GENERAL FUND ANALYSIS

OVERVIEW

The state general fund is the primary account that funds a significant portion of the general operations of state government and is often referred to as the state's checking account. This account has grown from slightly less than $700 million in fiscal 1990 to almost $1.3 billion in fiscal 2004, or approximately 5.0 percent annually. Figure 1 shows where the money in this account comes from by major revenue category, while Figure 2 shows how the money is expended by major expenditure category. The information shown in both figures represents actual data for fiscal 2004.

In fiscal 2004, 61 percent of total general fund revenues came from income and property taxes. Total revenues to the account for the 2007 biennium are estimated to be nearly $2.9 billion, which is an increase of $132.1 million, or 4.8 percent from the 2005 biennium.

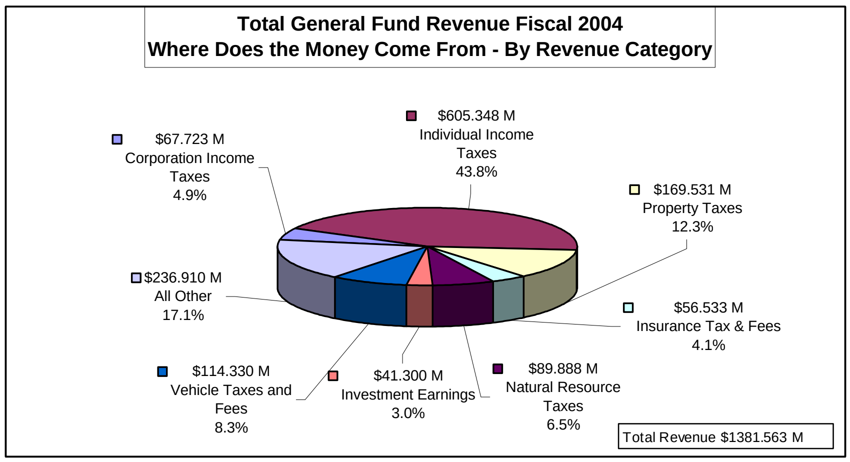


Figure 1

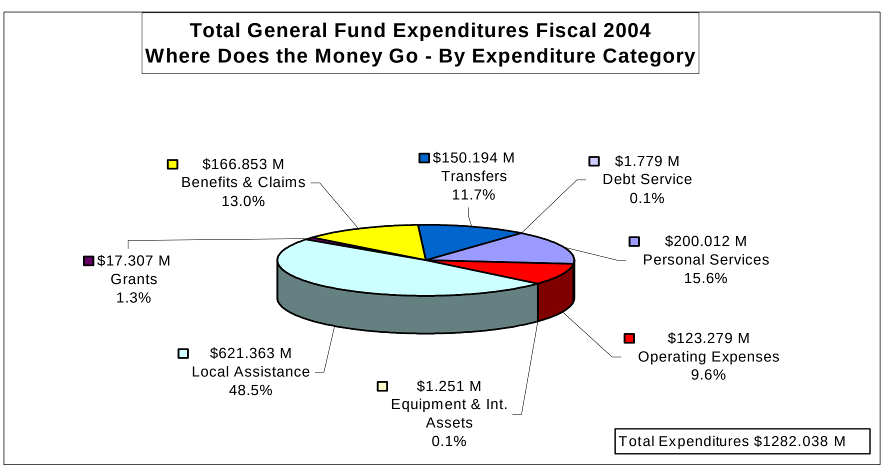
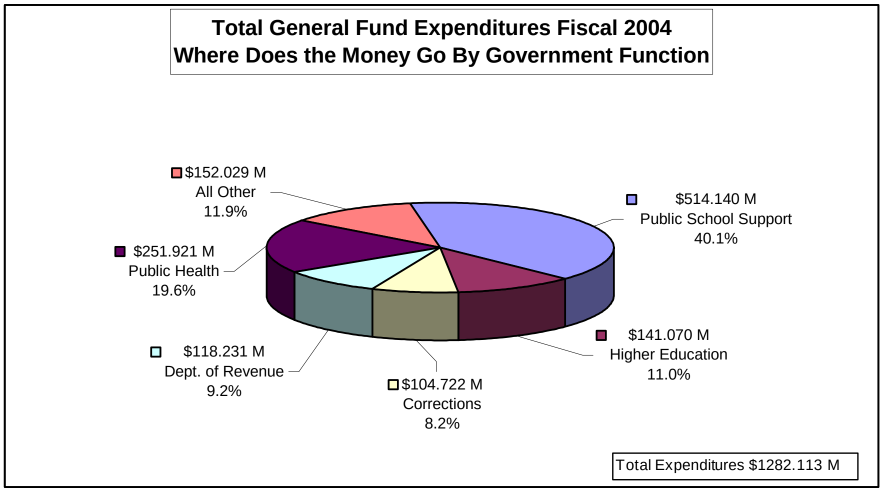


Figure 2

As shown in Figure 2, about 25.3 percent of the general fund revenue is expended for personal services and operating costs with most of the remainder disbursed for local assistance, human service benefits, and grants. This indicates that the cost of government is weighted heavily towards local assistance (local government entities including public schools) and direct human service benefits. Total general fund disbursements represent approximately 37 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types.

Figure 3 shows how the general revenues are expended by governmental function. As the figure shows, education consumes over 51 percent, human services almost 20 percent, and corrections about 8 percent of general fund revenues. It should be noted that statutory and transfer appropriation expenditures are shown under the function that is responsible for the payment. For example, the Department of Revenue (DOR) is responsible for local government entitlement payments. Although these expenditures are made with a statutory appropriation, these costs are included with total DOR expenditures.

Figure 3



Balancing general fund appropriations against anticipated revenues is a major challenge of each legislative session and requires a significant coordination between the taxation and appropriation committees. Based on revenue estimates adopted by the Revenue and Transportation Interim Committee (RTIC) on November 16, 2004, there are sufficient revenues to support the executive present law budget recommendations, leaving a ending fund balance of a positive $293.3 million.

Because of this high balance, there are sufficient revenues to accommodate all of the executive new proposals, including the executive's recommended ending fund reserve of $162.9 million. If the total executive budget were funded as requested, the ending balance in the general fund would be $181.3 million. One of the reasons for this increased balance is that the projected balance uses the final revenue estimate recommendations of the RTIC. The executive budget was based on lower revenue estimates developed by the executive's staff. The result is that the balanced budget as submitted by the executive exceeds the recommended $162.9 million reserve when using RTIC general fund revenue estimates.

The next section of the budget analysis provides a summary of the general fund account as projected through the 2005 biennium. It begins with a reconciliation of the current (2005 biennium) projected fund balance in order to arrive at the beginning balance for the 2007 biennium.

The 2005 biennium analysis is followed by a summary of the 2007 biennium economic assumptions and associated revenue estimates as adopted by RTIC, including a graphic view of the significant revenue components. Additionally, a summary of the projected present law general fund balance using RTIC revenue estimates is shown. A projected general fund balance is also shown when the executive new proposals are included.

Finally, the differences between the executive proposed fund balance and the balance using RTIC revenue estimates and LFD statutory disbursement and reversion computations are explained.

2005 BIENNIUM GENERAL FUND PROJECTION

After completion of the Fifty-eighth Legislature, the unreserved ending general fund balance for the 2005 biennium was projected to be $46.2 million (Figure 4). This balance was based on: 1) revenue estimates adopted in HJR 2; 2) LFD statutory appropriation and reversion estimates; 3) all general fund appropriations authorized by the legislature; and 4) the estimated impacts of all enacted revenue legislation. The Fifty-eighth Legislature did not budget for any supplemental or emergency appropriations.

Figure 4

Comparison of 2005 Biennium General Fund Balance
Post Session Budget vs. LFD Budget Analysis (In Millions)

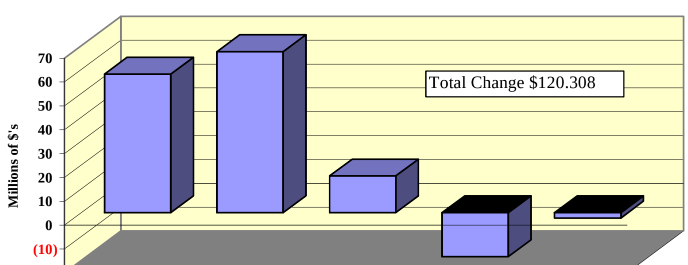
	Regular Session 2005 Biennium	Budget Analysis 2005 Biennium	Difference 2005 Biennium
Beginning Fund Balance	**$16.521**	**$43.065**	**$26.544**
Revenues			
Current Law Revenue	2,645.895	2,766.204	120.309
Total Funds Available	**$2,662.416**	**$2,809.269**	**$146.853**
Disbursements			
General Appropriations	2,319.761	2,329.457	9.696
Statutory Appropriations	259.768	255.260	(4.508)
Miscellaneous Appropriations	6.350	4.251	(2.099)
Non-Budgeted Transfers	31.165	27.521	(3.644)
Supplemental Appropriations		12.651	12.651
Language Appropriations	0.646	1.722	1.076
Feed Bill Appropriations	6.699	7.000	0.301
Anticipated Reversions	(8.191)	(28.662)	(20.471)
Total Disbursements	**$2,616.198**	**$2,609.200**	**-$6.998**
Adjustments		(5.344)	(5.344)
Projected Ending Fund Balance	**$46.218**	**$194.725**	**$148.507**

As Figure 4 shows, the revised unreserved general fund balance at the end of the 2005 biennium is now projected to be $194.7 million. This revised projection is based on: 1) revenue estimates adopted by RTIC on November 16, 2004; 2) LFD statutory appropriation and reversion estimates; and 3) supplemental appropriation recommendations by the executive. This projected balance equals 7.1 percent of anticipated revenues for the 2005 biennium and is $148.5 million above the balance anticipated after adjournment of the 58th Legislature.

