



LEGISLATIVE BUDGET ANALYSIS
2007 Biennium
Volume 5 Addendum – Agency Budgets:
Schweitzer Revisions

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INTRODUCTION

The purpose of this addendum to Volume 5 Governor Schweitzer Budget Revisions, is to provide the detailed components (decision packages) of the budget revisions recommend by Governor Schweitzer to the Governor Martz executive budget. This addendum includes the new decision packages in Section (Subcommittee) and agency order, and is intended as a working document for use by the Joint Appropriations Subcommittees. It does this by:

- Detailing components of the Schweitzer budget revisions
- Raising budget and other issues for legislative consideration

Volumes 3 and 4 of the Legislative Budget Analysis contain the detailed decision packages for the original Martz executive budget, and this addendum contains the Schweitzer revisions that, collectively, comprise all decision packages of the complete 2007 biennium executive budget.

SECTION A

GENERAL GOVERNMENT AND TRANSPORTATION

Judiciary

PROGRAM 01 – SUPREME COURT OPERATIONS

NP 111 Support Information Technology for the Judicial Branch - The executive is requesting \$1,935,000 in FY 2006 and \$1,935,000 in FY 2007 in general fund to support the information technology program for the Judicial branch.

LFD COMMENT

The executive is requesting funding to support the Judiciary's information technology program that would include 17.00 FTE and provide services to the Supreme Court, all district courts and all courts of limited jurisdiction in the state.

This request is comprised of:

1. Personal service costs for 17.00 FTE as follows:
 - o 3.00 FTE as application developers
 - o 6.00 FTE as network support specialists
 - o 6.00 FTE as business analysts/trainers
 - o FTE as a user support/help desk personnel
 - o FTE as a data base administrator
2. Desktop network services – network connectivity and office productivity software provided by the Department of Administration to serve 672 end users.
3. Maintenance for computers and peripherals that are on a 4-year replacement schedule.
4. Case management system maintenance.

LFD ISSUE

The executive is requesting that the Judiciary's information technology program be funded with general fund. During the 2005 biennium this program was funded with state special revenue from a \$10.00 surcharge levied on all criminal and certain civil case filings in district court. However, the executive is requesting that any funds collected from this fee be deposited into the general fund. This fee was schedule to expire on June 30, 2005. The executive is requesting that this fee be continued. The executive expects that this fee will generate about \$1.6 million in each fiscal year of the biennium. However, the executive is requesting \$1.935 million in each fiscal year of the biennium for the information technology program. Given these estimates, the cost of the information technology program will be \$335,000 more in each fiscal year than that collected and deposited into the general fund.

Options for the legislature:

1. Approve the executive budget as presented.
2. Require that the information technology program be funded with the state special revenue as it has been during the 2005 biennium. The fee would need to be increased by \$2.00 per filing or from \$10.00 to \$12.00 cover the entire budget request.
3. Require that the information technology program be funded partly with the state special revenue and partly with general fund.

For a discussion of issues related to the Judiciary's information technology please refer to page A-27 in the budget analysis for the Judiciary in Volume 3 – Agency Budgets of the Legislative Budget Analysis 2007 Biennium.

Elected Official: New Proposals (Amended)

Information Technology – The Judiciary is requesting an additional \$937,258 for its information technology program for the 2007 biennium. This request is for \$299,259 in FY 2006 and for \$637,999 in FY 2007.

PROGRAM 06 - CLERK OF COURT

PL 222 – Restore Clerk of Court Operating Budget – The executive recommends that the Clerk of Court’s operating budget receive a general fund increase \$6,000 in FY 2006 and \$6,000 in FY 2007. These funds will be used to bring this budget to that level supported by the FY 2004 level.

**LFD
COMMENT**

In recent years, the Clerk of Court has reduced operating expenses in order to adhere to vacancy saving requirements. This request by the executive is to replace those reductions. These funds would be used to pay for day-to-day expenditures incurred by the function. There is no vacancy savings proposed in the Judiciary’s 2007 biennium budget submission. Therefore, personal services would be fully funded in Governor Schweitzer’s budget.

Governor's Office

PROGRAM 01 – EXECUTIVE OFFICE PROGRAM

PL 111 – Transfer the Workforce Training Program - The executive proposes to transfer the Workforce Training Act and its 2.00 FTE to the Department of Commerce from the Governor's Office of Economic Opportunity, and fund the act with general fund.

LFD COMMENT

The Martz budget includes a state special revenue appropriation of approximately \$9.8 million to implement HB 564, passed by the 2003 Legislature. The bill, called the Workforce Training Act, created a program to offer training grants to primary sector businesses to create high-wage and high-skill jobs. Funding for the grants comes from an INTERCAP loan from the Board of Investments. The loan would be repaid from new job tax credits offered to these businesses based upon the new jobs and higher wages created. The legality of using the INTERCAP loan program has been questioned.

The Schweitzer Administration proposes to eliminate this funding source, remove all references to the Board of Investments, and provide funding through a direct general fund appropriation. For further discussion, please see narrative for the Department of Commerce.

The executive proposal for the transferring of the Workforce Training Program is contingent upon the passage of two pieces of legislation:

- LC 1286, which would make the Workforce Training Program permanent, transfer its administration to the Department of Commerce, and revise its funding mechanism
- LC 1842, which would appropriate \$2,170,000 general fund for the program grants and would establish an effective date upon passage and approval.

If legislation passes, the impact on the Governor's office will be the transfer to the Department of Commerce of:

- \$139,519 for 2.00 FTE - general fund
- \$64,957 operating expenses - general fund

And the removal of:

- \$9,789,803 grants spending authority - state special revenue

PL 555 – Add a Governor's Efficiency Council - The executive recommends \$400,000 one-time-only general fund for the 2007 biennium to add a Governor's Efficiency Council to the Governor's Office.

The council would be made up of nine members: Lieutenant Governor, Chair; Legislative Auditor, as an ex officio member, non-voting; two members appointed by the Speaker of the House; two members appointed by the President of the Senate; and three members appointed by the Governor. The Governor's Office and the Office of Budget and Program Planning would provide the council's staff. The council would work to streamline like services throughout state Government and would provide interim reports to the Legislative Audit Committee with a final report to the 60th Legislature. A biennial appropriation is requested.

LFD COMMENT

As of this writing, the \$400,000 is not attached to specific operating expenses and the rationale for the current funds has not been provided. Although interim reports are contained in the recommendation, legislators might want to ask for the goals, objectives, implementation plan, and methods of evaluation for the program and an explanation of how this plan differs in expectations and costs from those tried in the past.

PL 222 – Governor's Office budget increase - The executive recommends the addition of \$189,000 general fund per year to the Governor's Office budget, including \$50,000 operating funds for items such as printing and contracted services, \$50,000 to provide funding for various automation and IT efficiency efforts, and \$70,000 to provide additional travel funds for the Governor and his staff.

**LFD
ISSUE**

Of the \$189,000 each year, the executive requests:

- \$19,000 per year for salary adjustments for classified staff including benefits.
- \$50,000 per year for printing, publication and graphics in addition to the Martz budget of \$5,025 per year in this category
- \$50,000 per year for consultant and professional services in addition to the Martz budget, which includes \$286,074 per year in this category, \$236,000 of which was earmarked for consultants for the Office of Economic Opportunity
- \$70,000 per year, \$140,000 total, is requested for travel over the biennial total of \$134,655 included in the Martz budget.

As of this writing, greater detail for expenditures has not been provided, nor has a rationale for why the increased expenditures are necessary.

NP 334 Marketing Montana and Business Recruitment - The executive recommends one-time-only \$500,000 general fund each year of the 2007 biennium to provide national and international marketing of Montana and business recruitment.

**LFD
COMMENT**

This proposal is attached to the Office of Economic Opportunity.

This office is proposed to work with local economic development organizations in creation and production of marketing materials, and selective targeted institutional advertising. The executive also proposes that the office would assist with the placement of free economic development news in industry publications, state and local web site construction and maintenance, industry and company target research, creation of in-state and out-of-state recruitment teams, selective trade show activity, and recruitment deal construction, marketing and closure, among other activities.

As of this writing, the \$1 million is not attached to specific operating expenses. A description of activities and expenditures is in progress, but it is not known or documented that \$1 million is the actual amount needed to fund the proposal. Also unknown is the amount of the one-time-only funding attached to expenditures that would not be needed in future biennia.

Goals and objectives from previous years are available at the Office of Economic Opportunity web site. Updates to the document were unavailable at the time of this writing.

Legislators might want to:

- Ask for updates to existing goals and objectives and the relationship to expenditures
- Request an implementation plan and methods of evaluation
- Request interim reports to the appropriate committee

Notice about Board of Education DP 7 in the Martz budget

At the time of this writing, a proposal was being developed by OBPP to replace the Martz budget recommendation for a Commissioner of the Board of Education (DP 7) with two positions and additional operating expenses. Details were not available.

PROGRAM 02 – MANSION MAINTENANCE PROGRAM

PL-222 – Increase the budget of the Mansion Maintenance Program - The executive recommends the addition of \$25,000 per year of general fund to the Governor's Mansion Program in anticipation that the chief executive would host many functions and public activities, often requiring additional security, moving, and other logistical expenses.

LFD ISSUE

In the write-up in the Governor Elect's Budget Book, it is stated that the base is the lowest in many years. However, the Martz budget includes an increase of \$18,500 per year to the base, which brings the total for the Mansion Maintenance Program to \$86,527 each year of the biennium, the highest since FY 2000.

Spending in the Mansion Maintenance Program since FY 2000 is as follows: FY 2000 = \$80,025; FY 2001 = \$74,960; FY 2002 = \$79,107; FY 2003 = \$62, 989; and FY 2004 = \$69,527.

The executive proposed addition of \$25,000 per year would bring the Mansion Maintenance Program to \$111,527 for FY 2006 and \$111,395 for FY2007.

As mentioned in the LFD analysis of the Martz budget, documentation of the need for the increase in actual maintenance or other categories was not provided. The same holds true for this recommendation.

LFD ISSUE

Plans for the Governor's Mansion for the next biennium are unknown. Should legislators wish to approve this recommendation, they may wish to consider one-time-only funding.

PROGRAM 03 – AIR TRANSPORTATION PROGRAM

Two decision packages impact HB 2; general fund \$460,000 in FY 2006 and \$70,000 in FY 2007. The state special revenue account increases because of \$380,000 in PL 333 that would be transferred from the general fund.

PL 222 – Governor's Office Air Transportation Increase - The executive recommends \$80,000 general fund in FY 2006 and \$70,000 in FY 2007 for the Air Transportation Program to hire an additional half-time pilot, provide training, and increase the program's operating budget for additional hours of flight time and additional maintenance downtime for the Governor's airplane.

LFD COMMENT

The executive includes \$22,800 per year for 0.50 FTE and an additional \$20,000 in FY 2006 and \$10,000 in FY 2007 for training for the pilot. A description of what type of training would be attached to this cost item was not available at the time of this writing, but there is information available that the pool of pilots skilled in twin-engine aircraft is very small because of deployment to Iraq. Legislators may want to ask the Governor's Office at the time of the hearing if the training is still needed.

The executive also recommends an additional \$37,000 per year for hours of flight time over the Martz budget of \$38,087 per year. There is additional discussion of this matter on page A-61 of the LFD analysis.

LFD ISSUE

Unknown elements of this proposal that could impact the next biennium are the level of Governor's travel and the cost of aircraft fuel. Legislators may wish to consider one-time-only funding for this request.

**LFD
ISSUE**

The Martz budget contains \$20,000 per year in state special revenue from aircraft rental by other agencies based upon about 225 hours of use by the Governor. The Schweitzer budget contains funding recommendations for an additional half time pilot and increased hours of flight time and maintenance down time, indicating the aircraft may not be available to rent to other agencies.

PI 333 – Aircraft Engine Overhaul Contingency - The executive recommends a restricted, one-time-only biennial contingency of \$380,000 to overhaul the engines on the Governor's aircraft if the need occurs. Funds would be transferred from the general fund to a state special revenue account.

The Governor's airplane has engines that typically require overhaul after 3,500 hours of flight time. Because of participation in the "MORE" (Maintenance On Reliable Engines) program, which requires strict maintenance, inspections, and testing criteria for participation, the Air Transportation program is authorized to operate the engines up to 8,000 hours without overhaul. The state plane currently has approximately 5,300 hours, and the plane is typically operated between 200 and 300 hours per year. If the engines continue to pass tests and inspections, the overhaul will not be needed in the 2007 biennium. However, if the plane fails a test or an inspection, the overhaul will be required before the plane can be flown again.

PROGRAM 05 – COORDINATOR OF INDIAN AFFAIRS

PI 555 – Increase the salary for the Coordinator of Indian Affairs - The executive requests the addition of \$25,000 per year general fund to increase the salary for the Coordinator of Indian Affairs, which make it more comparable to other government officials with similar responsibilities.

**LFD
COMMENT**

The executive proposal for increasing the salary of the Coordinator of Indian Affairs is contingent upon the passage of HB 18, which extends the duration of the State-tribal Economic Development Commission that is administratively attached to the office of the Governor, and is presently slated to expire at the end of the 2005 biennium. HB 18 is slated for its first hearing January 11, 2005.

NP 333 – Create and Maintain an office for the State of Montana in Washington D.C.

The executive requests \$250,000 per year of general fund for 1.50 FTE and related operating expenses to create and maintain an office for the State of Montana in Washington, DC. The staff would work to promote Montana and identify and coordinate issues related to Montana and its citizens.

**LFD
COMMENT**

The \$250,000 per year comprises \$98,000 in personal services and \$152,000 unidentified operating expenses. The personal services are for 1.0 FTE, Grade 24 and .50 FTE, Grade 14.

