil and gas taxes (SB 412). Also, the legislature diverted for other purposes the metal mines license tax proceeds that previously were deposited to the trust.

1997 Legislative Action

SB 377 reduced the growth rate in the ending fund balance of the RIT trust by diverting $200,000 per year from RIGWA tax inflows and 8.5 percent from metalliferous mines license tax revenue to a newly created orphan share account. The reduction of inflow into the trust in each year of the biennium as a result of these diversions was $674,000 and $743,000. The orphan share account is used to: 1) fund remedial actions on the portion of hazardous waste sites for which there is no responsible party; and 2) pay for DEQ transaction costs associated with defending the orphan share proportions.

1999 Legislative Action

SB 49 and SB 492 increased the allocation of the RIGWA tax and the RIT share of the oil and gas production tax to the RIT. The ending fund balance at the end of the 2001 biennium is expected to increase by $162,000 as a result of the legislation. The legislation also eliminated the allocation of RIGWA tax revenue to the RIT beginning July 1 of the first year following the date that the governor by executive order certifies to the Secretary of State that the RIT balance has reached $100 million.

2001 Legislative Action

The RIT balance reached $100 million amount in fiscal 2002 and the balance was certify by the governor. Therefore, no additional revenue is deposited in the trust beginning fiscal 2003. The revenue estimates showed that there would be an estimated $101.1 million in the trust balance by the end of fiscal 2003. Since any additional tax deposits over the $100 million may be appropriated by the legislature, the 2001 legislature enacted the following legislation that uses all of the excess revenue: 1) SB 326 authorizes the transfer of $500,000 to the noxious weed state special revenue account for distribution to counties (the money is appropriated in HB 2); 2) HB 2 transfers and appropriates $540,000 to purchase securities for water treatment at the former Zortman and Landusky mines; and 3) HB 2 transfers and appropriates $120,000 for the Clark Fork River task force (established in HB 397). Therefore, it is likely that the trust balance at the end of fiscal 2003 will be $100 million.

The August 2002 special legislative session reduced the transfer to the noxious weed state special revenue account for counties to $300,000.

Tobacco Settlement Trust

Due to passage of Montana Constitutional Amendment 35 in November 2000, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. The remainder of the money was deposited into the general fund. Since the legislature did not pass legislation establishing the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Interest earnings from the trust fund are to be distributed: 1) 90 percent for appropriation by the legislature for tobacco related disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and 2) 10 percent to the trust. Money in the trust fund can be spent if approved by two-thirds of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money used to fund tobacco disease prevention programs that existed on December 31, 1999.

Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 34 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payment: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two in fiscal 2000 with an additional one per year in fiscal 2001, 2002, and 2003); 3) on-going annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The Master Settlement Agreement places no restrictions on how states are to spend the money. Contrary to popular belief, the payments will be received in perpetuity.

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The two most important are the adjustments for inflation and volume of cigarettes shipped nationally. The amount of Montana's annual share will increase by a minimum amount of three percent or more if inflation is greater than three percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases.

The 2001 legislature enacted SB 129 that established a Montana tobacco settlement non-expendable trust fund to implement Article XII, Section 4, of the Montana Constitution. The legislation also provided criteria to govern the purposes for which the interest, income, and principal of the trust may be appropriated. It did not establish a statutory percentage of the tobacco settlement dedicated for deposit in the trust fund.

Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the total tobacco settlement money funds tobacco prevention programs and 17 percent funds the

Children's Health Insurance Program. The remaining 11 percent of the total settlement money is deposited to the general fund.

STATUTORY TRUSTS

Education Trust

From fiscal years 1976 through 1986, a portion of the revenue from the coal severance tax was allocated to an education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period of fiscal 1987 through 1990. Since fiscal 1990, the education trust has not received revenue from any source and its balance is zero.

Parks Acquisition/Arts Protection Trust

During most of the years since 1979, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980s, the flow of revenue into this account was diverted to the general fund. However, the principal began to increase again in fiscal 1990. Prior to fiscal 1992, two-thirds of the interest from this trust was statutorily allocated for acquisition and operation of state parks, and one-third was allocated for protection of works of art in the state capitol and other cultural and aesthetics projects.

The 1991 legislature split the principal of this trust into two separate trusts: a parks acquisition trust and an arts protection trust. During the 1993 biennium, the coal tax revenue that would have flowed into the parks acquisition trust (1.267 percent) was spent for maintenance of parks and historic sites, along with the interest from the trust. HB 687, passed during the 1993 legislative session, continued this practice for the 1995 biennium, allocating $1.6 million from the trust to current operations. In the 1997 biennium, the coal tax revenue allocation was again deposited in the trust. SB 27, passed by the 1995 legislature, increased the allocation to the parks acquisition trust from 1.267 percent to 1.270 percent.

In fiscal 1992, 0.633 percent of coal severance tax revenues was deposited in the arts protection trust, with the trust interest continuing to be used for protection of works of art and for cultural and aesthetics projects. During the January 1992 special session, the legislature diverted a portion of the revenue that would have flowed into the arts protection trust in fiscal 1993 to fund the operations of the Montana Arts Council. Beginning in fiscal 1994, these revenues were again deposited in the trust. SB 27, passed by the 1995 legislature, decreased the allocation to the arts trust from 0.633 percent to 0.63 percent.

1997 Legislative Action

The 1997 legislature amended the allocation of coal severance taxes under Section 15-35-108, MCA. HB 5 eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of the Virginia City and Nevada City. This appropriation resulted in a loss of trust interest revenue that otherwise would be used to fund C&A projects in the state during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account, and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

1999 Legislative Action

HB 260, HB 69, and SB 220 reduced coal severance tax revenue and replaced it with coal license tax revenue. The aim of the legislation was to hold the revenue flow into the arts and parks trusts as under current law. However, the arts and parks trusts lost around $25,000 over the biennium.

However, the January 20, 2000 decision of the Montana Supreme Court that found HB 260 violated Article IX, Section 5, of the Montana Constitution rendered the above changes meaningless.

2001 Legislative Action

In the August 2002 special legislative session, for fiscal 2003, the legislature temporarily diverted the parks acquisition trust 1.27 percent allocation and the cultural trust 0.63 percent allocation to the general fund. Beginning fiscal 2004, the allocations resume.

Noxious Weed Management Trust

During the period fiscal 1986 through 1992, at least one-half of the collections from a 1 percent surcharge on the retail sale of herbicides was deposited in the noxious weed management trust fund. The remaining collections were spent for weed control grants. The interest earned on the trust is retained in the trust. After the principal of the trust reached $2.5 million in fiscal 1992, all herbicide surcharge collections and the interest earned on the trust became available for weed control grants.

1995 Legislative Action

SB 321, passed by the 1995 Legislature, increased the amount of the gasoline tax revenue allocated to the snowmobile account from 23/64 of one percent to 15/28 of one percent. Beginning in fiscal 1996, one percent of the amount deposited in the snowmobile account is deposited in the Montana noxious weed control trust administered by the Department of Agriculture.

1999 Legislative Action

For the 2001 biennium, SB 164 transferred $1.125 million per year to the noxious weed trust from the highway non-restricted account in 15-70-125. As a result, the ending fund balance in the trust will almost double by June 30, 2002.