The increase in the projected general fund balance is due to several factors that have transpired since the adjournment of the 58th Legislature. Total general fund revenues are expected to be $120.3 million more than anticipated, while disbursements are expected to be $7.0 million less than authorized by the legislature. Fund balance adjustments are expected to be a negative $5.3 million. Fund balance adjustments were not anticipated by the 58th Legislature.

Figure 5

2005 Biennium General Fund Estimate Changes
Post Session Fiscal Report vs. LFD Budget Analysis



	Income & Corporation Tax	Coal, Oil, Natural Gas, Metal Tax	Video Gambling & Lottery	Investment Earnings	All Other Categories
Amount	58.113	67.525	15.413	(18.483)	(2.261)

The improved revenue condition ($120.3 million) can be attributed to the factors shown in Figure 5. As shown in the figure, the three income sources primarily responsible for Montana's revenue picture reversal are individual income, corporation income, and oil and natural gas taxes. Individual income tax has experienced increased growth resulting in large part from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (federal tax policy changes), an improvement in wage growth (especially in real wage growth per worker), and a higher capital gains base in calendar 2003. The corporation income tax has rebounded as Montana and multi-state corporations have recovered from the 2001 recession and the effects of "9/11". Additionally, the impact of the federal stimulus bonus depreciation provisions of calendar 2002 and 2003 will now create a decrease in the amount of depreciation expense corporations can claim in future years. This will result in increased tax liabilities. Finally, both oil and natural gas prices have increased dramatically in response to the war in Iraq and uncertainty about future supplies. As a result of the higher prices, new drilling activity for oil is up substantially. Production levels are once again increasing, reversing the production declines observed during the last ten years.

The primary reasons for the change in disbursements ($7.0 million) are as follows:
Decreased Disbursements

1. Unanticipated reversions are caused mainly by the offset of general fund appropriations in DPHHS with increased federal FMAP federal funds from the passage of the federal Jobs and Growth Tax Relief Reconciliation Act;
2. Decreased statutorily appropriated payments for debt service on bonds and TRANS, offset slightly by increased in retirement payments (see page 148 for more details);
3. Decreased non-budgeted transfers of vehicle fee revenue due to unanticipated consequences of new legislation. The decreases were offset slightly by an increased net US royalty revenue transfers (due to greater revenue) and unanticipated DPHHS program transfers (see page 151 for more details); and
4. Decreased miscellaneous appropriations caused by biennial appropriations not being fully spent in FY 2004. The continuing balances of these appropriations are included in "general appropriations".

Increased Disbursements

1. Supplemental appropriations of $12.7 million not anticipated by the 58th legislature (see page 77, for more details);
2. Increased general appropriations due to the unspent balances of miscellaneous appropriations continuing into FY 2005; and
3. Greater expenditures than anticipated from the language appropriation allowing the Judiciary to spend reversions from the 2003 biennium.

As Figure 4 shows, the combined impact of higher revenues, reduced disbursements, and negative fund balance adjustments is a net increase in the projected fund balance of $148.5 million for the 2005 biennium.

2007 BIENNIUM GENERAL FUND OUTLOOK

INTRODUCTION

The state's financial picture is probably the most optimistic budget situation the state has faced in a number of years. Not only are anticipated revenues significantly above the level of funding needed to fund "present law" services, the projected ending fund balance for the current biennium is well above an ending fund balance reserve advocated by national experts. Because this balance is so high, the legislature should consider using these funds for one-time initiatives and not for policies that will require additional funding in subsequent biennia.

However, large federal deficits, school funding litigation, labor negotiations, rising health care costs, and national economic uncertainties could be significant budget "busters". With the prospect of further federal tax reform, the continued threat of terrorism attacks, and the on-going US war with Iraq makes the job of developing prudent revenue estimates an extremely difficult task. Artificially low estimates may cause the legislature to reduce or restrain state services that fall below the legislature's priority line. Estimates that are too high may create the temptation for the legislature to fund state services that the state cannot afford. Obviously, the last scenario would result in spending reductions by the executive and/or a special session.

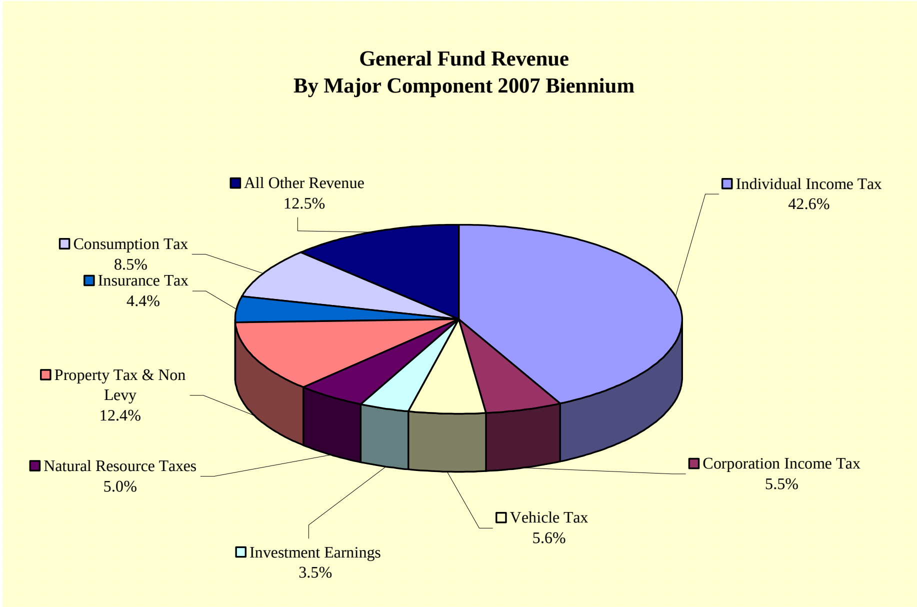
As delineated in Section 5-18-107(1) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare "an estimate of the amount of revenue projected to be available for legislative appropriation." In addition, sections 5-12-302(2) and 5-12-307(7) specifically require the Legislative Fiscal Analyst (LFA) to "estimate revenue from existing and proposed taxes" and also requires the LFA to "assist the revenue and transportation committee in performing its revenue estimating duties...".

The next section of the report highlights the significant economic assumptions used by the RTIC to develop the revenue estimate recommendations contained in HJR 2, the revenue estimate resolution. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast amount.

GENERAL FUND REVENUE IMPLICATIONS

Montana's fiscal outlook for revenue growth is more optimistic than in previous biennia. The key economic assumptions targeted as most affecting state government receipts are Montana total income, employment, and population levels, inflation rates, corporate profits, property values, interest rates, and energy prices.

Figure 6

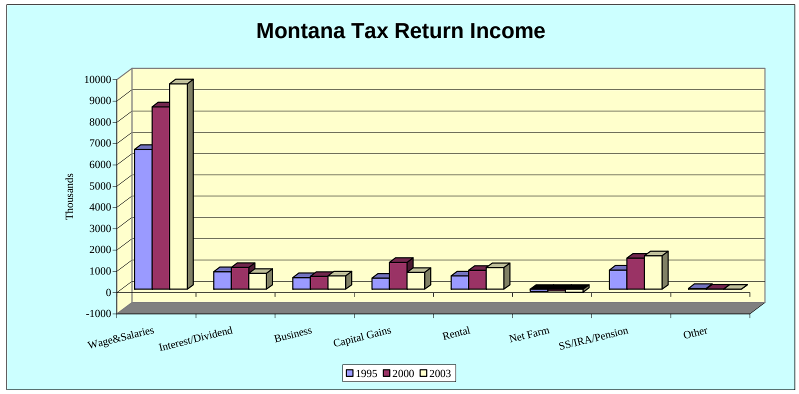


Major Category	2005 Biennium Estimate Millions	2007 Biennium Estimate Millions	Percent Change
Individual Income Tax	$1,193.986	$1,234.869	3.42%
Corporation Income Tax	134.055	158.548	18.27%
Vehicle Tax	163.967	162.190	-1.08%
Investment Earnings	87.901	100.336	14.15%
Natural Resource Taxes	124.993	145.916	16.74%
Property Tax & Non Levy	339.582	358.486	5.57%
Insurance Tax	115.805	127.383	10.00%
Consumption Tax	240.558	247.732	2.98%
All Other Revenue	365.357	362.856	-0.68%
Total General Fund	**$2,766.204**	**$2,898.316**	**4.78%**

As shown in Figure 6 above, individual income tax, corporation income tax, property tax, vehicle tax, and investment earnings are expected to contribute almost 70 percent to the total general fund revenue stream during the 2007 biennium. Total general fund revenues for the 2007 biennium are projected to increase 4.8 percent over the 2005 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.