Legislative staff has requested the goals, objectives, implementation plan, and methods of evaluation for the program and an explanation of how this plan differs in expectations and costs from those tried in the past. As of this writing, only cost information was available.

According to Governor's Office staff, this position was last funded in FY 1986, and comprised \$71,045 for 1.50 FTE, and \$22,610 in operating expenses. Using inflation factors from the US Bureau of Labor Statistics Price Index, the office estimates the FY 1986 amounts would increase to \$135,567 and \$174,682 respectively for each year of the coming biennium.

If approved, in preparation for the next biennium, legislators may wish to require a report to the appropriate interim committee on the goals, objectives and evaluation attached to the implementation and performance of this office as well as the costs of the program and its achievements.

PROGRAM 20 – MENTAL DISABILITIES BOARD OF VISITORS

NP 444 – Fund the Mental Health Ombudsman position - The executive recommends \$95,000 general fund each year of the biennium and 1.50 FTE for the Mental Health Ombudsman, which was previously funded with federal Medicaid funds.

These funds are not included in the Martz budget for the 2007 biennium because the federal Centers for Medicare and Medicaid Services determined that the program was not eligible for the Medicaid funds.

**LFD
COMMENT**

There is further discussion of the Medicaid funding in the LFD Budget Analysis on page A-73.

Department of Revenue

PROGRAM 01 – DIRECTOR’S OFFICE

DP 105 - Pay Off the IRIS Computer System Loan - An increase of \$2.1 million general fund for FY 2006 is recommended to pay off the loan from the Board of Investments used to fund the Integrated Revenue Information System (IRIS), developed to replace the Process Oriented Integrated Tax System (POINTS).

LFD COMMENT

Supplemental Appropriation

The Governor Martz budget included a request for a \$16.0 million general fund appropriation to pay off the IRIS loan. The Schweitzer budget changes anticipate funding \$13.9 million of the loan payoff with funding in HB 3 for a supplemental appropriation in FY 2005 and this request for the remainder. As a result of repaying the loan, the department would be reducing approximately \$3.0 million per year in payments for the next 5.5 years. The reduction of these payments would eliminate the assessment against personal income tax revenue and would restore \$3.0 million revenue to the general fund each year. The executive recommends the legislature designate the appropriation for this purpose as one-time-only.

LFD ISSUE

Impact on Montana Law

Legislation has yet to be requested to amend Montana law to eliminate the administrative assessment against selected taxes collected by the department in order to fund the debt service on the Board of Investments loan. The legislature may want to enact legislation to repeal 15-1-141, MCA, and amend 15-1-501, MCA, accordingly.

PROGRAM-07- INFORMATION TECH SERVICE DIVISION

DP 111 – Increase Funding for the Department of Revenue – An increase of \$1.12 million general fund for the biennium is requested to fund personal services and operating costs to add 8.00 FTE for compliance activities in four areas where other states have found significant non-compliance with personal income tax and corporate license tax.

LFD COMMENT

Compliance Staff and Revenue Generation

FTE Additions

Funding of the adjustment would be used to hire the following compliance staff:

- 6.00 FTE financial operations supervisors (grade 16)
- 1.00 FTE attorney (grade 21)
- 1.00 FTE auditing technician (grade 10)

Compliance Concentration

The FTE added by the adjustment would concentrate on compliance in the following four areas where other states have found significant non-compliance with personal income tax and corporate license tax:

- Abusive tax shelters, where compliance or fraudulent transactions are used to hide or disguise income
- Income earned in the state by nonresidents that is not reported or taxed (i.e. capital gains income)
- Income earned by out-of-state businesses that have enough economic presence in the state to owe, but do not pay, corporation license taxes
- Income earned in Montana that flows through one or more pass-through entities to an out-of-state recipient who does not pay Montana income tax

**LFD
COMMENT
CONTINUED***Projection of Additional Revenue*

The executive has stated that by hiring the additional compliance staff and concentrating compliance activities in the four areas described above, additional revenues that would exceed the cost of the compliance staff are expected. The additional revenues generated by the FTE and associated compliance activities are expected to be ten times the costs after the FTE are trained and gain experience, but are only expected to generate additional revenues of \$1.1 million, or two times the costs, in FY 2006 and \$2.3 million, or nearly four times the costs, in FY 2007.

**LFD
ISSUE***One-time Funding*

The executive indicates that \$40,000 in FY 2006 and \$80,000 in FY 2007 are for one-time costs. As such, the legislature may wish to designate funding for these amounts as one-time-only.

**LFD
ISSUE***Verification of Additional Revenues*August 2002 Special Session FTE Additions

The legislature, in the August 2002 Special Session, added 13.30 FTE compliance staff to the Department of Revenue. The FTE were added during the special session on the assertion that the FTE would generate additional audit related general fund revenue and the additional revenue would exceed the costs of the compliance activities. The 2003 Legislature added the following language to HB 2 that directed the department to report on the additional revenue generated by the new FTE and the costs to achieve the additional revenue:

“The department [Department of Revenue] shall present reports to the revenue and transportation interim committee that show the cost of tax compliance staff and the additional revenue generated from providing the associated tax compliance. The department shall identify the costs and revenue separately for the additional staff added during the August 2002 special legislative session. The revenue and transportation interim committee may determine the frequency for reporting by the department on compliance staff revenue.”

Testimony Before the 2003 Legislature

During the hearings of the General Government and Transportation Joint Appropriations Subcommittee of the 2003 Legislature, department management testified that they could track the activities and would be able to fulfill the requirements of the above language.

Report to the Revenue and Transportation Interim Committee

When reporting to the Revenue and Transportation Interim Committee, the department management testified that they could not separately identify the additional revenues generated by the FTE added during the special session.

**LFD
ISSUE
CONTINUED**

Potential Legislative Questions

Because the department could not fulfill the reporting requirements they committed to during the 2003 session, the legislature may wish to have the department explain:

1. What changed between the hearing of the General Government and Transportation Joint Appropriations Subcommittee of the 2003 Legislature and the time it reported to the Revenue and Transportation Interim Committee that did not allow the department to track the activities of the compliance FTE?
2. Why did the department not establish a process to monitor the activities of the compliance FTE so it could fulfill its reporting requirements and comply with the law?

Verification of Additional Revenue of the DP 111 FTE

Methodology for Determining Expected Additional Compliance Revenue

When determining additional revenue that would be expected from additional compliance FTE, the department follows the same methodology of dividing the annual revenue generated by all current compliance staff in a given compliance area by the number of current FTE providing the compliance activities. This methodology determines the average revenue generated from each current FTE, which the department then assumes would be generated by each additional FTE. When considering the principle of diminishing returns, it is not reasonable to expect that the additional revenue generated from additional compliance activities would produce the same amount of revenue as the average of the current effort. The marginal revenue generated from additional compliance should be lower than the revenue generated from the current compliance unless the compliance area is being significantly under served. If the same amount of compliance revenue could be generated from additional compliance activities without any marginal decrease, one might ask why the department doesn't recommend hiring even more compliance staff to fund. A ten times return of revenue over the costs of compliance activities is a good return on the investment of the compliance staff. The difference between the special session FTE and the FTE of DP 111 is that the FTE of DP 111 are intended to provide compliance in areas that may currently be under served. However, the methodology of assuming that the average revenue from current FTE would be generated by the additional FTE may raise a concern with the legislature.

Legislative Options for Verifying the Return on Investment

The legislature may wish to consider options for verifying how much additional revenue is generated by the additional compliance FTE and at what cost the revenues are generated. Given the failure of the department to appropriately satisfy the reporting requirements of the 2003 Legislature, the legislature may wish to consider the following options for verifying the revenues of the DP 111 FTE:

- Option 1 – Include language in HB 2 that directs the department to implement a process to separately track costs and revenues generated by the additional FTE of DP 111 and report to the legislature on the costs and revenues of the FTE
- Option 2 – Request a bill to amend the statutory duties of the department to separately track costs and revenues generated by the additional FTE of DP 111 and report the costs and revenues to an appropriate legislative committee
- Option 3 – Impose no reporting requirements

Option 1

Option 1 to include a requirement in HB 2 for the department to separately track and report on the costs and revenues of the FTE added in DP 111 would be similar to the direction of the 2003 Legislature, but would specifically require the department to establish a system for tracking the activities of the new compliance FTE so a recurrence of the conflict between the session and interim responses of the department is not repeated.

**LFD
ISSUE
CONTINUED**

The executive indicates that the additional revenues for the compliance activities of this adjustment could ultimately grow to ten times the cost. However, the request also indicates a gradual increase in additional revenues during the introduction phase of this initiative. Full revenue enhancements are not anticipated until after the 2007 biennium. Including the requirement in HB 2 would only require the department to track and report on DP 111 compliance activities during the 2007 biennium and would require the 2007 Legislature to impose similar requirements in order to have the department report the costs and revenues from the DP 111 effort after the 2007 biennium.

Other controls the legislature may wish to use to help ensure that the reporting requirements are satisfied include:

1. Designating the funding for the entire request as one-time-only. With one-time funding for the compliance FTE, the department would have a higher risk on future funding for the function without providing the legislature with appropriate data to support the claims of additional revenue generation from the compliance activities
2. Designate the funding in a separate line item. A separate line item would establish an administrative structure for separately tracking line item expenditures
3. Place restrictive language on the appropriation for the compliance FTE. Restricting the funding for DP 111 would restrict the department from using the funding for other purposes.

The legislature could use any of the above controls to help ensure compliance with its reporting requirements. The following language would require the department to establish a process for monitoring the activities so reporting could be accomplished. In addition to a one-time-only, restricted appropriation in a separate line item, this language would provide maximum legislative control of these expenditures.

“The department [Department of Revenue] shall develop a process for separately tracking costs and revenues associated with the compliance activities funded in item [line item for DP 111]. The department shall present reports to the legislative finance committee that show the costs of providing tax compliance as funded in [line item for DP 111] and the additional revenue derived from the associated compliance activities. The reports must include a breakdown of all costs by second level of expenditure and a comparison between the aggregate tax revenues derived from the individuals or businesses directly audited by the compliance activities funded in [line item for DP 111] and the aggregate tax revenues derived from the same individuals or businesses prior to implementation of compliance activities funded in [line item for DP 111]. The legislative finance committee may determine the frequency for reporting by the department on compliance staff costs and revenue. The department shall provide the same reports to the general government and transportation joint appropriations subcommittee of the 2007 legislature during budget hearings.”

“Item [line item for DP 111] is restricted for expenditure on tax compliance activities associated with:

- abusive tax shelters, where compliance or fraudulent transactions are used to hide or disguise income;
- income earned in the state by nonresidents that is not reported or taxed;
- income earned by out-of-state businesses that have enough economic presence in the state to owe, but do not pay, corporation license taxes; or
- income earned in Montana that flows through one or more pass-through entities to an out-of-state recipient who does not pay Montana income tax.”

Option 2

Option 2 would consist of a bill draft request to amend 15-1-201, MCA, to include the requirement to develop a process to separately track and report the costs and revenues as directed by the above HB 2 language, but would make the requirement a part of permanent law. Amending Montana law to require the department to track and report would continue beyond the end of the 2007 biennium and not necessitate a positive action by the 2007 Legislature to continue the requirements. The legislature could include similar tracking and reporting requirements as specified for HB 2 in a bill request to implement the requirements.

SECTION B
DEPARTMENT OF PUBLIC HEALTH
AND HUMAN SERVICES

Department of Public Health and Human Services

DPHHS OVERVIEW

Governor Schweitzer adopted the DPHHS budget submitted by Governor Martz with several changes that add \$79 million over the biennium, primarily due to revenue from I-149 that raised tobacco taxes (\$1 per pack of cigarettes). Figure A shows the Schweitzer budget compared to the Martz budget. General fund increases about \$10 million, state special revenue grows about \$56 million, and federal funds rise \$12 million.

Funding for personal services, grants, and equipment does not change between the two recommendations. The largest change is in benefits and claims, which account for nearly \$70 million of the \$79 million total increase over the Martz recommendation. Operating costs grow by \$9 million.

The increases recommended by Governor Schweitzer are:

- o \$45 million in state special revenue for programs funded through I-149 tobacco tax increases, including a prescription drug program for low income persons, Medicaid provider rate increases, increasing Medicaid enrollment through a Medicaid Health Insurance Flexibility and Accountability (HIFA) waiver, and tax credits for small employers that provide health insurance
- o \$17 million in state and federal funds for increased enrollment in the Children’s Health Insurance Program (CHIP) including:
 - An increase of \$8.5 million in state special revenue matching funds from
 - o \$7 million in I-149 tobacco tax
 - o \$1 million in increased tobacco settlement revenues
 - o \$1 million in private donations
 - Elimination of \$3 million general fund
 - A reduction of \$4 million in state special revenue donations
- o \$10 million in general fund for:
 - Low income energy assistance - \$8.4 million
 - Foster care - \$2 million
 - Programs funded from tobacco settlement funds (continuation of transfer of funds to the Prevention and Stabilization Account) in the Martz budget including:
 - o Child support enforcement matching funds - \$1.3 million
 - o MIAMI (Montana for the Abatement of Mortality in Infants) - \$1.1 million
 - o Childcare matching funds - \$0.8 million
 - o Poison control, AIDS treatment - \$0.2 million
 - o Independent Living - \$0.5 million
 - o Extended Employment - \$0.5 million

Description	Martz Budget	Schweitzer Budget	Schweitzer Over (Under) Martz	Percent of Total
FTE	2,739.18	2,739.18	0.00	
Personal Services	\$241,749,177	\$241,749,177	\$0	0%
Operating	209,401,308	218,466,418	9,065,110	11%
Equipment	924,710	924,710	0	0%
Grants	97,487,441	97,487,441	0	0%
Benefits/Claims	2,018,244,125	2,088,070,666	69,826,541	89%
Deb Service	1,197,612	1,197,612	0	0%
Total Expenditures	<u>\$2,569,004,373</u>	<u>\$2,647,896,024</u>	<u>\$78,891,651</u>	<u>100%</u>
General Fund	\$603,549,186	\$613,910,646	\$10,361,460	13%
State Special Revenue	122,973,794	179,212,033	56,238,239	71%
Federal Funds	1,842,481,393	1,854,773,345	12,291,952	16%
Total Funding	<u>\$2,569,004,373</u>	<u>\$2,647,896,024</u>	<u>\$78,891,651</u>	<u>100%</u>

A funding switch reduces \$2.4 million general fund in Medicaid match and moves the expenditures to tobacco taxes (I-149 funds).