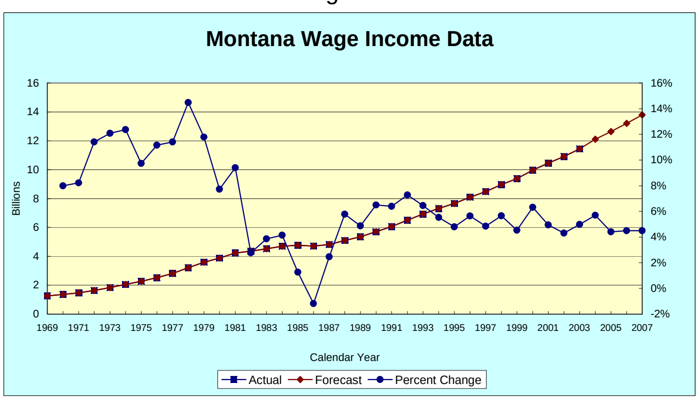
Montana Total Income

Figure 7



The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2003, it contributed 67.6 percent, or $9.650 billion. The average compounded growth from calendar 1990 to 2003 has been 5.6 percent.

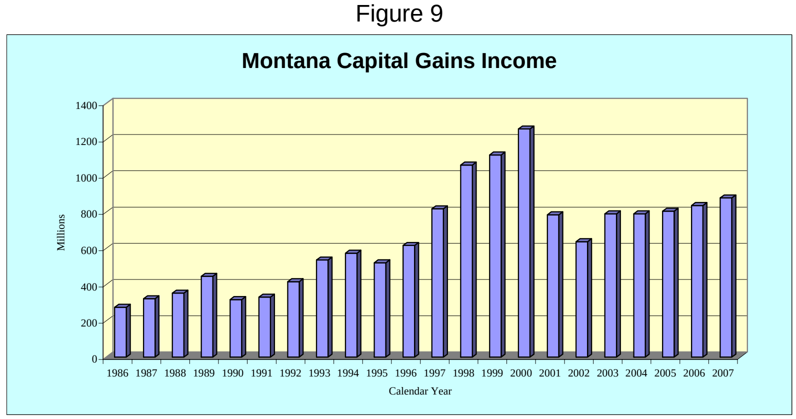
Figure 8



In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of $318 million. In 2001, capital gains receded to 5.7 percent of total income, with income at $786 million, a reduction of over 37.6 percent over the previous year. In 2003, capital gains income was $791 million and continues to represent nearly 5.5 percent of total income.

In 2002 capital gains income fell by $622.3 million, but over the next four years it is expected to return to a more normal growth pattern. Capital gains is projected to increase by 11.1 percent between 2004 and 2007, a compound growth rate of 2.7 percent annually.

Figure 9



Montana Wages

The average annual growth in Montana wages and salaries has been 5.5 percent between 1990 and 2003. Lower wage growth has been experienced in the latter half (5.1 percent) of this period than in first half (5.8 percent). This is due to lower growth in employment and lower inflation since 1997. Somewhat countervailing these trends has been an increase in real wage per worker since 1997. The average annual growth in real wage per worker was –0.2 percent between 1990 and 1997, but has averaged 1.3 percent since then. It appears that growth in real wage per worker may reach 1.7 percent in calendar 2004.

Figure 10

Wage and Salary Income Growth

	Calendar Year	Employment Growth	Inflation	Real Wage Per Worker	Wages Growth
A	1991	2.2%	4.2%	-0.1%	6.4%
A	1992	4.2%	3.0%	-0.1%	7.3%
A	1993	2.9%	3.0%	0.5%	6.5%
A	1994	4.5%	2.6%	-1.5%	5.5%
A	1995	3.1%	2.8%	-1.1%	4.8%
A	1996	2.7%	3.0%	-0.1%	5.6%
A	1997	1.3%	2.3%	1.2%	4.8%
A	1998	2.2%	1.6%	1.8%	5.7%
A	1999	1.9%	2.2%	0.3%	4.5%
A	2000	1.9%	3.4%	0.9%	6.3%
A	2001	1.1%	2.8%	1.0%	4.9%
A	2002	1.1%	1.6%	1.6%	4.3%
A	2003	1.0%	2.3%	1.6%	5.0%
F	**2004**	**1.2%**	**2.7%**	**1.7%**	**5.7%**
F	**2005**	**1.2%**	**2.2%**	**1.0%**	**4.4%**
F	**2006**	**1.3%**	**2.2%**	**1.0%**	**4.5%**
F	**2007**	**1.3%**	**2.2%**	**1.0%**	**4.5%**

The forecast for inflation between calendar years 2003 and 2007 is the same as used by the Congressional Budget Office for the federal budget. Employment is expected to grow at 1.2 percent in calendar years 2004 and 2005, and then 1.3 percent in calendar years 2006 and 2007.

The growth in real wage per worker is forecast to decline to 1 percent per year in calendar years 2005 through 2007 from its current high levels, above the long run average, but below levels seen recently.

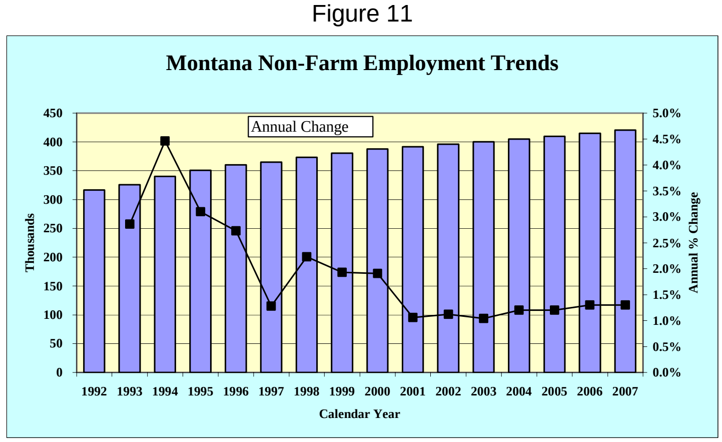
The growth in wages and salaries, unadjusted for inflation, is expected to grow by 5.7 percent in calendar 2004. First half growth in calendar 2004 was 6.0 percent, but second half growth is usually lower than first half growth when first half growth exceeds the long run average.

The growth in wages and salaries is expected to be 4.4 percent in calendar year 2005, and 4.5 percent in calendar years 2006 and 2007.

Montana Employment

Average annual growth in total employment between 1990 and 2003 has been 2.1 percent, although since 2000 the average rate of growth has been 1.1 percent. The growth in 2004 through September is 1.2 percent. It is expected that employment growth through 2005 will remain at 1.2 percent and grow by 1.3 percent in calendar years 2006 and 2007. Since 1990, the fastest growing sector in terms of employment has been construction, which experienced a 125 percent increase in employment. Other fast growing sectors have been professional and business services (115 percent growth), education and health services (53 percent growth), accommodation and food services (46 percent growth). Sectors that have experienced reduced employment since 1990 are mining (-13 percent growth, although growth has been positive in 2004), and manufacturing (-4 percent growth).

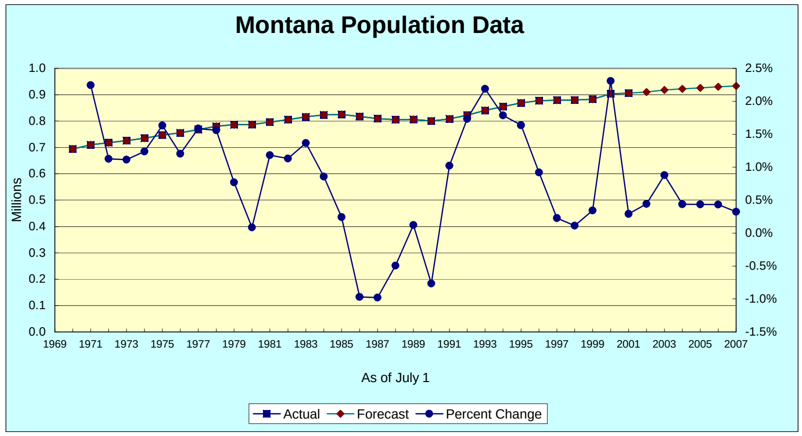
Figure 11



Montana Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

Figure 12

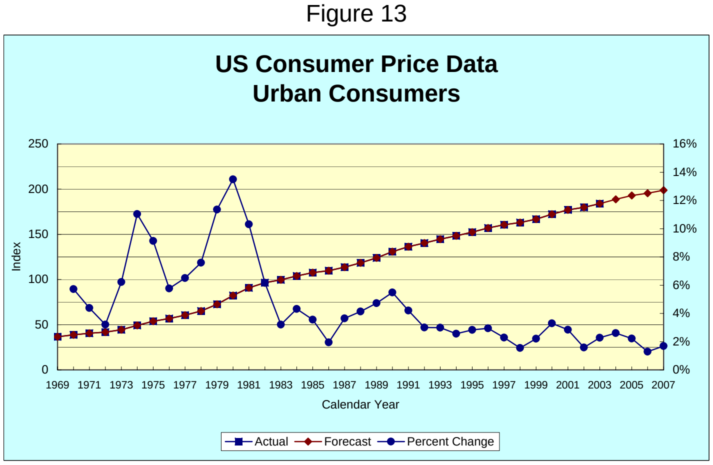


Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above. Historic population data is gathered from the U.S. Census department while projections are obtained from Global Insight. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at 0.4 percent annually.

Inflation Rates

The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.

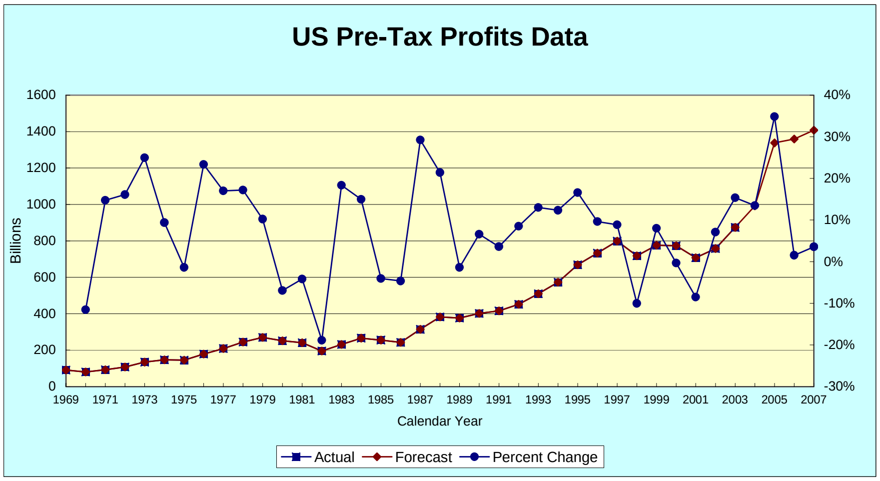
Figure 13



Since Montana's individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 2.67 percent. Global Insights forecasts inflation at 2.27 percent (November 2004). The average forecast used by the Congressional Budget Office and other private economists is 2.2 percent per year though calendar 2007. RTIC forecast is 2.2 percent through 2007.

Corporate Profits

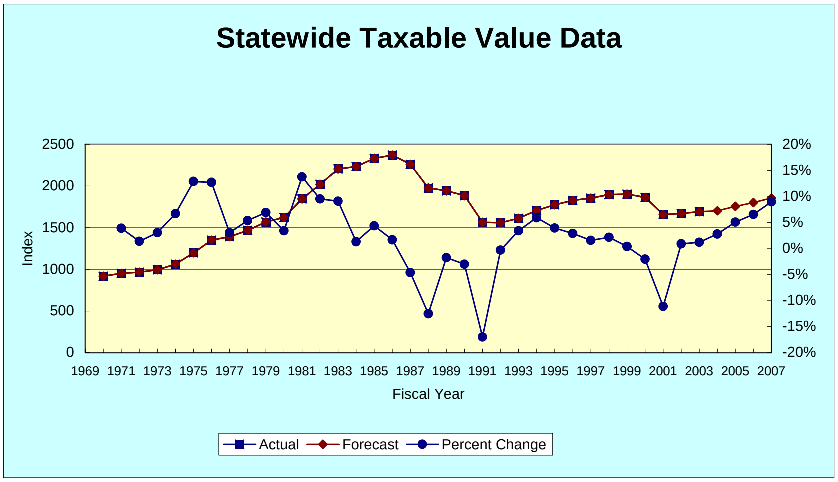
Figure 14



The profitability of corporate America is an important factor in estimating revenues. Corporate profitability effects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 9.9 percent. However, from 1998 through 2001, profits have decreased by an average of 2.7 percent, the greatest decrease of 8.5 percent occurring in 2001. In 2002 and 2003, corporate profitability increased by 7.1 percent and 15.4 percent respectively, and that trend is expected to continue with projected annual increases of 13.5 percent, 34.8 percent, 1.5 percent, and 3.6 percent between 2004 and 2007 respectively.

Property Values

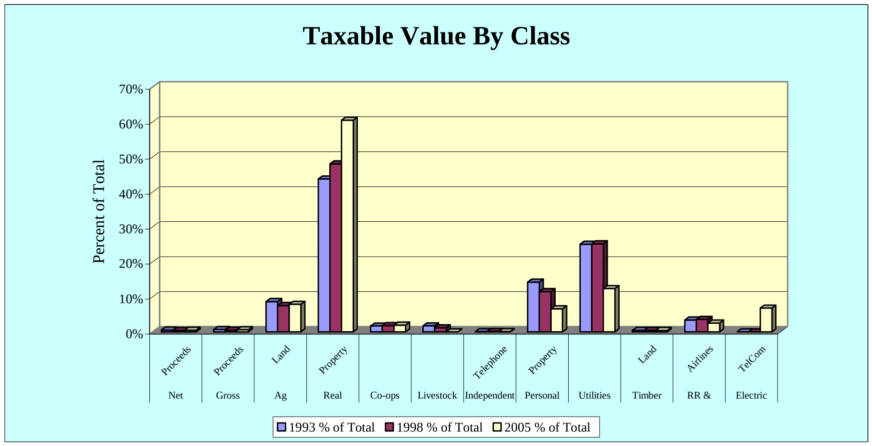
Figure 15



Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's, but fell in both fiscal 2000 and 2001. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Property values resumed an upward trend in 2003, and that trend is expected to continue through the next biennium. However, net taxable value growth in tax year 2006 is expected to be near 10 percent as several tax increment financing districts are eliminated.

Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.5 percent of total statewide value was in class 4, residential and commercial property, and 11.6 percent of total value was in class 8, business equipment personal property. In fiscal 2005, the class 4 taxable value is expected to make up 61.5 percent of the total property tax base, while class 8 will be only 6.7 percent of the base.

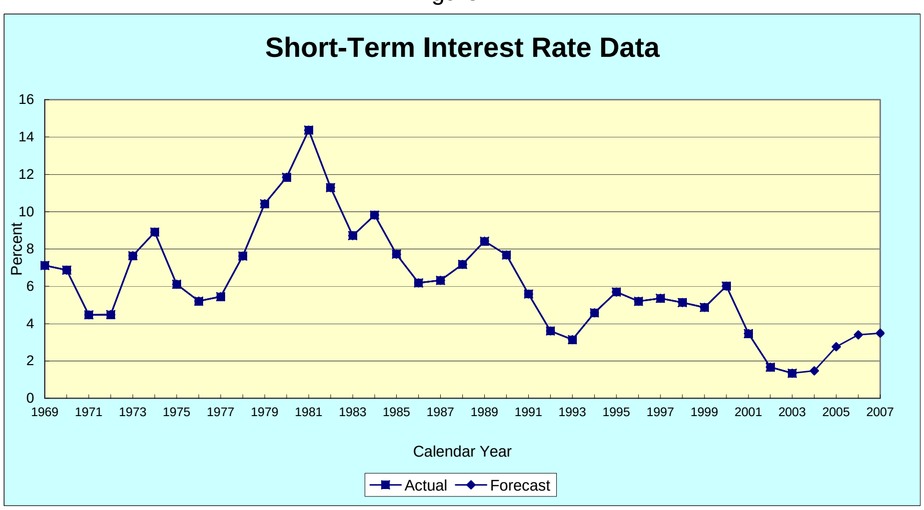
Figure 16



Interest Rates

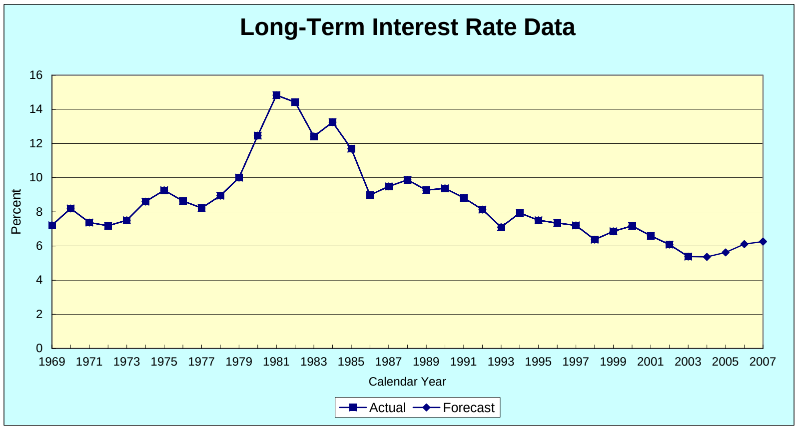
A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

Figure 17



In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecasted rates are obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. Short-term rates are an average of 3 and 6-month Corporate paper and 3 and 6 month T-bills. The fiscal year computation of both long and short-term interest rates reached an unprecedented low in 2004. However, as the economy began to regain strength in calendar year 2004, the Federal Reserve began increasing the discount rate. Global Insight projects that interest rates will increase through the 2007 biennium, and their projection is made credible by the fact that the Federal Reserve raised interest rates again in November and December 2004.