CHIP FUNDING

The difference between Governor Schweitzer's budget request for CHIP and Governor Martz's request is shown in Figure B. Governor Schweitzer's request is \$17 million higher over the 2007 biennium and would fund 13,900 children compared to 10,900 funded in the Martz request.

Source of Funds	Governor Martz	Governor Schweitzer	Difference	Percent of Total
General Fund	\$3,175,300	\$0	(\$3,175,300)	-18%
State Special Revenue				
I-149 Tobacco Tax	0	6,737,298	6,737,298	39%
Tobacco Settlement	1,730,216	6,128,720	4,398,504	26%
Donations	4,798,551	1,000,000	(3,798,551)	-22%
Federal Funds			0	0%
CHIP Grant	36,574,234	44,874,658	8,300,424	48%
Medicaid Match	0	4,753,760	4,753,760	28%
Total	\$46,278,301	\$63,494,436	\$17,216,135	100%

Governor Schweitzer allocated nearly \$7 million in tobacco tax funds from I-149 as CHIP match and increased the amount of tobacco settlement funds about \$4.4 million above the Martz request. Schweitzer eliminated the general fund match (\$3.2 million) and lowered donations by nearly \$4 million. Federal matching funds rise \$13 million and include nearly \$5 million of Medicaid match.

LFD COMMENT

Medicaid Match for CHIP Children – Legislative staff has requested documentation to support including Medicaid funds for CHIP benefits for CHIP eligible children. Since the federal CHIP grant is a fixed amount, the executive request may exceed available federal CHIP funds.

I-149 - \$1 Increase in Tax on a Pack of Cigarettes

The Schweitzer budget includes \$60 million in tobacco tax state special revenue increases authorized in 53-6-1201, MCA, which was enacted by the passage of I-149 in November 2004. Tobacco tax increases are to be spent for:

- CHIP enrollment maximization
- A new needs based prescription drug program for children, seniors, chronically ill, and disabled persons
- Increased Medicaid services and Medicaid provider rates
- Programs to assist small businesses with the cost of employee health insurance, including the authorization to provide tax credits

There are several references in 53-6-1201, MCA prohibiting use of new tobacco tax revenue for existing program expenditures (non supplantation). Tobacco tax increases must be used to fund:

- CHIP enrollment above the level appropriated during the 2005 biennium
- Medicaid costs above the level based on traditional cost trends
- New drug programs that do not supplant services provided under existing programs

A further requirement is that until prescription drug and small business health insurance support programs are implemented funds must be used for other CHIP and Medicaid service expansions and rate increases.

The Schweitzer budget allocates percentages of the I-149 revenue among statutorily prescribed uses, adds another use, and requests a reserve amount of \$27 million funded from all tax collections in FY 2005 and a portion (\$8.3 million) of FY 2006 tax revenue. The allocation of I-149 by use and biennial amount, excluding the request for reserve, is:

- Small business health insurance assistance, 33 percent (\$12 million)
- Prescription drug program, 25 percent (\$16 million)
- Increased Medicaid services and provider rates, 17 percent (\$6.5 million)
- Medicaid support, 15 percent (\$10.5 million)
- CHIP, 10 percent (\$7 million)

The reserve account would be expended from FY 2008 through FY 2011 to create funding stability for programs supported by a source of revenue that is projected to decline. The FY 2006 deposit to the reserve account is proposed to be the amount that is unexpended due to start up for the prescription drug and small business health insurance support.

LFD ISSUE	<p>Compliance with 53-6-1201, MCA – Several of the executive budget proposals for new tobacco tax revenue appear to conflict with 53-6-1201, MCA including:</p> <ul style="list-style-type: none"> ○ Support of base level Medicaid and Mental Health Services Plan costs ○ Support of base level CHIP enrollment levels ○ Development of a reserve fund <p>Each of these issues is explained in more detail in the discussion of specific decision packages in program narratives. However, if the legislature adopts any or all of these executive recommendations, it may wish to amend 53-6-12-1, MCA to allow those uses.</p>
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Figure C shows each decision package by program that was added to the DPHHS budget request for I-149 funds. The amounts shown in Figure C include only the increased tobacco tax state special revenue and not the matching federal funds that may also be requested.

Figure C			
Executive Request for Expenditures from Tobacco Tax Increase			
Implemented by I-149 (53-6-1201, MCA)			
Appropriation Request by Program and Specific Decision Package	FY 2006	FY 2007	Percent of Total
Director's Office			
NP 3202 - I-149 (Drug Assistance/Tax Credits for Small Businesses/Medicaid Funding)	\$18,950,000	\$26,250,000	78%
Addictive and Mental Disorders			
NP 3002 - Mental Health Services	3,250,000	3,250,000	10%
NP 3008 - Medicaid Adult Mental Health Services	198,429	198,429	1%
Health Resources Division			
NP 3206 - CHIP Expansion by 3,000 Children	2,043,906	2,118,045	6%
NP 3192 - CHIP Enrollment to 10,900	979,753	1,595,594	5%
NP 3009 - Medicaid (Biennial)	601,571		
Senior and Long Term Care Division			
NP 3004 - Hospice and Home Health	<u>204,000</u>	<u>204,000</u>	<u>1%</u>
Total Appropriation Request	<u>\$26,227,659</u>	<u>\$33,616,068</u>	100%
Biennial Total		<u>\$59,843,727</u>	

The single largest request combines funding for the prescription drug program, small business health insurance assistance, and Medicaid service and provider rate increases. At this point, there is no specific executive proposal for a drug program beyond the allocation of a portion of the tobacco tax proceeds.

**LFD
COMMENT**

Small Business Tax Credits and Drug Programs - The Governor, the State Auditor and the Alliance for a Healthy Montana, a coalition of health care providers, consumers, insurers, voluntary health organizations, tobacco use prevention groups, and other interested parties, support LC 1357 that would establish a small business tax credit program. The legislation is still being drafted and will be reviewed by legislative staff when the bill is introduced. The number of businesses and individuals that could be assisted through the tax credit proposal would be determined by the amount of funding available and whether the proposal could be eligible for Medicaid funding.

The Governor and Alliance are still working on a prescription drug program. The program will be evaluated by legislative staff when the executive presents its proposal.

About \$12 million of the \$45 million request in the Director’s Office is for Medicaid service expansions and provider rate increases. Figure D shows the allocation of funds in this request among Medicaid programs and by provider type. At this point no other documentation, except the table, has been provided for legislative staff analysis of the executive request.

Figure D
Executive Request for I-149 Funding for Medicaid Service Expansion and Provider Rate Increases

Division and Description of Funding Request	FY 2006			FY 2007		
	Tobacco Tax	Federal Funds	Total Funds	Tobacco Tax	Federal Funds	Total Funds
Disability Services Division (DSD)						
DD Provider Wages - 25th to the 35th Labor Market Percentile	\$950,000	\$1,219,445	\$2,169,445	\$950,000	\$1,190,604	\$2,140,604
Health Resources Division (HRD)						
Dental Access: Funds to Hire Dentists for Medicaid Clients	\$250,000	\$400,500	\$650,500	\$250,000	\$400,500	\$650,500
Children's Mental Health 6% Rate Increase	703,762	1,698,975	2,402,737	703,762	1,648,384	2,352,146
Raise Physician Provider Rates to 89% of Medicare Level	210,000	506,968	716,968	228,000	534,032	762,032
Maternity Rate Increase to 51% of Billed Charges	361,262	872,135	1,233,397	367,985	861,911	1,229,896
Cardiac and Pulmonary Rehabilitation	112,930	272,628	385,558	120,750	282,826	403,576
Neonatal Care Paid at Costs	142,881	344,934	487,815	152,775	357,837	510,612
Flexible Funds for Waiver for Seriously Emotionally Disturbed Children	0	0	0	50,000	117,112	167,112
Ambulatory Surgery Centers to Medicare Rates	47,136	113,793	160,929	50,400	118,049	168,449
Additional Clinic Children's Special Health Care	50,000	0	50,000	50,000	0	50,000
Critical Access Hospital Payments to 101% of Cost	38,298	92,457	130,755	40,950	95,915	136,865
Early Periodic Screening and Diagnosis for Children	190,000	458,686	648,686	190,000	445,027	635,027
Hospital Rate Increase (1% Across the Board in FY 2006)	<u>270,000</u>	<u>651,816</u>	<u>921,816</u>	<u>270,000</u>	<u>632,406</u>	<u>902,406</u>
Subtotal Health Resources	\$2,376,269	\$5,412,892	\$7,789,160	\$2,474,622	\$5,494,000	\$7,968,622
Senior and Long Term Care Division						
3% Nursing Home Provider Rate Increase	\$1,063,838	\$2,568,248	\$3,632,086	\$1,066,497	\$2,497,998	\$3,564,495
3% Community Based Provider Rate Increase	384,490	928,211	1,312,701	400,102	937,137	1,337,239
Community Services Expansion (20 New HCBS Waiver Slots)	115,696	279,306	395,002	118,184	276,816	395,000
Nursing Facility Direct Care Wage Initiatives (.16 plus 33% Benefits)	410,118	990,080	1,400,198	418,939	981,258	1,400,197
Community Services Direct Care Wage Initiatives (.16 plus 33% Benefits)	<u>125,309</u>	<u>302,513</u>	<u>427,822</u>	<u>133,125</u>	<u>311,811</u>	<u>444,936</u>
Subtotal Senior and Long Term Care	\$2,099,451	\$5,068,357	\$7,167,808	\$2,136,847	\$5,005,021	\$7,141,868
Addictive and Mental Disorders Division						
Home and Community Based Waiver Services for Mentally Ill Adults (105 Slots in January 2007)	\$0	\$0	\$0	\$631,601	\$1,479,364	\$2,110,964
Expand Intensive Community Rehab. Beds by 7 in FY 2006	<u>168,381</u>	<u>406,494</u>	<u>574,875</u>	<u>172,003</u>	<u>402,872</u>	<u>574,875</u>
Subtotal Addictive and Mental Disorders Division	<u>\$168,381</u>	<u>\$406,494</u>	<u>\$574,875</u>	<u>\$803,604</u>	<u>\$1,882,236</u>	<u>\$2,685,839</u>
Department Total	<u>\$5,594,101</u>	<u>\$12,107,188</u>	<u>\$17,701,288</u>	<u>\$6,365,073</u>	<u>\$13,571,861</u>	<u>\$19,936,933</u>

The executive request for I-149 tobacco funds is lower than the legislative revenue estimate.

**LFD
ISSUE**

Potential Excess I-149 Revenue - The executive budget request is \$3 million lower over the biennium compared to the legislative revenue estimates. Figure F shows the total executive request for I-149 tobacco tax funding compared to legislative revenue estimates.

If the legislature approves the executive request it could also choose to appropriate another \$3 million from tobacco tax funding. If the legislature chooses to not approve the executive request for a reserve fund, the amount available for legislative initiatives would be \$30 million - \$27 million in the reserve account and \$3 million excess revenue.

Since this is a new revenue source that is expected to lower tobacco consumption and therefore tax revenues, the legislature may wish to consider prioritizing appropriations if receipts are lower than projected.

Figure E
Executive Request for Tobacco Tax Funding
Compared to Legislative Revenue Estimates

Appropriation Request by Program and Specific Decision Package/ Revenue Estimate	FY 2006	FY 2007
Legislative Revenue Estimate	\$36,162,000	\$35,096,000
Total Appropriation Request	<u>26,227,659</u>	<u>33,616,068</u>
Executive Request Over (Under) Revenue Estimate	<u>(\$9,934,341)</u>	<u>(\$1,479,932)</u>
Amount Allocated to Reserve in Executive Request	\$8,300,000	
Excess Available for Appropriation	\$1,634,341	\$1,479,932

PROGRAM 02 – HUMAN & COMMUNITY SERVICES DIVISION

PL 125 – TANF Benefits Assistance Increase - The executive requests more than \$7.3 million in federal funds over the biennium to fund a projected 3 percent increase per year in the caseload of the Temporary Assistance for Needy Families (TANF) program. In December 2004, the caseload was 4,671 cases. The department anticipates funding 404 more cases in FY 2006 and 713 more cases in FY 2007. This level of funding is estimated to be sufficient to provide for the \$30 per month per case increase in the TANF cash benefit and other changes that were announced in December 2004 and are to be implemented in approximately January, 2005.

**LFD
ISSUE**

The executive budget for TANF cash assistance benefits has been reduced by \$762,232 federal funds for the biennium. Anticipated increases in costs due to an increase in the monthly cash benefit are offset by cost reductions due to the decline in the cash assistance caseload. Cash assistance caseload projections are discussed in the Legislative Fiscal Division 2007 Biennium Budget Analysis.

NP 3005 – Child Care - This decision package provides \$700,063 general fund and \$1,363,868 state special revenue from the prevention and stabilization fund for child care services. The executive indicates that this funding would maintain child care funding at the 2005 biennium level.