Figure 18

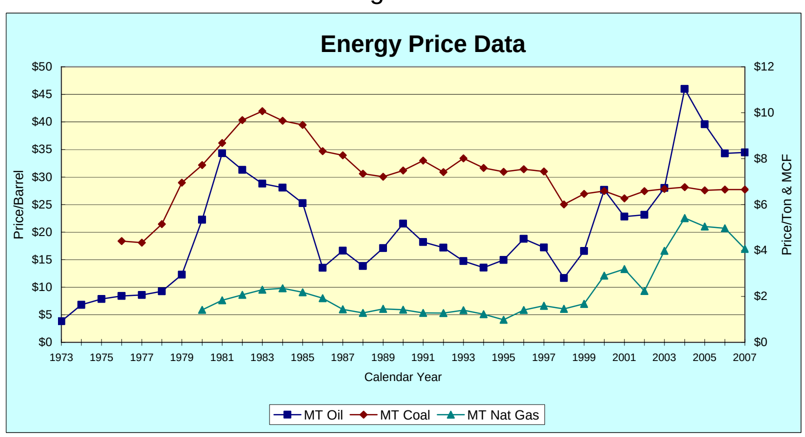


Energy Prices and Consumption

West Texas Intermediate (WTI) spot oil prices averaged $26.18 in calendar 2002, rose to $31.00 in calendar 2003, and have averaged $41.00 in calendar 2004. Global Insights forecasts WTI oil prices to increase to $46.13 in calendar 2005, and then drop to $36.21 in calendar 2006 with a further drop to $34.85 in calendar 2007. Montana wellhead prices will be $3 dollar below these prices.

Natural gas prices at the wellhead in the US averaged $3 per million cubic feet in calendar 2002, rose to $5 in calendar 2003, and have averaged $5.40 in calendar 2004. The New York Mercantile Exchange is forecasting average Henry Hub natural gas prices at $7.15 in calendar 2005, $6.68 in calendar 2006, and $4.11 in calendar 2007. Montana wellhead prices are $2 less than these prices.

Figure 19



After decades long reductions in oil production – from a peak in 1973 of 34 million barrels to a trough in 1999 of 15 million barrels – recent Montana production has increased. New drilling activity increased 75 percent in 2003, and has increased nearly the same amount in 2004, in response to high prices. In calendar 2003 production was over 19 million barrels and will probably be near 22 million barrels in calendar 2004. Montana oil production is expected to continue to increase to just over 25 million barrels in calendar 2005, just under 28 million barrels in calendar 2006, and to 30 million barrels in calendar 2007.

Natural gas production in Montana doubled between 1981 and 2003, from 40 million MCF to 80 million MCF, with 75 percent of that increase since 1997, in response to higher prices. Newly drilled wells have contributed around 20 percent to total production since calendar 2000. As in the oil market, new drilling activity was up substantially in calendar 2003 and 2004. Montana natural gas production is expected to rise to 89 million MCF in calendar 2004, 95.2 million MCF in calendar 2005, 101 million MCF in calendar 2005, and 106 million in calendar 2007.

GENERAL FUND REVENUE ESTIMATES

Figures 20 and 21 show the RTIC general fund and non-general fund revenue recommendations for fiscal years 2005, 2006, and 2007. These recommendations are based on the major assumptions as discussed previously.

It should be noted that the RTIC discussed two issues that have significant impacts on state revenue estimates: Initiative 149 cigarette and tobacco tax impacts, and market share losses by participating cigarette manufacturers in the tobacco settlement agreement.

Figure 20

Legislative Fiscal Division Recommendations
General Fund Revenue Estimates
In Millions

Source of Revenue	Percent of 2004	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
Individual Income Tax	43.82%	$605.348	$588.638	$605.029	$629.840	$1,193.986	$1,234.869	42.61%
Property Tax	12.27%	169.531	170.051	175.823	182.663	339.582	358.486	54.98%
Corporation Income Tax	4.90%	67.723	66.332	80.621	77.927	134.055	158.548	60.45%
Vehicle Tax	6.05%	83.607	80.360	80.140	82.050	163.967	162.190	66.04%
Common School Interest and Income	0.00%	-	-	-	-	-	-	66.04%
Insurance Tax & License Fees	4.09%	56.533	59.272	62.163	65.220	115.805	127.383	70.44%
Coal Trust Interest	2.53%	34.907	35.999	36.790	37.244	70.906	74.034	72.99%
US Mineral Royalty	2.08%	28.736	35.837	34.660	35.334	64.573	69.994	75.41%
All Other Revenue	2.19%	30.242	28.304	24.734	24.923	58.546	49.657	77.12%
Tobacco Settlement	0.21%	2.934	2.871	2.319	2.309	5.805	4.628	77.28%
Telecommunications Excise Tax	1.51%	20.890	21.307	21.700	22.101	42.197	43.801	78.79%
Video Gambling Tax	3.67%	50.749	52.932	55.304	57.782	103.681	113.086	82.69%
Treasury Cash Account Interest	0.46%	6.393	10.602	13.287	13.015	16.995	26.302	83.60%
Estate Tax	0.83%	11.431	3.701	1.950	0.939	15.132	2.889	83.70%
Oil & Natural Gas Production Tax	2.99%	41.324	58.206	58.498	59.057	99.530	117.555	87.76%
Motor Vehicle Fee	2.22%	30.724	31.730	36.770	37.819	62.454	74.589	90.33%
Public Institution Reimbursements	1.31%	18.110	16.032	14.900	14.900	34.142	29.800	91.36%
Lodging Facility Use Tax	0.67%	9.279	10.113	10.715	11.419	19.392	22.134	92.12%
Coal Severance Tax	0.63%	8.643	9.105	8.659	8.841	17.748	17.500	92.72%
Liquor Excise & License Tax	0.78%	10.718	11.125	11.535	11.959	21.843	23.494	93.53%
Cigarette Tax	2.61%	36.002	34.608	33.193	32.030	70.610	65.223	95.79%
Investment License Fee	0.35%	4.834	4.464	4.598	4.736	9.298	9.334	96.11%
Lottery Profits	0.59%	8.116	7.273	7.288	7.953	15.389	15.241	96.63%
Liquor Profits	0.47%	6.500	6.608	6.854	7.158	13.108	14.012	97.12%
Nursing Facilities Fee	0.43%	5.916	5.833	5.793	5.757	11.749	11.550	97.52%
Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.52%
Electrical Energy Tax	0.34%	4.661	4.295	4.276	4.270	8.956	8.546	97.81%
Metalliferous Mines Tax	0.23%	3.232	4.483	5.328	5.533	7.715	10.861	98.18%
Highway Patrol Fines	0.30%	4.084	4.104	4.125	4.143	8.188	8.268	98.47%
Public Contractors Tax	0.15%	2.120	1.748	3.030	2.872	3.868	5.902	98.67%
Wholesale Energy Tax	0.24%	3.293	3.485	3.520	3.555	6.778	7.075	98.92%
Tobacco Tax	0.26%	3.562	3.677	3.779	3.847	7.239	7.626	99.18%
Driver's License Fee	0.22%	3.021	2.997	3.011	3.018	6.018	6.029	99.39%
Rental Car Sales Tax	0.18%	2.486	2.593	2.704	2.820	5.079	5.524	99.58%
Railroad Car Tax	0.11%	1.568	1.585	1.574	1.562	3.153	3.136	99.69%
Wine Tax	0.10%	1.423	1.436	1.487	1.538	2.859	3.025	99.79%
Beer Tax	0.21%	2.897	2.933	2.986	3.039	5.830	6.025	100.00%
Telephone License Tax	0.00%	0.029	-	-	-	0.029	-	100.00%
Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	$1,381.565	$1,384.639	$1,429.143	$1,469.173	$2,766.204	$2,898.316	100.00%

Figure 21

Legislative Fiscal Division Recommendations
Non-General Fund Revenue Estimates
In Millions

	Source of Revenue	Percent of 2004	Acutal Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
1	Diesel Tax	17.98%	$63.181	$65.819	$68.567	$71.430	$129.000	$139.997	18.93%
2	Federal Forest Receipts	3.55%	12.491	12.654	12.795	12.878	25.145	25.673	22.40%
3	Gasoline Tax	37.83%	132.962	133.577	134.177	134.774	266.539	268.951	58.77%
4	GVW and Other Fees	7.82%	27.500	27.896	28.287	28.732	55.396	57.019	66.48%
5	Lodging Facility Use Tax	6.50%	22.848	24.159	25.597	27.278	47.007	52.875	73.63%
6	Resource Indemnity Tax	0.36%	1.251	1.229	1.176	1.323	2.480	2.499	73.97%
7	Arts Trust Interest	0.09%	0.326	0.338	0.351	0.364	0.664	0.715	74.06%
8	Capital Land Grant Interest and Income	0.69%	2.413	0.820	0.939	0.943	3.233	1.882	74.32%
9	Deaf & Blind Interest and Income	0.09%	0.299	0.304	0.305	0.306	0.603	0.611	74.40%
10	Parks Trust Interest	0.32%	1.140	1.163	1.191	1.217	2.303	2.408	74.72%
11	Pine Hills Interest and Income	0.11%	0.394	0.388	0.388	0.389	0.782	0.777	74.83%
12	RIT Trust Interest	2.10%	7.380	7.401	7.417	7.420	14.781	14.837	76.84%
13	TSE Trust Interest	2.38%	8.349	9.094	9.704	10.230	17.443	19.934	79.53%
14	Property Tax: 6 Mill	3.24%	11.374	10.704	10.983	11.278	22.078	22.261	82.54%
15	Property Tax: 9 Mill	0.00%	-	-	-	-	-	-	82.54%
16	Tobacco Trust Interest	0.76%	2.670	3.123	3.709	4.230	5.793	7.939	83.61%
17	Regional Water Trust Interest	0.34%	1.201	1.487	1.757	2.007	2.688	3.764	84.12%
18	Common School Interest and Income	15.84%	55.663	60.373	59.307	58.106	116.036	117.413	100.00%
	Total Non-General Fund	100.00%	$351.442	$360.529	$366.650	$372.905	$711.971	$739.555	100.00%

2007 BIENNIUM PROJECTION

Figure 22 shows the projected present law general fund balance for the 2007 biennium. Amounts shown include the revenue estimates as adopted by RTIC on November 16, 2004, and the cost of operating state government based on present law requirements. These disbursement amounts are as proposed in the executive budget. The present law amounts shown for both anticipated revenues and expenditures do not include any new proposals or initiatives recommended by the executive.

As Figure 22 shows, the 2007 biennium ending general fund balance is projected to be a positive $293.3 million before any new proposals or initiatives are considered. This balance indicates the state can maintain the existing present level of services without a reduction in services or revenue enhancements.

Figure 22

2007 Biennium General Fund Balance
Present Law Only (In Millions)

	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated 2007 Biennium
Beginning Fund Balance	**$194.725**	**$227.012**	**$194.725**
Revenues			
Current Law Revenue	1,429.143	1,469.173	2,898.316
Total Funds Available	**$1,623.868**	**$1,696.185**	**$3,093.041**
Disbursements			
General Appropriations			
Human Services	293.317	305.061	598.378
Corrections	115.883	117.306	233.189
Higher Education	145.294	145.207	290.501
Public Schools	522.799	528.250	1,051.049
Other Agencies	165.864	146.582	312.446
Statutory Appropriations	133.085	135.606	268.691
Non-Budgeted Transfers	20.917	20.314	41.231
Feed Bill Appropriations	2.100	8.050	10.150
Anticipated Reversions	(2.403)	(3.452)	(5.855)
Total Disbursements	**$1,396.856**	**$1,402.924**	**$2,799.780**
Ending Fund Balance Before Reserve	**$227.012**	**$293.261**	**$293.261**
Proposed Executive Budget Reserve	**($80.000)**	**($80.000)**	**($80.000)**
Projected Present Law Surplus	**$147.012**	**$213.261**	**$213.261**

LFD ISSUE Although the executive is requesting supplemental appropriations of $12.7 million for fiscal 2005, their fund balance statement for the 2007 biennium does not include any anticipated supplemental or emergency appropriations. Supplemental and emergency appropriations have never been less than $11.5 million for the last 10 biennia. In addition, state statute authorizes $165.5 million statutory appropriation for emergencies.

Figure 23

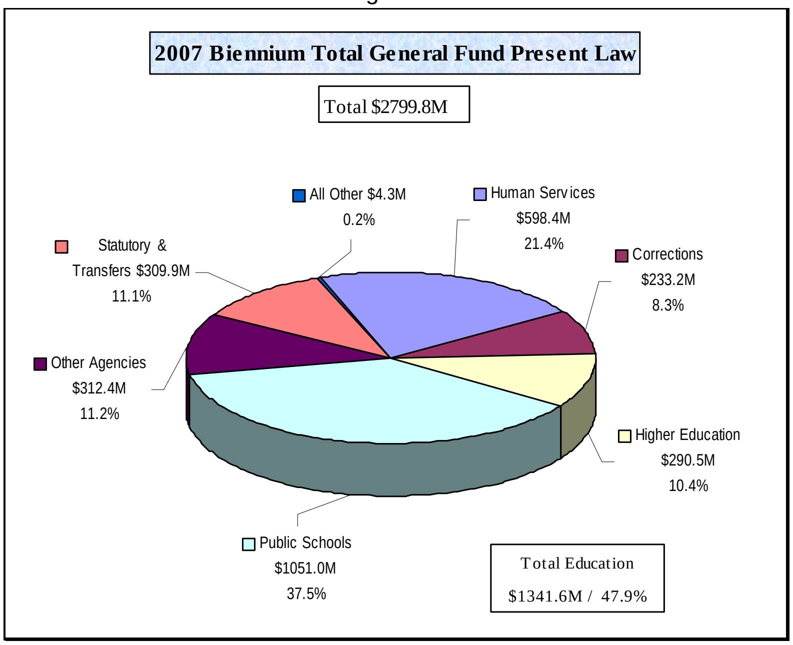


Figure 23 shows the allocation of general fund dollars to functional areas, provided the funds are available to fund present law costs. As the chart indicates, educational services consume almost 48 percent of total general fund expenditures, with human service and correctional services expending nearly 30 percent. All other governmental agencies expend almost 11 percent, with the remaining 11 percent expended by statutory appropriations for debt service, retirement systems, local government reimbursements and transfers. For more information on statutory appropriations and non-budgeted transfers, see pages 148 and 151.

Figure 24 on the following page shows the projected general fund balance with the executive new proposals and initiatives included. The executive new proposals are categorized as either a revenue or disbursement proposal. Since the present law budget is positive, the total budget initiatives for all of the executive new proposals is a negative $112.0 million. This amount, combined with the available present law balance, results in an ending balance of $181.3 million. When the executive's recommended ending fund balance reserve of $80.0 million is included, a difference of $101.3 million is created. In other words, if the entire executive budget (present law plus all initiatives) is funded, there is still $101.3 million available for legislative consideration.

Figure 24

2007 Biennium General Fund Balance
With Executive Budget New Proposals (In Millions)

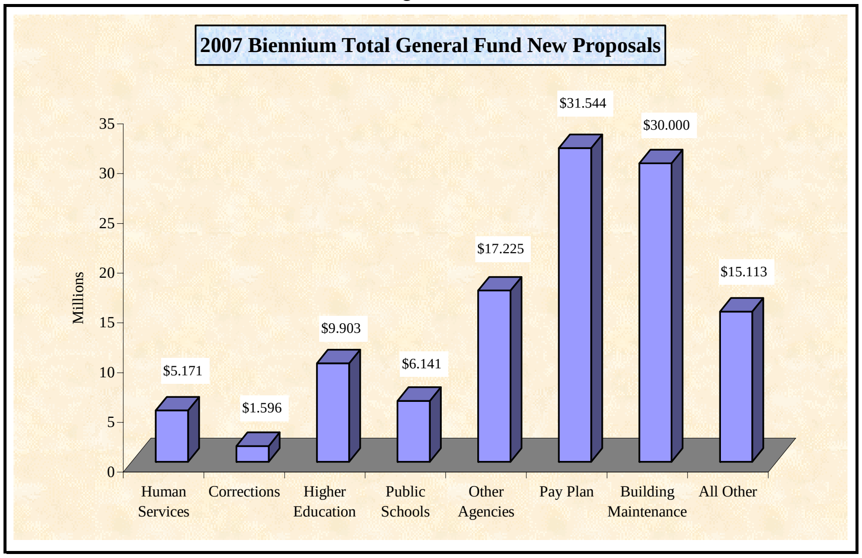
	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated 2007 Biennium
Beginning Present Law Balance	**$293.261**	**$240.209**	**$293.261**
Executive Revenue Proposals			
Department of Revenue Loan Payback	2.774	3.183	5.957
Department of Justice Pathologist	0.158	0.159	0.317
Total Revenue Proposals	**$2.932**	**$3.342**	**$6.274**
Executive Disbursement Proposals			
General Appropriations			
Human Services	2.864	2.307	5.171
Corrections	1.421	0.175	1.596
Higher Education	4.933	4.970	9.903
Public Schools	2.589	3.552	6.141
Other Agencies	12.269	4.956	17.225
Language Appropriations	0.887	0.705	1.592
Long Range Building	10.000	20.000	30.000
Cultural Trust Repayment	3.913		3.913
Protested Property Tax Reserve	4.000		4.000
Retirement System Funding	3.600	3.600	7.200
Executive Pay Proposal	9.508	22.036	31.544
Total Disbursement Proposals	**$55.984**	**$62.301**	**$118.285**
Total Executive New Proposals	**($53.052)**	**($58.959)**	**($112.011)**
Ending Balance Before Reserve	$240.209	$181.250	$181.250
Executive Proposed Ending Fund Reserve	80.000	80.000	80.000
Difference From Proposed Reserve	**$160.209**	**$101.250**	**$101.250**