**LFD
COMMENT**

Decision package 5 Childcare PSA funding has been removed from the executive budget. A new proposal, decision package 3005, which increases funding for child care by \$700,063 general fund and \$1,363,868 state special revenue from the prevention and stabilization fund, has been included in the executive budget. Figure G replaces Figure 16, page B-40, Volume 3, Legislative Fiscal Division 2007 Budget Analysis, and has been updated to reflect this change. While the dollar amounts of general fund and state special revenue supporting the program change, the issues identified in the Legislative Fiscal Division 2007 Biennium Budget Analysis such as balancing priorities for use of federal TANF funds and some child care costs being funded entirely with general fund or state special revenues are still relevant for legislative consideration.

Figure F
Agency-wide Summary of Child Care Funding
by Funding Stream
Fiscal 2001 Through 2007

Description	Actual SFY 2001	Actual SFY 2002	Actual SFY 2003	Actual SFY 2004	Estimated* SFY 2005	Requested SFY2006	Requested SFY 2007
General Fund:							
Maintenance of Effort	\$1,313,990	\$1,313,990	\$1,313,990	\$1,313,990	\$1,313,990	\$1,313,990	\$1,313,990
Matching	1,557,335	1,531,499	1,634,445	1,645,427	541,540	1,977,075	2,031,932
Other (non HCSD)	119,128	112,662	75,962	93,143	93,143	93,143	93,143
Total General Fund	<u>2,990,453</u>	<u>2,958,151</u>	<u>3,024,397</u>	<u>3,052,560</u>	<u>1,948,673</u>	<u>3,384,208</u>	<u>3,439,065</u>
Annual Percent Change		-1.1%	2.2%	0.9%	-36.2%	73.7%	1.6%
Non General Fund Match:							
State Spec. Revenue (PSF)			0	557,000	1,443,000	682,601	681,267
Other			13,099	11,250			
Federal Funds:							
Title XX, Social Services Blk Grant	46,000	46,000	46,000	46,000	46,000	46,000	46,000
CCDF Administrative (non HCSD)	125,923	151,442	160,935	573,550	573,550	573,550	573,550
CCDF Administrative (HCSD)	940,633	909,754	923,674	558,450	678,899	554,270	554,009
CCDF Mandatory	1,681,290	1,895,012	1,868,692	2,086,199	2,086,400	2,086,199	2,086,199
CCDF Match	3,763,051	3,657,824	4,242,370	5,241,053	4,350,989	4,162,804	4,162,804
CCDF Discretionary (non HCSD)	427,045	560,296	562,588	567,068	568,000	583,673	583,673
CCDF Discretionary	<u>12,968,755</u>	<u>17,715,968</u>	<u>13,219,262</u>	<u>8,826,112</u>	<u>16,181,823</u>	<u>15,627,389</u>	<u>15,627,276</u>
Total Federal Funds	<u>19,952,697</u>	<u>24,936,296</u>	<u>21,023,521</u>	<u>17,898,432</u>	<u>24,485,661</u>	<u>23,633,885</u>	<u>23,633,511</u>
Total Expenditures	<u>\$22,943,150</u>	<u>\$27,894,447</u>	<u>\$24,061,017</u>	<u>\$21,519,242</u>	<u>\$27,877,334</u>	<u>\$27,700,694</u>	<u>\$27,753,843</u>
Percent Change		21.6%	-13.7%	-10.6%	29.5%	-0.6%	0.2%
Compound Rate of Change		21.6%	2.4%	-2.1%	5.0%	3.8%	3.2%
Calculation of State Funds Needed for Match							
State General Fund and Special Revenue Available to be Matched					\$2,077,683	\$2,752,819	\$2,806,342
Federal Matching Funds Available					4,350,989	4,162,804	4,162,804
Total Matching Stream					6,148,939	5,882,990	5,939,227
State Match as Percent of Total Per Executive Budget					33.79%	46.79%	47.25%
State Match Required (percentage)					29.24%	29.24%	29.91%
Funds Required to Fully Match Available Federal Matching Funds					\$1,797,950	\$1,720,186	\$1,776,423
State Match Funding (Over)/Under Federal Requirements					(\$279,733)	(\$1,032,633)	(\$1,029,919)
*Notes:							
In most instances the FY 2005 is estimated at the FY 2005 appropriation level as adjusted through appropriation transactions.							

NP 3200 – Low Income Energy Assistance OTO - The executive requests \$4.2 million general fund for each year of the 2007 biennium to supplement federal LIEAP dollars by \$2.6 million (including \$393,000 for the six reservations mentioned above), increase resources available to Energy Share of Montana by \$300,000, and add \$1.3 million to the annual budget of the Low-Income Weatherization Assistance Program. The Weatherization Assistance Program targets cost-effective long-term energy conservation measures to those LIEAP households with the highest energy burdens. This funding is requested as one-time-only.

LFD COMMENT

The executive budget requests \$8.4 million general fund for the biennium for low-income energy and weatherization assistance. Figure H summarizes funding for these items. Funding for these items has increased from \$12.5 million in FY 2000 to \$23.2 million proposed funding for FY 2007. Additionally, the executive proposes a \$1,750,000 supplemental appropriation for these purposes in LC 1986.

Figure G

Summary

Low Income Energy Assistance and Weatherization Funding

Description	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Approp/Proj FY 2005	Requested FY 2006	Requested FY 2007
Univ. Low Income Energy Asst.	\$0	\$0	\$245,318	\$65,416	\$47,973	\$342,176	\$147,843	\$147,843
Bonneville Power Admin.	231,591	268,978	290,617	257,453	225,480	401,613	376,089	381,272
Temporary Assistance for Needy Families	875,000	875,000	0	0	500,000	500,000	0	0
Oil Overcharge: Stripper	577,761	398,292	139,153	(7,484)	130	157,630	0	0
Ener. Conservation: Exxon*	261,137	85,380	102,320		0	0	225,000	225,000
Oil Overcharge: Exxon	0	75,289	82,461	20,205	0	0	0	0
Ener. Conservation: Stripper*	137,445	44,911	53,941	0	0	0	500,000	500,000
Regional Ener Asst. Challenge	113,686	423,094	610,634	427,520	0	1	0	0
Weatherization	1,423,418	1,553,356	1,917,205	2,569,775	2,325,326	2,590,730	2,569,404	2,568,309
LIEAP Grant	6,851,941	11,186,488	11,752,187	11,712,854	12,190,840	12,063,295	11,901,294	11,901,294
LIEAP Tribal - funding direct to tribes*	1,222,465	1,995,798	2,096,725	2,089,708	2,174,986	2,056,342	2,123,328	2,123,328
Jobs & Growth Tax Relief Act	0	0	0	0	1,772,899	941	0	0
Jobs & Growth Tax Relief Act - to Tribes	0	0	0	0	227,100	0	0	0
MPC/NW Ener Free Weatherization*	<u>769,734</u>	<u>1,020,227</u>	<u>1,348,923</u>	<u>1,164,608</u>	<u>1,308,697</u>	<u>1,168,000</u>	<u>1,168,000</u>	<u>1,168,000</u>
Subtotal	12,464,178	17,926,813	18,639,484	18,300,055	20,773,431	19,280,728	19,010,958	19,015,046
Governor Elect General Fund Support						1,507,760	3,507,000	3,507,000
Governor Elect Energy Share						150,000	300,000	300,000
Governor Elect Gen Fund - Tribal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>242,240</u>	<u>393,000</u>	<u>393,000</u>
Total	\$12,464,178	\$17,926,813	\$18,639,484	\$18,300,055	\$20,773,431	\$21,180,728	\$23,210,958	\$23,215,046
Annual Percent Change		43.8%	4.0%	-1.8%	13.5%	2.0%	9.6%	0.0%
Compounded Rate of Change		43.8%	22.3%	13.7%	13.6%	11.2%	10.9%	9.3%
Percent Change between 2000 and 2007								86.3%
Consumer Energy Price Index, 2000 = 100 - Data source: Global Insights								
Fuel Oil and Coal	100.00	101.74	91.77	109.63	125.22	135.26	127.00	127.14
Electricity	99.98	108.06	106.89	109.40	111.86	116.18	116.68	116.22
Natural Gas	99.06	118.80	101.50	124.70	134.87	140.79	136.47	126.91

***Notes:**

Montana Power Company, Northwestern Energy - energy assistance funds - These funds are not appropriated by the state.
 LIEAP - Tribal - These funds do not flow through state government, rather these funds are provided directly to the Tribes.
 Tribal governments received 15.14 percent of the energy assistance grant funds provided to Montana. The Governor Elect proposes providing this same percentage of general fund supporting energy assistance to Tribal governments.

PROGRAM 03 - CHILD AND FAMILY SERVICES

DP 3203 - Big Brothers Big Sisters - The executive requests \$180,000 general fund for the biennium to support Big Brothers Big Sisters programs of Montana. Big Brothers Big Sisters is a statewide organization that matches children with an adult volunteer big brother or big sister and provides services to about 350 children each month.

LFD COMMENT

Funding for Big Brother Big Sisters was reduced (by \$25,000 general fund annually) as part of the spending reductions implemented by Governor Martz in 2002. The executive budget for the 2005 biennium proposed eliminating funding for this program (\$183,264 general fund annually) and that proposal was approved by the legislature.

NP 3201 – Foster Care Clothing Allowance - The executive requests \$40,000 general fund for the biennium to restore recent cuts to the clothing allowance for children in foster care.

**LFD
ISSUE**

Reductions in funding for clothing allowances were implemented by the Child and Family Services Division as part of a plan to mitigate the amount of general fund that would be requested as a supplemental appropriation for the division. Please refer to the Legislative Fiscal Division 2007 Biennium Budget Analysis for a discussion of the supplemental appropriation requested for this division of the department.

NP 3205 – Foster Care Increase - The executive requests funding for foster care be increased by \$2 million for the 2007 biennium to adjust the change in funding for the program resulting from a decrease in the number of clients eligible for federal funding under the Title IV-E foster care program. Based on internal reviews and as a result of federal reviews the agency has determined that a lower percentage of children are eligible for federal funding than was previously projected.

**LFD
ISSUE**

The executive previously indicated that the 2007 biennium budget request for foster care related costs was understated by \$1.4 million general fund for the biennium. This request increases funding for the program by \$2 million general fund for the biennium, or \$600,000 more than was previously indicated as the shortfall in funding. Legislative staff has requested that the division provide updated foster care and subsidized adoption caseload and funding projections by January 24, 2005, one week prior to the Health and Human Services Joint Appropriations Subcommittee hearing on this topic. The projected caseload and funding is discussed in the Legislative Fiscal Division 2007 Biennium Budget Analysis and the issues raised in that document will be updated once analysis of the executive's updated caseload and funding projections are completed by legislative staff.

PROGRAM 04 - DIRECTOR'S OFFICE

NP 3202 – I-149 Programs - This request adds \$45.2 million tobacco tax state special revenue over the biennium for the Medicaid, prescription drug, and small business tax credit programs referred to in 53-6-1201, MCA (enacted through Initiative 149), and funded through increased tobacco taxes. The executive budget anticipates that the small business and prescription drug programs will not become fully operational until FY 2007 and will not require full funding in FY 2006.

**LFD
COMMENT**

Medicaid Proposal – The executive request includes \$12 million in allocation of tobacco tax state special revenue for Medicaid provider rate increases and expansion of community services for adults with a mental illness and children who are seriously emotionally disturbed.

**LFD
COMMENT**

No Specific Executive Proposals - At this point, the executive has allocated percentages of the increase in tobacco tax among uses, but does not have specific proposals for a prescription drug program nor small business tax credits.

PROGRAM 05 - CHILD SUPPORT ENFORCEMENT DIVISION

NP 3006 – Child Support Enforcement - The executive requests \$1,263,378 general fund for the biennium to continue child support enforcement services at the 2005 biennium level. This funding was previously provided through the prevention and stabilization fund established by SB 485 from the 2003 session and is scheduled to terminate on June 30, 2005.

**LFD
COMMENT**

This decision package replaces decision package 6 that requested funding for this purpose from the diversion of tobacco settlement proceeds be continued. A complete discussion of funding for this division and a number of issues related to funding for child support enforcement activities is discussed in the Legislative Fiscal Division 2007 Biennium Budget Analysis.

PROGRAM 07 – PUBLIC HEALTH & SAFETY DIVISION

NP 3011 AIDS Prevention (Biennial) - This decision package provides funding over the biennium of \$84,000 in general fund to continue AIDS prevention services at the level of the 2005 biennium. During the 2005 biennium, these services

were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). Governor Martz had proposed funding this program through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

NP 3007 MIAMI (Biennial) - This decision package provides funding over the biennium of \$1.1 million in general fund to continue the Montana Initiative for the Abatement of Mortality in Infants (MIAMI) program at the level of the 2005 biennium. During the 2005 biennium, these services were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). Governor Martz had proposed funding this program through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

**LFD
COMMENT**

MIAMI Authorized in Statute – If the legislature does not approve this request, it may wish to consider amending Title 50 Chapter 19 part 300 of the MCA that establishes the program.

NP 3011 Montana Tobacco Use Prevention Program - This request adds \$9 million in tobacco settlement state special revenue and \$167,000 in federal funds for the Montana Tobacco Use Prevention Program. This amount would fund the program at the percentage designated by 17-6-606, MCA (enacted through I-146 November 2002). This request also adds permanent funding for 2.00 modified FTE funded with federal tobacco prevention funds. Base budget expenditures for this program were \$3.3 million.

**LFD
ISSUE**

Program Expansion – The legislature may wish to evaluate how the department would expand activities and more than double program expenditures within one year. The legislature may wish to review the current contract activities and the types of program expansion that are planned. If the legislature concludes that the program cannot ramp up within one year, it could consider alternatives such as a one-time diversion of tobacco settlement funds to other uses, which would require an amendment to statute, or shifting excess funds in FY 2006 to FY 2007 appropriations.