LFD COMMENT

The executive budget includes phased-in proposals that will cost more in the 2009 biennium budget. This means the 2007 legislature will be faced with funding additional services above the 2007 biennium costs.

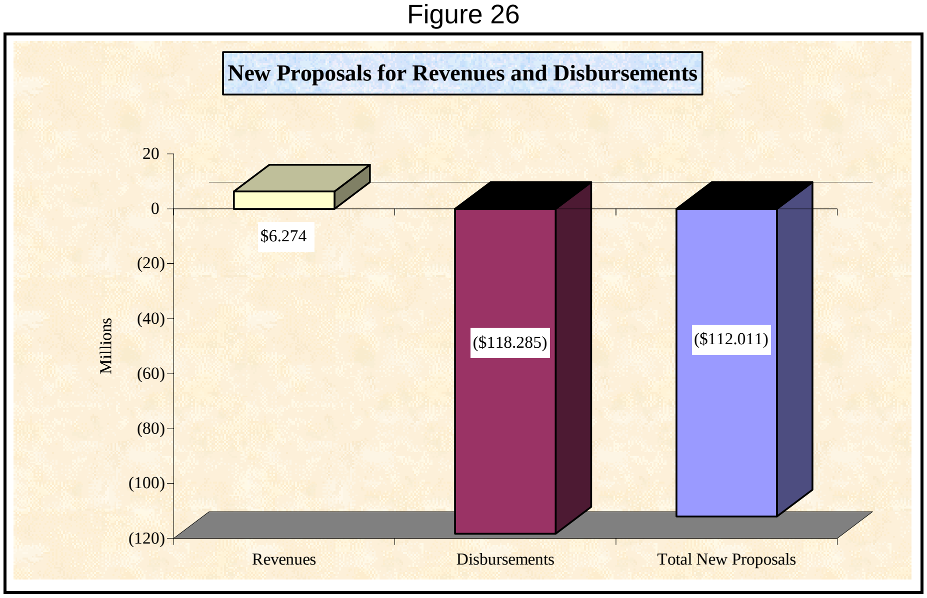
Figure 25 shows the allocation of all new proposal expenditure changes to functional areas. As the figure depicts, the executive budget allocates the largest dollar increase to a proposed pay plan and building maintenance. Human services, higher education, corrections, public education, and other governmental agencies are recommended for the least increases when compared to the other two areas.

Figure 25



The new proposal recommendations of the executive include both revenue and disbursement types. Figure 26 graphically portrays the dollar impact of these proposals. As shown in the figure, revenue initiatives are $6.3 million and disbursement proposals are $121.7 million for a combined impact of a negative $112.0 million. When this amount is combined with the present law surplus of $293.3 million, the executive budget (if adopted) would create a general fund balance of $181.3 million or $101.3 million above their recommended reserve of $ 80.0 million.

Figure 26



EXECUTIVE BUDGET ONE-TIME VS ON-GOING

The executive budget proposes to use one-time general fund revenues on one-time expenditures. One-time revenue for the 2005 biennium is simply the difference between the projected ending fund balance for the 2005 biennium ($194.7 million) and the projected ending fund balance ($46.2 million) adopted by the 58th Legislature. This difference is $148.5 million.

Executive Budget One-Time Only Initiatives - 2007 Biennium

Category	Proposed FY 2006	Proposed FY 2007	Proposed 2007 Biennium
HB2 Present Law Adjustments - One-Time Only			
PL - 1 Security Equipment Replacement	55,074	0	55,074
PL - 105 Pay Off the IRIS Computer System Loan	16,000,000	0	16,000,000
PL - 106 Replace the Remainder of the POINTS System	3,000,000	1,000,000	4,000,000
PL - 2019 Database Maintenance Costs - OTO	25,000	25,000	50,000
PL - 2022 Water Quality Monitoring TMDL Completion-OTO	165,000	165,000	330,000
PL - 2102 Phone System Billings Office-OTO	0	15,000	15,000
PL - 2312 Crow Tribe Settlement - OTO	4,500,000	4,500,000	9,000,000
PL - 3 Enhancement of GCD Database and Business Processes	1,100,000	0	1,100,000
PL - 3 License Plate Re-Issue	3,853,751	496,837	4,350,588
PL - 3506 Build additional UH-1 Helicopter-OTO	200,000	0	200,000
PL - 7000 Computer Server Replacement -	10,000	10,000	20,000
Total HB2 Present Law Adjustments - One-Time Only	**$28,908,825**	**$6,211,837**	**$35,120,662**
HB2 New Proposals - One-Time Only			
NP - 1 Offender Tracking System - Restricted/OTO	1,421,098	174,574	1,595,672
NP - 3 E-Grants and Data Base System	5,000	5,000	10,000
NP - 4 Workload Assessment Study - OTO	75,000	0	75,000
NP - 40 Business & Econ. Dev Outreach - OTO	180,000	180,000	360,000
NP - 5 Purchase Software Licenses - OTO	1,345,000	0	1,345,000
NP - 51 Distant Learning Initiative -OTO	500,000	500,000	1,000,000
NP - 54 Audiology equipment - Restricted/OTO	85,000	85,000	170,000
NP - 60 2-Yr Education-Develop Common Curriculum	600,000	600,000	1,200,000
NP - 61 MT Tech Economic Development Resource Center -OTO	50,000	50,000	100,000
NP - 63 Increase Supply of Health Care Workers - OTO	500,000	500,000	1,000,000
NP - 7001 Additional Grant Money for Loss of C&A Interest	40,000	0	40,000
NP - 7002 Computer Equipment Upgrade	70,000	0	70,000
NP - 722 Emergency Telecommunications Infrastructure - OTO	4,100,000	0	4,100,000
NP - 77 Workforce System Data Collection and Mang. -OTO	140,000	140,000	280,000
NP - 78 Equipment - 2 Year Programs - OTO	2,500,000	2,500,000	5,000,000
NP - 804 Property Tax Computer System	2,750,000	2,750,000	5,500,000
NP - 805 Agricultural/Forest Land Classification System	1,400,000	0	1,400,000
Total HB2 New Proposals - One-Time Only	**$15,761,098**	**$7,484,574**	**$23,245,672**
Total HB2 Present Law & New Proposals - One-Time Only	**$44,669,923**	**$13,696,411**	**$58,366,334**
Other New Initiatives - One-Time Only			
Long Range Building	10,000,000	20,000,000	30,000,000
Cultural Trust Repayment	3,913,000	0	3,913,000
Protested Property Tax Reserve	4,000,000	0	4,000,000
Transfer to Federal Government for State Fund Payout	224,461	0	224,461
Total Other New Initiatives - One-Time Only	**$18,137,461**	**$20,000,000**	**$38,137,461**
Total All Expenditure Initiatives - One-Time Only	**$62,807,384**	**$33,696,411**	**$96,503,795**
Increase Ending Fund Balance to $80 Million			33,800,000
Grand Total One-Time Only Initiatives	**$62,807,384**	**$33,696,411**	**$130,303,795**

Figure 27

As Figure 27 shows, the executive budget proposes using $96.5 million of this one-time revenue for one-time expenditure initiatives during the 2007 biennium. Figure 27 also shows the recommended one-time expenditures by three categories, “HB2 Present Law Adjustments”, “HB2 New Proposals” and “Other New Initiatives”. As stated in the executive budget “The goal of the Governor was to provide a lasting impact with the excess fund balance available.”