NP 3012 – Poison Control Biennial - This decision package provides funding over the biennium of \$77,908 in general fund to continue poison control services at the level of the 2005 biennium. During the 2005 biennium, these services were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). Governor Martz had proposed funding this program through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

PROGRAM 10 - DISABILITY SERVICES DIVISION

NP 3003 – Independent Living - The executive requests \$457,532 general fund for the biennium to continue independent living services at the 2005 biennium level. This funding was previously provided through the prevention and stabilization fund established by SB 485 from the 2003 session and is scheduled to terminate on June 30, 2005.

**LFD
COMMENT**

This decision package replaces decision package 3 that requested funding for this purpose from the diversion of tobacco settlement proceeds be continued.

NP 3010 – Extended Employment - The executive requests \$541,278 general fund for the biennium to continue extended employment services at 2005 biennium level. This funding was previously provided through the prevention and stabilization fund established by SB 485 from the 2003 session and is scheduled to terminate on June 30, 2005.

**LFD
COMMENT**

This decision package replaces decision package 10 that requested funding for this purpose from the diversion of tobacco settlement proceeds be continued.

PROGRAM 11 – HEALTH RESOURCES DIVISION

NP 3192 CHIP Enrollment to 10,900 Children Funding - This decision package requests total funds of over \$6.7 million for the biennium to maintain CHIP enrollment at 10,900. State matching funds include an increase of \$804,000 in tobacco settlement funds, \$2.6 million in funding from state special revenue from the I-149 tobacco tax, a \$4.3 million increase in federal funds, and a \$1 million reduction in general fund. This funding mix would pay for health care coverage for 10,900 children and will allow for stable monthly enrollment in the program.

LFD ISSUE

I-149 Tax Revenue Supplants CHIP Appropriation – The statute enacted through I-149 (53-6-1201, MCA) states that increased tobacco tax revenue must be used for CHIP expansion above the level appropriated in the 2005 biennium. The CHIP 2005 biennium appropriation for state matching funds was \$8.4 million compared to the executive 2007 biennium base level appropriation request of \$6.1 million. The executive request uses \$2.2 million of I-149 tobacco tax revenue to support existing levels of CHIP enrollment, potentially violating 53-6-121(3)(a), MCA. The legislature may wish to request a staff legal opinion as to whether the statute needs to be amended if it wishes to adopt the executive request as presented.

NP 3206 CHIP Expansion by 3,000 Children - This decision request includes \$17.2 million over the biennium to expand the Children's Health Insurance Program (CHIP) by 3,000 children. Together with the request included in NP 3192, CHIP enrollment would be about 13,900 each year of the 2007 biennium. The request includes \$4.2 million in state special revenue from the I-149 tobacco tax and \$13.0 million in CHIP and Medicaid federal matching funds. This funding mix would pay for additional CHIP and associated Medicaid coverage for 3,000 children.

LFD Comment

Additional Medicaid Eligible Children – The executive proposal anticipates that additional children will be determined to be eligible for Medicaid due to CHIP outreach and expansion. If historic proportions continue, about 1,000 additional children will be added to Medicaid. Legislative staff has requested executive documentation of the cost estimates.

LFD ISSUE

Equal Protection – As noted in the LFD budget analysis, using Medicaid funds to support a CHIP expansion may create equal protection issues. CHIP and Medicaid services are different, but the children enrolled in the programs may be similar enough that the rational basis for providing different services with the same funding source may be weak. The Health and Human Services Appropriation Subcommittee has requested a legal opinion on this issue.

NP 3009 – Medicaid (Biennial) - This decision package provides funding over the biennium of \$601,571 in I-149 tobacco tax state special revenue to continue Medicaid services at the level of the 2005 biennium. During the 2005 biennium, these services were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). Governor Martz had proposed funding this portion of state Medicaid match through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

LFD ISSUE

Amendment to 53-6-1201 – The legislature may wish to request a staff legal opinion as to whether this request to spend increased tobacco tax revenue for ongoing Medicaid services is within the uses allowed by 53-6-1201, MCA.

PROGRAM 22 – SENIOR AND LONG TERM CARE DIVISION

NP 3004 Hospice and Home Therapy - This request includes \$408,000 in I-149 tobacco tax state special revenue funds over the biennium to continue hospice and home therapy at the level of the 2005 biennium. During the 2005 biennium, these services were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB

485). Governor Martz had proposed funding this program through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

PROGRAM 33 – ADDICTIVE AND MENTAL DISORDERS DIVISION

NP 3008 Medicaid Adult Mental Health - This request includes \$396,858 in I-149 tobacco tax state special revenue over the biennium to continue Medicaid mental health services at the level of the 2005 biennium. During the 2005 biennium, these services were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). Governor Martz had proposed funding this program through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

NP 3002 Mental Health Services - This request for \$6.5 million over the biennium in I-149 tobacco tax funding would support the Mental Health Services Plan, which provides prescription drugs and other services for low-income adults with a serious and disabling mental illness. During the 2005 biennium, these services were funded through a one time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). The executive is proposing to use the state funding to draw down additional federal Medicaid funds as part of Medicaid redesign, which will expand Medicaid eligibility to a capped number of persons currently eligible for the 100 percent state funded program. Medicaid redesign proposals are summarized in the Volume 3 of the Legislative Budget Analysis in the DPHHS overview. Governor Martz had proposed funding this program through tobacco settlement proceeds transferred to the Prevention and Stabilization Account.

SECTION C
NATURAL RESOURCES AND COMMERCE

Department of Environmental Quality

PROGRAM 40 – REMEDIATION DIVISION

NP 4014 – Hazardous Waste Study – The executive is proposing a \$2 million one-time only, biennial and restricted general fund appropriation to conduct a remedial investigation and feasibility study at the Kalispell Pole and Timber, Reliance Refinery and Yale Oil facilities. The study would assist in determining the means and cost of cleanup.

**LFD
ISSUE**

There are two pending issues that affect this decision package:

1. SB 143
2. Budget Expenditure Limitations

SB 143 proposes to fund this same activity with \$2 million from the orphan share account. This language would allow remediation investigation activities to be covered with orphan share dollars when a state agency is potentially liable. The DNRC may be liable for investigation and cleanup for the Reliance Refinery contamination site. If SB 143 passes as written the appropriation would not be necessary.

Appropriations for the 2007 biennium cannot exceed appropriations for the 2005 biennium increased by the growth in Montana personal income. An option to manage this situation is to move one-time only general fund activity in the 2007 biennium budget to fiscal 2005. This decision package has been identified as one-time only activity that could potentially be funded in fiscal 2005.

Department of Livestock

PROGRAM 10 – MEAT/POULTRY INSPECTION

PL 111 – Provide Meat Inspectors for Eastern Montana - The executive requests adding 1.00 FTE meat inspector for the Eastern Montana region. The position is funded 50 percent meat/poultry inspection funds and 50 percent general fund.

Department of Natural Resources & Conservation

PROGRAM 23 – CONSERVATION/RESOURCE DEVELOPMENT DIVISION

DP 111- Restore Montana's Agricultural Heritage Program - The executive requests \$400,000 general fund each year of the 2007 biennium to restore the Montana Agriculture Heritage Program. The program was created through the Montana Agricultural Heritage Act passed by the 1999 legislature to help stem the loss of critical farm, ranch, and forestlands to development. The 2001 Legislature chose not to fund the program, and the program's enabling legislation sunsetted in July 2003. Funding for this program is contingent on passage and approval of legislation to restore the program.

LFD ISSUE

The decision package provides for the funding of 1.0 FTE to support the Agricultural Heritage Program. The decision package allocates salary, but does not directly allocate operating expenses such as commission travel and per diem, supplies, phone, office space, etc. The department indicates operating expenses of \$48,000 for salaries; \$1,800 for contract services; \$2,000 for supplies; \$1,000 for communication, \$7,000 for commission per diem and travel and \$800 in rent, utilities. Given this information, the commission would have available \$340,400 for conservation easement work.

There are two other issues:

1. This new proposal expands the role of the department and increases appropriations from the general fund. As a new proposal, the funding for this program, if approved, would be added to the division's base for future budgets.
2. As a new proposal, the program does not have any benchmarks in place to determine the success or failure.

If the legislature approves this proposal, it may wish to designate the decision package as restricted and one-time only and require a report to the next legislature on activities of the program.

PROGRAM 24 – WATER RESOURCES DIVISION

DP 2409 – Water Adjudication Funding- OTO- The executive requests \$1.0 million general fund each year of the biennium to expedite the water rights adjudication process, which is behind schedule. The funds would be transferred to the water adjudication account. The executive intends \$400,000 to be used for improvements to the water rights database. The funding is one-time-only.

LFD ISSUE

This decision package is designed to augment funding provided by the current HB 22. HB 22 creates the water adjudication account and establishes adjudication fees to be collected from all water right holders in even numbered years. The legislation provides a statutory appropriation of \$2.6 million to the department for the sole purpose of funding the water adjudication program from these fees. The fee is collectable only when the department meets benchmarks regarding the number of adjudications completed. Fee collection ends when the account reaches \$31.0 million.

The transfer of general fund to the water adjudication fund indicates that the executive wants the funds to be utilized solely for the water adjudication program. If HB 22 passes the transfer is made to the water adjudication account. If the legislation fails, support for the program could be achieved through the use of a restricted appropriation of general fund.

The executive wishes to direct \$400,000 for improvements to the water rights database. The executive does not indicate how this appropriation is to be allocated across the biennium or how it relates to the actual cost of database enhancements.

**LFD
ISSUE
CONTINUED**

As written, the legislature is provided with a considerable number of options:

- Separate out the \$0.4 million into a separate line item restricted for database development
- Split the decision package into two one-time only appropriations separate from HB 22
 - \$0.6 million in 2006 and \$1.0 million in 2007 restricted to support the water adjudication program
 - \$0.4 million in 2006 restricted to address the database issues
- Approve the decision package as written
- Approve the decision package contingent upon HB 22 passing
- Disapprove the decision package

In addition, the legislature may wish to provide biennial designations to provide greater flexibility to this process.

Department of Commerce

PROGRAM 51 – BUSINESS RESOURCES DIVISION

PL 111-New Worker Training Program- The executive recommends the transfer of the New Worker Training Program from the Governor’s Office of Economic Opportunity, to the Department of Commerce. The New Worker Training Program was enacted under HB 564 and passed by the 2003 legislature.

Funding for the new worker training program was through the Board of Investments INTERCAP loan program. The legislative auditor has raised an issue with the use of the INTERCAP loan program in the New Worker Training Program. Article VIII, Section 8 of the Montana Constitution states “ No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon.” According to the state’s board counsel, state debt is the incurring of an obligation for which repayment extends beyond the existing budgeting and reporting period and for which the source of repayment is revenue derived from the state’s taxing power.

The executive is proposing to eliminate the use of the INTERCAP loan program and provide funding through a direct, general fund appropriation. The executive is seeking a supplemental appropriation of \$2.1 million in FY 2005 for grants on hold within the worker training program and a general fund appropriation of \$2.0 million in each year of the 2007 biennium for the worker training program. The executive is also requesting transferring 2.00 FTE from the Governor’s Office to the Department of Commerce.

LFD COMMENT

The executive proposal for transferring the worker training program is contingent upon the passage of HB 270, HB 274. This decision package would not be included in HB 2 until the passage of the above mentioned legislation.

LFD ISSUE

Instead of proposing a supplemental appropriation in FY 2005 and funding the worker training program in the 2007 biennium with general fund, the legislature could authorize by a two-thirds vote the creation of state debt and still use the INTERCAP loan program through the Board of Investments.

NP 222- Economic Development in Montana- The executive requests creating a new sub-fund within the coal tax trust fund. The new sub-fund will be called “The Big Sky Economic Development Trust”. The creation of this new sub-trust fund would come from an initial transfer from the coal severance tax permanent fund of \$20.0 million.

The earning from the big sky economic development trust would be statutorily appropriated into an economic development state special revenue account, with 75 percent allocated to local governments and 25 percent distributed to certified regional development corporations.

The new trust fund would provide grants and loans to local governments for economic development projects and to certified regional development corporations for economic development.

The purpose of the new trust fund is primarily for:

- The creation of better paying jobs in Montana
- Promote long-term, stable economic growth
- Encourage local economic development organizations and
- Retain or expand existing businesses

**LFD
ISSUE**

As stated above, HB 249 would transfer \$20.0 million from the permanent coal trust into a new sub fund called “The Big Sky Economic Development Trust” and would reallocate 12.5 percent of the total coal tax revenue from the permanent fund to the new sub fund. This would essentially cap all future growth in the permanent trust, thereby reducing the amount of general fund for other programs in the future. As a result, the proposal essentially is one to expend general fund money.

**LFD
COMMENT**

The creation of “The Big Sky Economic Development Trust” is contingent upon the passage of HB 249.

**LFD
ISSUE**

While the description states that the proceeds would be statutorily appropriated, the executive has added these funds in HB 2. If the legislation passes in its current form, this appropriation would not be necessary.

NP 223 – Indian County Economic Development- The executive proposes new economic development opportunities on the seven different Indian reservations located throughout Montana. Funding would be provided by general fund appropriation of \$500,000 each year of the biennium.

**LFD
ISSUE**

Currently, there is very limited detailed information on the new proposal for economic development on the Indian reservations. The executive is proposing approximately \$45,000 each year in personnel services and about \$435,000 in grants to the seven different reservations.

The legislature may wish to establish some performance goals or measures to determine whether the program is providing the new opportunities stated under the new proposal.

PL 444 – Restore the Made in Montana Program – The executive is requesting to continue the Made in Montana program in the 2007 biennium, by adding 1 FTE and \$1.0 million of general fund over the biennium.

The Made in Montana program was created in 1984 to assist in marketing efforts of Montana businesses and individuals that would distinctively identify products that are either made or produced in the state of Montana. The program consists of a label or logo on these goods that identify these products come from Montana.

As mentioned above the executive is proposing adding 1 FTE at a cost of \$45,000 per year and about \$450,000 per year in new operating expenses.

**LFD
ISSUE**

Currently, there is very limited detailed information on the new proposal for the Made in Montana program.

SECTION D
CORRECTIONS AND PUBLIC SAFETY

Department of Justice

PROGRAM 32- FORENSIC SCIENCE DIVISION

PL 111 – Support Forensic Science Lab- The executive is requesting general fund of \$140,000 and 3.00 FTE in FY 2006 and general fund of \$80,000 and 2.00 FTE in FY 2007. The Martz budget added a forensic toxicologist in FY 2007 only. This request funds this position in FY 2006. Governor Schweitzer would also add 2.00 FTE forensic technicians. The positions would work to reduce the backlog in the forensic lab and to address increases in caseload.

**LFD
COMMENT**

Please refer to page D-57 of Volume 4 – Agency Budgets in the Legislative Budget Analysis 2007 Biennium.

Department of Corrections

PROGRAM 01 - ADMINISTRATIVE SUPPORT SERVICES

IWF - Statutory Authority - Governor Martz's 2007 biennium budget for program 1 within the Department of Corrections contained DP 12 for inmate welfare funds statutory authority. This request was for \$360,000 in each fiscal year of the biennium. The Schweitzer budget is requesting that this DP be removed and therefore is requesting zero in each year of the biennium.

**LFD
COMMENT**

A statutory appropriation exists for these funds. The Martz's DP did not need to be part of HB2.

Department of Military Affairs

PROGRAM 03 – SCHOLARSHIP PROGRAM

DPI – Fund National Guard Scholarship Program - The Montana National Guard Scholarship Program was established in the 1997 biennium. The program is intended to encourage a greater number of enlistments, reenlistments, and extensions in the Montana Air and Army National Guard, which is the state's only organized manpower in times of emergency.

The program was approved by the 58th Legislature as a one-time-only expenditure, and was not included in the preliminary budget submitted to the LFD on November 15th. However, Governor Martz subsequently recommended a general fund appropriation of \$250,000 each year of the 2007 biennium to fund the Montana National Guard Scholarship Program to assist in the recruitment and retention of National Guard soldiers.

The Schweitzer administration states the scholarships are to be used only for National Guard soldiers returning from deployment and may only attend one of Montana's two-year colleges.

SECTION E
EDUCATION

Office Of public Instruction

Agency Highlights

Office of Public Instruction Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Martz proposals for OPI administration were accepted by the Schweitzer administration. The Martz proposals added \$5.9 million in federal funds and \$1.2 million in general fund, with \$0.5 million for Indian Education for All. ◆ The Schweitzer budget proposes an additional \$5.3 million general fund for an OPI student database and Indian Education for All. The Schweitzer Indian Education For All proposal of \$2.0 million replaces the Martz Proposal for \$0.5 million. ◆ The Martz proposals for OPI's distribution to schools program added \$62.9 million, with \$35.1 in federal funds and \$27.8 million in general fund. The general fund proposals were to bring school Base Aid to present law, which includes accounting for ANB decline and inflation increases of 2.1 percent per year for school entitlements and for special education. In addition, the Martz proposal included \$7.5 million for increases in school facility payments, vocational education, and gifted and talented. ◆ The Schweitzer distribution-to-schools proposals include all the Martz proposals and propose general fund increases of an additional \$36.4 million, for a total increase in general fund of \$64.2 million. With federal increases of \$35.1 million, the increase in the total distribution to schools under the Schweitzer proposals is \$99.3 million.

PROGRAM 06 – STATE LEVEL ACTIVITIES

NP 60 – Indian Education for All - The executive requests a general fund appropriation of \$1.0 million annually and 3.00 FTE for a new program in the Office of Public Instruction to develop and deliver materials and programs that allow all Montana students to learn about the distinct and unique cultural heritage of American Indians. This proposal replaces NP 4, the Indian Education for All proposal proposed in the Martz budget in which \$0.5 million was requested for the biennium.

The activities for which the requested funds would be used include:

1. Development of research-based materials and teaching strategies for the Indian Education for All Act.
2. Development of model curriculum that fulfills the requirements of the Indian Education for All Act and is integrated into nine academic subject areas addressed in the Montana School Accreditation Standards.
3. Develop and implement a comprehensive plan for professional development for implementing the Indian Education for All Act.
4. Infuse Indian Education for All into current content and performance standards.
5. Scholarship and fellowship opportunities for graduate students to conduct research relevant to Indian Education for All in Montana.
6. Educational grants to classroom teachers and tribal college personnel to develop curriculum materials and professional development training for Indian Education for All.
7. Regular meetings of the Montana Advisory Council on Indian Education (MACIE) to provide policy advice to the State Superintendent and the Board of Public Education.

8. Two specialists and an administrative assistant to support the expanded role of OPI.

**LFD
COMMENT**

The Supreme Court found that Montana inadequately provides funds to satisfy Article X, Section 1(2) of the Montana Constitution. Although this proposal allows for the development of curriculum and teacher training, no money in the distribution program has been allocated to Indian education at the district level.

NP62 – Student Education Information Data System – OTO – The executive requests a biennial general fund appropriation of \$2.826 million for the development of a comprehensive education information system to be used by K-12 public schools and the Office of Public Instruction. The system would be used to:

1. Provide information about student achievement and progress toward standards.
2. Enable local districts to benchmark their own educational programs.
3. Allow parents and community members to learn about their schools.
4. Assist policymakers in understanding the relationship among education policies, strategies and outcomes.
5. Maintain an effective method of transferring and accessing accurate and timely educational information among school districts and the educational community.
6. Allow OPI to deliver relevant information to users in a timely and reliable manner.
7. Improve the ability of researchers to study trends for school improvement.
8. Improve the state's ability to collect and report state and federal mandated data.
9. Interact with data systems at the Office of Commissioner of Higher Education and programs in the workforce development arena (including the Department of Labor, Workforce Investment, Department of Revenue, Adult Basic and Literacy Education and TANF).

The proposal includes a request for 4.00 FTE, including a project manager, database administrator, a data resource administrator, and a student record system manager. These staff positions would build applications, maintain the security and integrity of the system, oversee the data collections and train system users. The project manager would also be involved in the creation and convening of focus groups of school personnel that will advise OPI on issues related to capacity, functionality and compatibility.

The proposal also includes funding for a contract with an education software vendor and funding for development of web service architecture.

**LFD
COMMENT**

The legislature may want a more detailed and specific listing of the data products it would like to see created, and the reports that it would like presented to the interim education committee. At what level will the information on student performance be aggregated, the classroom, the school and/or the district?

Will teacher characteristics data be collected? Will data be collected on parent characteristics? Will financial data be collected at a deeper level than currently, i.e. at the school level rather than at the district level? Will data be collected on the physical characteristics of schools, i.e. square feet per student, or per building? Will a needs assessment of learning deficiencies or resource deficiencies be conducted?

The legislature may also want a detailed pricing list for the data products contemplated in this proposal. Is there information on the cost of these products in other states?

Executive Proposals for OPI - 2007 Biennium				
By Fund and Decision Package Number				
Present Law Adjustments		Fiscal 2006	Fiscal 2007	Biennium
Decision Package				
	Statewide Adjustments (All Funds)	\$424,336	\$421,893	\$846,229
	General Fund			
DP12	Provide funding for Surplus Computers	\$38,822	\$33,808	\$72,630
DP13	Education Licensure Increased Costs	3,540	3,540	7,080
DP16	Audiology	22,883	34,477	57,360
DP18	Statewide Student Assessment	29,250	43,250	72,500
DP29	Indirect Cost of Base Adjustments	40,877	40,336	81,213
DP30	Statewide FTE Reduction	(\$49,738)	(\$47,665)	(\$97,403)
	Total General Fund	<u>\$85,634</u>	<u>\$107,746</u>	<u>\$193,380</u>
	State Special Funds			
DP26	Growth in Commodities and Cooperative Purchasing	\$15,000	\$15,000	\$30,000
DP29	Indirect Cost of Base Adjustments	843	848	1,691
	Total State Special	<u>\$15,843</u>	<u>\$15,848</u>	<u>\$31,691</u>
	Federal Funds			
DP27	Federal Grant Increases	\$2,457,751	\$2,755,494	\$5,213,245
DP29	Indirect Cost of Base Adjustments	51,651	51,769	103,420
	Total Federal Funds	<u>\$2,509,402</u>	<u>\$2,807,263</u>	<u>\$5,316,665</u>
	Total Present Law Changes	<u>\$3,035,215</u>	<u>\$3,352,750</u>	<u>\$6,425,968</u>
New Proposals				
	General Fund			
DP4	Indian Education for All (Martz)	\$248,032	\$247,873	\$495,905
DP60	Indian Education for All (Schweitzer)	1,000,000	1,000,000	2,000,000
DP53	Gifted and Talented Assistance	0	43,917	43,917
DP54	Audiology Equipment - OTO	85,000	85,000	170,000
DP62	Student Education Information Data System (Schweitzer) OTO	<u>\$2,455,026</u>	<u>\$370,974</u>	<u>\$2,826,000</u>
	Total General Fund (Schweitzer)	\$3,540,026	\$1,499,891	\$5,039,917
DP17	State Special - Educator Preparation Unit Reviews	8,000	8,000	16,000
	Total New Proposals (Schweitzer)	<u>3,548,026</u>	<u>1,507,891</u>	<u>5,055,917</u>
	Total Present Law and New Proposals (Schweitzer)	<u>\$6,583,241</u>	<u>\$4,860,641</u>	<u>\$11,481,885</u>

PROGRAM 09 – LOCAL EDUCATION ACTIVITIES

NP 61 – Increased Entitlements and Special Education – The executive proposes to increase Base Aid to districts by increasing the elementary per-ANB entitlement by \$250 per ANB and the high school per-ANB entitlement by \$50 per ANB. The entitlement increases will take place in FY 2006 and held constant in FY 2007.

The executive also proposes to increase the state special education payment by \$2.7 million (3.5 percent per year) during the 2007 biennium.

The increase in Base aid and special education as a result of this proposal is expected to be \$30.7 million during the 2007 biennium.

LFD COMMENT

The executive recommends a much larger entitlement increase for elementary (6 percent) than high school (1 percent). This is probably in response to the fact that enrollment declines in elementary exceed enrollment declines in high school. However, the enrollment declines in the 2007 biennium in elementary schools statewide are slightly above 2 percent per year and in high schools statewide around 0.8 percent per year. The Sherlock decision stated that the state had not offered a rational reason for the differences in entitlements between elementary and high school.

NP63 – School Facilities Additional State Contribution to Ensure No Pro-Ration – OTO – The executive proposes to increase the amount available for school facility reimbursements by an additional \$4.8 million during the 2007 biennium. This is in addition to \$2.0 million in the Martz budget request in DP21.

LFD COMMENT

The current school facility program subsidizes debt service on the bonds districts incur for construction of buildings. The facility entitlements are: \$300 per ANB for an elementary school district, \$370 per ANB for a middle school, and \$450 per ANB for a high school. The state's facility reimbursements are distributed to a school district based on its Guaranteed Tax Base (GTB) eligibility, which is measured as the amount by which a district's taxable value per ANB is below 140 percent of the statewide taxable value per ANB. If the state appropriation is not high enough to pay the state match for all eligible districts' debt service, the amount is pro-rated to each district. If all probable bonds are passed by voters during 2007 biennium, the total state facility amount would need to be approximately \$11.8 million per year. The increases in DP63 plus the amount in DP21 (Martz budget) yield \$11.8 million per year in total state facility entitlements.

NP64 – Class 8 - \$20,000 exemption for Business Equipment – The executive proposes to increase the current \$5,000 property tax exemption for class 8 business equipment to \$20,000. In addition the executive proposes to reimburse school districts for lost revenue associated with this measure, and would incorporate these reimbursements into districts' and counties' HB 124 block grants.

During the 2007 biennium, Reimbursements to schools would total \$1.5 million, and district and county GTB would be reduced by \$0.56 million.

LFD COMMENT

Currently class 8 business equipment is part of the tax base of schools. The property taxes paid to schools by owners of equipment worth less than \$20,000 is approximately \$1.5 million. In the absence of reimbursements to schools, school mills would "float" upward to recover the lost revenue. With reimbursements, the school mills will remain constant.

**LFD
COMMENT
CONTINUED**

The reimbursements that the executive contemplates have not been specified in detail. They could become part of HB 124 block grants to schools. HB 124 block grants are distributed to each school fund based on the ratio of the mills associated with the fund to the mills from all school funds. HB 124 block grants grow at a rate of 0.76 percent per year. Or the reimbursements may be done in some other way.

The following table shows the distribution of funds for the distribution program.

Distribution to Schools, General Fund, State Special, and Federal Funds							
Description	Base Budget 2004	PL Base Adjustments Fiscal 2006	New Proposals Fiscal 2006	Total Fiscal 2006	PL Base Adjustments Fiscal 2007	New Proposals Fiscal 2007	Total Fiscal 2007
General Fund							
Direct State Aid	\$275,803,071	\$6,061,843	\$9,638,287	\$291,503,201	\$9,499,752	\$9,554,163	\$294,856,986
GTB - School General Fund	102,899,850	1,733,881	3,920,345	108,554,076	2,534,189	3,789,674	109,223,713
GTB - School Retirement	23,585,922	-2,067,820	433,973	21,952,075	-1,357,211	419,031	22,647,742
School Facility Reimbursement	8,270,735	140,558	3,372,041	11,783,334	140,558	3,403,643	11,814,936
Special Education	34,867,755	1,535,812	2,102,555	38,506,122	1,535,812	2,944,722	39,348,289
Transportation	12,042,550	100,000	0	12,142,550	200,000	0	12,242,550
Instate Treatment	778,794	196,102		974,896	196,102		974,896
Secondary Vo Ed	715,000	0	285,000	1,000,000	0	285,000	1,000,000
Adult Basic Ed	275,000	0	0	275,000	0	0	275,000
Gifted & Talented	142,151	7,849	85,000	235,000	7,849	85,000	235,000
School Food	648,653	0	0	648,653	0	0	648,653
Other	144,100	7,256	0	151,356	10,270	0	154,370
HB 124 Block Grants	<u>49,458,558</u>	<u>754,633</u>	<u>426,351</u>	<u>50,639,542</u>	<u>1,136,257</u>	<u>1,134,897</u>	<u>51,729,712</u>
Total General Fund	\$509,632,139	\$8,470,114	\$20,263,552	\$538,365,805	\$13,903,578	\$21,616,130	\$545,151,847
State Special Revenue							
Traffic Safety Distribution	<u>\$750,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$750,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$750,000</u>
Total State Special	\$750,000	\$0	\$0	\$750,000	\$0	\$0	\$750,000
Federal Special Revenue							
Federal School Foods Programs	\$20,655,534	\$3,700,000	\$0	\$24,355,534	\$6,150,000	\$0	\$26,805,534
ESEA - Title I	41,837,295	500,000	0	42,337,295	500,000	0	42,337,295
ESEA Title II - Teacher & Principal Training	15,684,664	675,000	0	16,359,664	675,000	0	16,359,664
ESEA Title III-Language Acquisition	514,494	0	0	514,494	0	0	514,494
ESEA Title IV Drug Free & 21 st Cent Schools	4,304,061	2,200,000	0	6,504,061	2,200,000	0	6,504,061
ESEA Title V & VI - Innovative Ed & Rural	2,199,786	0	0	2,199,786	0	0	2,199,786
ESEA Title X - Ed of Homeless Children	173,500	0	0	173,500	0	0	173,500
IDEA	27,706,176	6,999,855	0	34,706,031	11,470,626	0	39,176,802
Adult Basic Education	1,239,214	0	0	1,239,214	0	0	1,239,214
Carl Perkins	3,135,477	0	0	3,135,477	0	0	3,135,477
Learn and Serve Montana	30,462	0	0	30,462	0	0	30,462
Emergency School Renovation	312,804	0	0	312,804	0	0	312,804
Reading Excellence	<u>1,395,816</u>	<u>0</u>	<u>0</u>	<u>1,395,816</u>	<u>0</u>	<u>0</u>	<u>1,395,816</u>
Total Federal Special	\$119,189,284	\$14,074,855	\$0	\$133,264,139	\$20,995,626	\$0	\$140,184,910
Funding							
Total General Fund	\$509,632,139	\$8,470,114	\$20,263,552	\$538,365,805	\$13,903,578	\$21,616,130	\$545,151,847
Total State Special	750,000	0	0	750,000	0	0	750,000
Total Federal Special	<u>119,189,284</u>	<u>14,074,855</u>	<u>0</u>	<u>133,264,139</u>	<u>20,995,626</u>	<u>0</u>	<u>140,184,910</u>
Total Distribution to Public Schools	\$629,571,423	\$22,544,969	\$20,263,552	\$672,379,944	\$34,899,204	\$21,616,130	\$686,086,757
Statutory Appropriations							
Guarantee Account - Interest & Income	\$47,257,759	\$619,241	\$0	\$47,877,000	\$441,241	\$0	\$47,699,000
Guarantee Account -Timber (HB537)	0	<u>1,700,000</u>	<u>0</u>	<u>1,700,000</u>	<u>1,700,000</u>	<u>0</u>	<u>1,700,000</u>
Total Statutory	\$47,257,759	\$2,319,241	\$0	\$49,577,000	\$2,141,241	\$0	\$49,399,000

Executive Proposals for K-12 Distribution to Schools - 2007 Biennium				
By Fund and Decision Package Number				
Present Law Adjustments		Fiscal 2006	Fiscal 2007	Biennium
Decision Package	General Fund			
	Base Aid Changes			
DP01	Reduction Due to Fewer ANB	(\$3,380,356)	(\$8,481,001)	(\$11,861,357)
DP01	Inflation Adjustment (2.1% - FY06; 2.19% FY07)	9,554,956	19,429,308	28,984,264
DP05	BASE Aid Due to Spec Ed Present Law Adjustment	172,545	169,664	342,209
None	Adjustment for Higher Common School Revenue	(619,241)	(441,241)	(1,060,482)
	Total Base Aid Changes	\$5,727,904	\$10,676,730	\$16,404,634
DP19	Transportation	\$100,000	\$200,000	\$300,000
DP05	Special Education	1,535,812	1,535,812	3,071,624
DP20	School Facility	140,558	140,558	281,116
DP23&25	Other Biennial	211,207	214,221	425,428
DP22	HB 124 Block Grants	754,633	1,136,257	1,890,890
	Total General fund	\$8,470,114	\$13,903,578	\$22,373,692
	Federal Increases	\$14,074,855	\$20,995,626	\$35,070,481
	Total Present Law Adjustments	\$22,544,969	\$34,899,204	\$57,444,173
New Proposals		Fiscal 2006	Fiscal 2007	Biennium
	General Fund			
DP06	Base Aid Changes _ Martz Special Ed Increase			
DP06	BASE Aid Due to Spec Ed Increase	\$122,047	\$228,581	\$350,628
DP06	Special Education Increase	763,546	1,576,434	2,339,980
DP06	Total DP06	\$885,593	\$1,805,015	\$2,690,608
DP61	Base Aid Changes - Schweitzer Schedule and Spec Ed Increase			
DP61	Increase Schedules \$250/ANB Elem & \$50/ANB High School	\$9,638,287	\$9,554,163	\$19,192,450
DP61	School District GTB - \$250/ANB Elem & \$50/ANB High School + Sp Ed	3,932,778	3,918,887	7,851,665
DP61	County Retirement - due to Gen Fund schedule increases	451,880	466,803	918,683
DP61	Special Ed Increase	1,339,009	1,368,288	2,707,297
DP61	Total DP61	15,361,954	\$15,308,141	\$30,670,095
DP64	Class 8 - \$20,000 exemption - Reimbursement			
DP64	HB124 Block Grants - County	77,053	205,561	282,614
DP64	HB 124 Block Grants - District	349,298	929,336	1,278,634
DP64	Base Aid GTB Change - County Block Grants	(17,907)	(47,772)	(65,679)
DP64	Base Aid GTB Change - District Block Grants	(134,480)	(357,794)	(492,274)
DP64	Total DP64	\$273,964	\$729,331	\$1,003,295
DP21	School Facility Increase - Martz	1,000,000	1,000,000	2,000,000
DP63	School Facility Increase - Schweitzer OTO	2,372,041	2,403,643	4,775,684
DP51	Secondary Vo-Ed Increase	285,000	285,000	570,000
DP50	Gifted and Talented Increase	85,000	85,000	170,000
	Total DP21,63,51,50	\$3,742,041	\$3,773,643	\$7,515,684
	Total General Fund - New Proposals	\$20,263,552	\$21,616,130	\$41,879,682
	Net Change General Fund Over Base (Present Law + New Proposals)	\$28,733,666	\$35,519,708	\$64,253,374
	Net Change All Funds Over Base	\$42,808,521	\$56,515,334	\$99,323,855
	State Spending in the 2004 general fund base budget	\$456,015,794	\$460,893,154	\$509,632,139
	BASE Aid in the Guarantee Fund			\$47,257,759
	Total State Spending on K-12 - FY2004			\$556,889,898

School for the Deaf and Blind

There are three new proposals recommended by Governor Schweitzer, one in personal services and two in operating expenses. The total impact on the general fund is \$250,000 per year for the 2007 biennium. The following chart shows the changes to the Martz budget.

School for the Deaf and Blind - Changes to the Martz Budget				
	Base Budget	Total	Total	Biennial
	FY 2004	FY 2006	FY 2007	Total
Personal Services - Martz	3,285,424	3,760,896	3,760,533	7,521,429
NP 8 - Additional Salaries		150,000	150,000	300,000
Operating Exp. - Martz	561,260	609,557	577,215	1,186,772
NP 3 - Repair & Maintenance		75,000	75,000	150,000
NP 6 - Replace Computers		25,000	25,000	50,000
Totals	<u>3,846,684</u>	<u>4,620,453</u>	<u>4,587,748</u>	<u>9,208,201</u>
Previous total - Martz Budget		4,370,453	4,337,748	8,708,201

PROGRAM 02 – GENERAL SERVICES

NP 3 – Repair and Maintenance Base Adjustment - The executive recommends increasing the school's operating budget for General Services by \$75,000 per year of general fund to improve the school's ability to deal with ongoing maintenance issues.

LFD COMMENT

The 2003 legislature included \$350,000 in each year of the 2005 biennium for repair and maintenance. The school expended \$360,000 in FY 2004 by moving costs from other areas of the budget into repair and maintenance.

As noted by the executive, 'The Martz budget allocated \$410,000 per year of the 2007 biennium for this category, which equates to \$2.92 per square foot. According to Architecture and Engineering, the total spending for the General Services program should be closer to \$4 per square foot or \$560,000 per year.'

The Architecture and Engineering (Department of Administration) told legislative staff that the \$4 figure is based upon facility maintenance and operation costs of school facilities statewide, which range from \$4.00 to \$6.50 depending upon the size of campus, buildings, and the amount and expense of equipment.

PROGRAM 04 – EDUCATION

NP 8 - Additional salary funding for Teachers and Other Professionals - The executive recommends \$150,000 per year general fund to increase salaries for teachers and other professionals to help the school attract new teachers and maintain competitive salaries for existing teachers and other professionals. Union negotiations would determine how the additional funding would be distributed among new and existing teachers. Funds include the amount necessary to pay increases in salary-related benefits, including the additional 1.20 percent necessary to actuarially fund the Teachers Retirement System (TRS) in the 2007 biennium.

**LFD
COMMENT**

If approved, the executive's recommendation would increase funding for salaries of teachers and professionals in the education program of the Montana School for the Deaf and Blind (MSDB) by about 10 percent per year.

At the time of this writing, the salary increase for state employees proposed in HB 13 is 3.5 percent in FY 2006 and 4 percent in FY 2007. If HB 13 were passed, the Board of Public Education and school administration would calculate the salaries that are currently in MBARS based upon HB 13 percentages. Any funding increase for salaries from NP 8 that is approved would be added to the HB 13 amount after the 1.20 percent for the Teachers Retirement System is taken out. The total amount would then go to the collective bargaining unit.

NP 6 – Replace Computers - The executive recommends \$25,000 general fund in each year of the 2007 biennium to help the school replace sixteen computers each year.

**LFD
COMMENT**

Sensory impaired students at the Montana School for the Deaf and the Blind use personal computers to access the school's curriculum, educational software, and Internet-based resources. Public schools in Montana can access a "technology fund" administered by the Office of Public Instruction to purchase or upgrade their computer technology. The difference between the structure and funding of the School for the Deaf and Blind and Montana Public Schools prevents MSDB's access to this fund. The school does not have funding in the current level budget to purchase replacement computers.

The Governor adds funds, the specific expenditures of which would be determined by the school's technology committee, and might be used for general needs such as computers systems, and network switching equipment, or specific needs such as a refreshable Braille keyboard and a Braille printer.

Commissioner of Higher Education

Montana University System/Commissioner of Higher Education	
Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The revised executive budget (Schweitzer budget) increases general fund \$5 million in the 2007 biennium to increase student assistance need-based grants and merit-based scholarships ◆ The revised executive budget (Schweitzer budget) increases general fund \$2.8 million in the 2007 biennium to increase tribal college assistance as follows: <ul style="list-style-type: none"> • \$300,000 for non-beneficiary student assistance • \$1.25 million for equipment • \$1.25 for the Indian Education for All program ◆ The revised executive budget (Schweitzer budget) decreases general fund \$4.9 million by eliminating the Shared Leadership for a Stronger Montana Economy initiatives, including: <ul style="list-style-type: none"> • 2.00 FTE and \$640,000 general fund are eliminated from the Administration Program in the Office of the Commissioner of Higher Education • \$4.3 million general fund is eliminated from the university educational units and public service/research agencies ◆ Overall, the revised executive budget increases general fund spending in the Montana University System budget by a net of \$2.9 million in the 2007 biennium (\$7.8 million program increases less \$4.9 million Shared Leadership decrease) 	

PROGRAM 01 – ADMINISTRATION PROGRAM

The revised executive budget (Schweitzer budget) eliminates funding for all of the Shared Leadership for a Stronger Montana Economy initiatives in the university system budget, which includes two new proposal decision packages in the administration program as follows:

- DP 40 – Shared Leadership Business & Economic Development Outreach – This decision package would fund 2.00 FTE in the Office of the Commissioner of Higher Education to support new projects for the university system involving economic development across Montana. Total cost of \$360,000 in the 2007 biennium. The two new FTE positions include:
 - Associate Commissioner of Economic Development and Outreach
 - Executive Level Administrative Assistant
- DP 77 – Shared Leadership Workforce System Data Collection and Management – This decision package would fund the development of an integrated data management system to support workforce development programs across several agencies and program of state government and the university system. Total cost of \$280,000 in the 2007 biennium

In total, these two Schweitzer budget revisions reduce \$640,000 general fund and 2.00 FTE from the Martz budget in Program 01 Administration.

PROGRAM 02 – STUDENT ASSISTANCE

LFD COMMENT As this analysis was going to print, an official in the Governor’s Office indicated that they would be submitting some last minute changes to the recommended appropriations for the “Best and Brightest Scholarship Program”. Specifically, the revised executive budget intends to re-allocate the FY 2006 and FY 2007 surplus funds from the scholarship program to other areas of the university system.

For specific information about the scholarship program and the surplus funds, read the LFD Issues that follow below.

NP 101 – Need Based Student Aid – Two-year Programs The executive budget increases general fund \$2.0 million in the 2007 biennium for need-based student assistance grants for students attending two-year degree programs of the Montana University System (including educational units, community colleges, and tribal community colleges). The program would be administered by the Office of the Commissioner of Higher Education (OCHE).

Need-Based Financial Aid Grants				
Type of Grant	Annual	Award	2007 Biennium	
	Scholarships	Per	FY 2006	FY 2007
	Awarded	Student*		
Each High School	180	\$1,000	\$180,000	\$360,000
Health Sciences Degree	100	1,000	100,000	200,000
Other Technical Degree	<u>220</u>	<u>1,000</u>	<u>220,000</u>	<u>440,000</u>
Total			<u>\$500,000</u>	<u>\$1,000,000</u>

* Each student award is for \$1,000 per year for the two-year degree program

LFD COMMENT The executive proposal is structured to provide at least one grant award of \$1,000 per year for one student at each of the approximately 180 high schools in Montana. In addition, there would be 100 awards for students from any high school who pursue a two-year degree in a health sciences field and 220 additional awards for students from any high school who pursue a two-year degree in a technology or technical field.

The precise criteria and definitions for these grant awards would be developed by an advisory council to the Board of Regents, with members appointed by the Governor.

The grants are restricted to Montana resident students who attend any public postsecondary school in Montana in two-year degree programs. The grants are to be awarded for both years of postsecondary study.

LFD ISSUE Although the executive proposal would take two years of operations to reach the expenditure target of \$1.0 million per year (the program targets incoming freshman students for the two-year grant awards), the executive budget would fully fund the program for \$1.0 million in both years of the biennium. It would only be possible to expend \$0.50 million in this program during FY 2006, so that approving this executive proposal as presented would result in a \$0.50 million surplus.

**LFD
ISSUE
CONTINUED**

Therefore, the legislature may want to consider:

1. Decrease the appropriation for FY 2006 by \$0.50 million
2. Appropriate funds for the proposal as presented but restrict the \$0.50 million surplus in FY 2006 to another need-based student assistance program as a one-time-only appropriation (e.g. Baker Grants or Montana Higher Education Grants)
3. Appropriate funds for the proposal as presented, which would essentially allow the Board of Regents to expend these funds at their discretion.

NP 102 – Best and Brightest Program - The executive budget increases general fund \$3.0 million in the 2007 biennium for merit-based (criteria based upon student achievement) student assistance grants for students who attend four-year and two-year degree programs of the Montana University System (including educational units, community colleges, and tribal community colleges). The program would be administered by the Office of the Commissioner of Higher Education (OCHE).

Best and Brightest Scholarship/Grant Program						
Type of Grant	Annual Scholarships	Award Per Student*	2007 Biennium		2009 Biennium	
	Awarded	Student*	FY 2006	FY 2007	FY 2008	FY 2009
4 - Year Education	180	\$1,000	\$180,000	\$360,000	\$540,000	\$720,000
Additional Merit Based	40	2,000	80,000	160,000	240,000	320,000
2 - Year Education	<u>250</u>	<u>1,000</u>	<u>250,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Total			<u>\$510,000</u>	<u>\$1,020,000</u>	<u>\$1,280,000</u>	<u>\$1,540,000</u>

* Each student award is for \$1,000 per year for each year of the two or four-year degree program

**LFD
COMMENT**

The executive proposal is structured to provide at least one scholarship award of \$1,000 per year for one student pursuing a 4-year degree program from each of the approximately 180 high schools in Montana. In addition, there would be 40 annual scholarship awards of \$2,000 for students from any high school who pursue a four-year degree, and 250 additional \$1,000 annual scholarship awards for students from any high school who pursue a two-year degree.

The precise criteria and definitions for these grant awards, which are to be merit-based academic achievement awards, would be developed by an advisory council to the Board of Regents, with members appointed by the Governor.

The grants are restricted to Montana resident students who attend any public postsecondary school in Montana in two-year and four-year degree programs. The grants are to be awarded for each year of postsecondary study.

**LFD
ISSUE**

Although the executive proposal would take four years of operations to reach the expenditure target of \$1.5 million per year (the program targets incoming freshman students for both two-year and four-year grant awards), the executive budget would fully fund the program for \$1.5 million in both years of the biennium. It would only be possible to expend approximately \$0.51 million in this program during FY 2006 and \$1.02 million during FY 2007, so that approving this executive proposal as presented would result in a \$1.47 million surplus during the 2007 biennium.

**LFD
ISSUE
CONTINUED**

Therefore, the legislature may want to consider:

1. Decrease the appropriation for the biennium by \$1.47 million
2. Appropriate funds for the proposal as presented but restrict the \$1.47 million surplus to another student assistance program as a one-time-only appropriation (e.g. Baker Grants or Montana Higher Education Grants)
3. Appropriate funds for the proposal as presented, which would essentially allow the Board of Regents to expend these funds at their discretion.

**LFD
ISSUE**

The Governor has requested legislation to implement the Need-Based Student Aid and the Best and Brightest Scholarship Program through statute (LC2094), though the funding would be provided through an HB 2 appropriation (the above two decision packages). According to the proposed legislation, the Office of the Commissioner of Higher Education will administer the scholarship aid program while a three-member advisory council, appointed by the Governor, will work to define the award criteria and other structural mechanisms.

Should the legislature decide to approve these decisions packages to appropriate funding for one or both student assistance scholarship programs, the legislature may want to consider one of the following options:

- Make no recommendations or adjustments to HB 2 until or unless the required legislation passes
- Approve the decision package appropriations and make adjustments to HB 2, but include contingency language to strike the appropriation if the legislation does not pass
- Approve the decision package and do not make adjustments to HB 2, but include contingency language to add the appropriation to HB2 if the legislation passes
- Approve the decision package and make the adjustments to HB 2, and include contingency language to appropriate the funding to an existing student assistance program (e.g. Baker or MHEG) if the legislation does not pass

PROGRAM 09 – APPROPRIATION DISTRIBUTION

The revised executive budget eliminates ALL PROSED funding for all of the Shared Leadership for a Stronger Montana Economy initiatives in the university system budget, which includes ten new proposal decision packages in the appropriation distribution program (funding for the university units and public service/research agencies). The following decision packages would be eliminated:

- DP 8 – Shared Leadership - Extension Cropping Specialist – This decision package would add \$65,600 general fund in FY 2007 for 1.00 FTE Cropping Systems Specialist Position that would be located at the Extension Service on the MSU Bozeman campus. The executive budget intends that this proposal will be matched with \$16,400 from non-state funding sources identified by the Board of Regents.
- DP 16 – Shared Leadership - Livestock Specialist – This decision package would add \$131,000 general fund in the 2007 biennium budget for 1.00 FTE Livestock Specialist Position to be located at the Extension Service at the AES Research Center in Miles City. The executive budget intends that this proposal will be matched with \$32,800 from non-state funding sources identified by the Board of Regents.
- DP 51 – Shared Leadership - Distance Learning Initiative - OTO – This decision package would add \$1 million general fund in the 2007 biennium to support the development and implementation of a statewide distance learning plan across the university system and partnering with education providers at all levels. The executive budget intends that this proposal will be matched by \$250,000 from non-state funding identified by the Board of Regents. This proposal is a one-time-only (OTO), biennial appropriation.
- DP 60 – Shared Leadership - 2-Yr Education-Develop Common Curriculum – OTO – This decision package would add \$120,000 general fund in the 2007 biennium primarily to support the development of a common 2-year college curriculum and instruction program for the Associate of Applied Science degrees. The executive budget

intends that this proposal will be matched by \$400,000 from non-state funding identified by the Board of Regents. This proposal is a one-time-only (OTO), biennial appropriation.

- DP 61 – Shared Leadership - MT Tech Economic Development Resource Center -OTO - This decision package would add \$100,000 general fund in the 2007 biennium to support economic development and new business recruitment efforts of the Montana Tech Economic Development Resource Center in Butte. The executive budget intends that this proposal will be matched by a \$200,000 investment from non-state funding identified by the Board of Regents, which will replace state funding in the 2009 biennium. This proposal is for a one-time-only (OTO), biennial appropriation.
- DP 63 – Shared Leadership - Increase Supply of Health Care Workers - OTO - This decision package would add \$1 million general fund in the 2007 biennium to support the delivery of health care education programs to rural place-bound citizens in Montana, with the goal to increase the supply of trained and qualified health care workers. The executive budget intends that this proposal will be matched by \$250,000 from non-state funding identified by the Board of Regents. This proposal is for a one-time-only (OTO), biennial appropriation.
- DP 66 – Shared Leadership - FSTS Plan - Add One Trainer – This decision package would add \$153,000 general fund in the 2007 biennium for 1.00 FTE Trainer Position at the Fire Service Training School. The position would be designed to train fire fighters in a variety of skilled areas to become better prepared to respond to the growing variety of emergency incidents. The executive budget intends that this proposal will be matched by \$38,259 from non-state funding sources identified by the Board of Regents.
- DP 67 – Shared Leadership - Integrated Weed Mgmt & Biotechnology – This decision package would add \$320,000 general fund in the 2007 biennium for 2.00 FTE weed science and research positions at the Agriculture Experiment Station, and 1.00 FTE plant or animal biotechnology position. The positions would increase research on integrated weed management practices and the biological control of weeds, as well as genetic research to improve plant and animal production. The executive budget intends that this proposal will be matched by \$159,967 from non-state funding sources identified by the Board of Regents.
- DP 68 – Shared Leadership - Technical Assistance to Small Oil & Gas Operators – This decision package would add \$147,000 general fund in the 2007 biennium for 1.00 FTE Petroleum Geologist position at the Bureau of Mines located in Butte. The position would be responsible for mapping and other technical assistance to support small oil and gas operators with exploration and development efforts. The executive budget intends that this proposal will be matched by \$36,720 from non-state funding sources identified by the Board of Regents.
- DP 69 – Shared Leadership - Coal and Coal bed-Methane Technology Program – This decision package would add \$147,000 general fund in the 2007 biennium for 1.00 FTE Coal Geologist position at the Bureau of Mines located in Butte. The position would be responsible for database and information flow as well as other technical assistance to support coal and coal bed-methane development efforts. The executive budget intends that this proposal will be matched by \$36,720 from non-state funding sources identified by the Board of Regents.

In total, these ten Schweitzer budget revisions reduce \$4.3 million general fund from the Martz budget in Program 09 Appropriation Distribution for the university educational units and public service/research agencies.

NP 200 – Class 8 Threshold (Bus. Tax Exempt) From \$20K to \$5K – The revised executive budget (Schweitzer budget) would increase the business equipment property tax exemption from \$5,000 market value to \$20,000 market value. This would reduce property tax revenues in FY 2006 and FY 2007 so that six-mill levy state special revenue to the university educational units would be reduced. Therefore, the revised executive budget would backfill the six-mill revenue reduction with general fund, total of \$42,499 in the 2007 biennium.

**LFD
ISSUE**

The proposal to increase the business equipment property tax exemption will be included in legislation during the 2005 session. At the time of this analysis, that legislation had not yet been drafted so there is no bill or bill draft number to use for reference. However, when the legislation is drafted and considered, if the legislature does not pass the bill, then there will be no change to the property tax revenue, including the six-mill levy revenue.

Therefore, should the legislature decide to approve NP 200, the legislature may want to make this general fund appropriation of \$42,400 contingent upon passage of the legislation to increase the business equipment property tax exemption. If that legislation does not pass, this NP would then be excluded from HB2 appropriations.

PROGRAM 11 – TRIBAL COLLEGE ASSISTANCE

NP 103 – Non-Indian/Non-Beneficiary Students – The executive budget increases tribal college assistance \$303,500 over the biennium to support resident non-beneficiary students who attend any of the seven tribal community colleges in Montana, in accordance with 20-25-428 MCA.

LFD COMMENT

Although the executive budget decision package title addresses “non-Indian” students, the statutory program authorizing tribal college assistance (20-25-428, MCA) provides state funding assistance to “non-beneficiary” students, who in fact may be of Indian ancestry. Non-beneficiary is defined as persons who are not members of federally recognized tribes. Therefore, students who are indeed Indian, but members of a tribe that is not recognized by the federal government, are eligible for assistance as a non-beneficiary student.

NP 104 – Enhancing Tribal College Programs - OTO - The executive budget provides \$2.5 million in the 2007 biennium to support tribal colleges as follows:

- 50 percent of the funds would be allocated equally among the tribal colleges for equipment needs
- 50 percent of the funds would be allocated equally among the tribal colleges to support each college to detail their tribes’ history for use by the State of Montana in meeting the constitutional and statutory obligations related to the Indian Education for All program in K-12 education

The executive recommends that this be a one-time-only (OTO) appropriation.

LFD ISSUE

The tribal college assistance program is appropriated in HB2 as a separate line-item, appropriating the funds to the Board of Regents with the restriction that if the Board accepts the appropriated funds they must be used for the expressed purpose of the line-item.

Given that the executive NP 104 is a separate and distinct purpose of funds for the tribal colleges, distinct from the line-item for non-beneficiary student assistance, should the legislature approve this executive proposal the legislature may want to consider making this a separate restricted line-item appropriation in HB2.