To summarize the detail shown in Figure 27, these initiatives can be more appropriately categorized as: 1) paying off debts; 2) addressing infrastructure needs; 3) investing in information technology; 4) preparing for the future; 5) improving services by addressing equipment needs; and 6) augmenting the ending fund balance. As shown in Figure 28, over 71 percent of the one-time proposals will be used for “paying of debts”, “deferred maintenance projects”, and augmenting the ending fund balance. If the 59th Legislature accepts all of these recommendations, the legislature will still have $18.2 million of one-time revenue for legislative consideration. These remaining one-time revenues could be used for other legislative initiates (revenue and/or expenditure), creating a rainy day fund, or increasing the ending fund balance beyond the executive recommendation of $80 million.

LFD COMMENT The Legislative Fiscal Division recommends the legislature consider transferring a portion of these one-time revenues to a “rainy day fund”. This fund could then be used in subsequent biennia for emergencies and/or unexpected revenue shortfalls. The Legislative Finance Committee has requested a bill draft to create a “rainy day fund”.

DIFFERENCES FROM EXECUTIVE PROPOSAL

The executive budget as submitted projects an ending fund balance of $162.9 million after funding all executive present law adjustments and new proposals. This contrasts with Figure 24, which shows a general fund balance of $181.3 million, or a difference of $18.4 million. This balance is based on the RTIC revenue estimates, LFD estimates for statutory appropriations and reversions, and the executive’s recommendations for all present law adjustments and new proposals. As advocated by the LFD in the past, an adequate reserve is necessary for unexpected occurrences including emergencies, fire suppression costs, supplemental appropriations, or lower than expected revenue collections. As shown in Figure 29, there are a number of items that contribute to the total difference of $18.4 million. Each of these differences is explained in the next section.

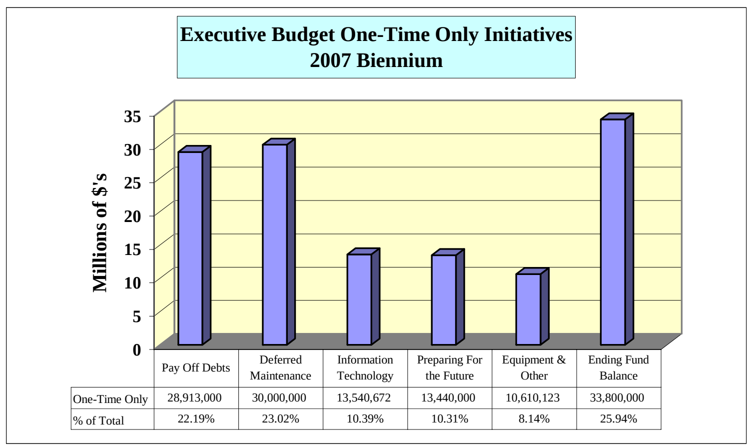


Figure 28

Explanation of Differences

Beginning FY 2005 Fund Balance – The fund balance at the end of FY 2004 decreases by $2.4 million due to Comprehensive Annual Financial Report adjustments recommended by the Legislative Audit Division. The primary adjustments are: 1) a reduction of $3.5 million in transfers of U.S. royalty revenue to the mineral impact account that was not recorded in fiscal 2004; and 2) increases totaling $950,000 to reflect the proper value of MSTA-MUS loans and interest earnings.

General Fund Revenue - The combined differences of all general fund sources between the RTIC adopted estimates and the executive is $14.4 million. This difference is primarily due to the committee’s inclusion of additional revenue from the cigarette and tobacco tax increases implemented by the passage of I-149 by the electorate in November 2004.

Figure 29

Differences From Executive Budget
Fiscal 2005, 2006, 2007 (In Millions)

Fund Balance Category	3 Year Difference
+ Beginning Fund Balance	($2.377)
+ Revenues	14.405
- Disbursements	
General Appropriations	3.151
Statutory Appropriations	(0.999)
Non-Budgeted Transfers	(7.810)
Supplemental Appropriations	0.021
Anticipated Reversions	0.166
+ Fund Balance Adjustments	0.875
Total Change to Fund Balance	**$18.374**

General Appropriations – The net difference between these appropriation items is $3.2 million. Of the FY 2005 $7.0 million legislative feed bill, the LFD anticipates $2.1 million will be unspent and carried over to FY 2006. The remaining difference is the sum of minor differences in multiple miscellaneous appropriations.

Statutory Appropriations – The difference in this category is primarily due to the information received from agencies that administer statutory appropriations. In most instances, the executive and the LFD relied on information supplied by the respective agencies. Because the executive is required to submit the executive budget by November 15th, the LFD had more current information available. The executive also included an estimated $199,000 that is not included in the LFD estimate, since legislation is required.

Non-Budgeted Transfers – The executive anticipates more revenue from US mineral royalties than approved by RTIC and, thus, transfers to the mineral impact account are also higher. In addition, the executive does not include an accounting change recommended in a legislative audit that reduces this transfer by $3.5 million regarding this transfer in fiscal 2005. Because the Board of Investments will not loan any money from the INTERCAP loan program until the legislature addresses the issue of state debt, the LFD does not include $2.1 million of transfers to pay loan costs for training primary sector businesses. The executive also includes $1.6 million of transfers in anticipation of proposed legislation being enacted.

Summary

In summary, if the RTIC revenue estimate recommendations were adopted by the legislature, the general fund present law balance would be a positive $293.3 million. However, since the state incurs significant wildfire costs each year, some allowance for these costs must be included in any biennium ending fund balance projection. Although the cost of fighting wildfires can fluctuate significantly from biennium to biennium, a 7 year average, removing the high and low years (FY 2004 and FY 2005, respectively), is just over $7.0 million per year. This amount is included as a reserve in Figure 30 ($14.1 million for the biennium) to represent anticipated fire costs in the 2007 biennium.

In addition, state statute authorizes a general fund statutory appropriation of $16.5 million per biennium for the Governor to deal with declared disasters or emergencies such as floods, fires, and other natural disasters. From FY 2000 through FY 2003, the average expenditure (excluding fire costs already included in the fire cost average discussed above) from the emergency appropriation is nearly $400,000 per year ($800,00 per biennium). This amount is included as a reserve in Figure 30 to represent anticipated emergency costs in the 2007 biennium.

If the two reserves discussed above were included in the fund balance statement, the present law balance would decline to a positive $278.3 million. A balance in the general fund of $166.4 million would occur if the legislature adopted the executive's recommendations for all new proposals and initiatives, $86.4 million above the executive recommended ending reserve.

PROJECTED GENERAL FUND BALANCE

Figure 30 shows the detailed general fund balance sheet based on present law revenues and disbursements, followed by a sub-table that shows the balance when the executive's new proposals are included. The $80.0 million reserve as proposed by the executive is not shown in this table.

2007 Biennium General Fund Balance
Based on Present Law (In Millions)

	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated 2005 Biennium	Estimated 2007 Biennium
Beginning Fund Balance	**$43.065**	**$132.873**	**$194.725**	**$219.567**	**$43.065**	**$194.725**
Revenues						
Current Law Revenue	1,381.565	1,384.639	1,429.143	1,469.173	2,766.204	2,898.316
Total Funds Available	**$1,424.630**	**$1,517.512**	**$1,623.868**	**$1,688.740**	**$2,809.269**	**$3,093.041**
Disbursements						
General Appropriations	1,161.831	1,167.626	1,243.157	1,242.405	2,329.457	2,485.562
Statutory Appropriations	126.600	128.660	133.085	135.606	255.260	268.691
Local Assistance Appropriations						
Miscellaneous Appropriations	1.866	2.385			4.251	
Non-Budgeted Transfers	10.052	17.469	20.917	20.314	27.521	41.231
Supplemental Appropriations		12.651			12.651	
Language Appropriations	1.372	0.350			1.722	
Feed Bill Appropriations		7.000	2.100	8.050	7.000	10.150
Anticipated Reversions	(19.683)	(8.979)	(2.403)	(3.452)	(28.662)	(5.855)
Total Disbursements	**$1,282.038**	**$1,327.162**	**$1,396.856**	**$1,402.923**	**$2,609.200**	**$2,799.779**
Adjustments	(9.719)	4.375			(5.344)	
Reserved Ending Fund Balance	**$132.873**	**$194.725**	**$227.012**	**$285.817**	**$194.725**	**$293.262**
Wildfire Suppression Cost Reserve			7.045	7.045		14.090
Emergency Appropriation Reserve			0.400	0.400		0.800
Unreserved Ending Fund Balance	**$132.873**	**$194.725**	**$219.567**	**$278.372**	**$194.725**	**$278.372**
Net Operations	**$99.527**	**$57.477**	**$24.842**	**$58.805**	**$157.004**	**$83.647**
New Executive Proposals Not Included Above						
Revenue Inititative			**$2.932**	**$3.342**		**$6.274**
Disbursement New Proposals						
Long Range Building			10.000	20.000		30.000
Cultural Trust Repayment			3.913			3.913
Protested Property Tax Reserve			4.000			4.000
Retirement System Funding			3.600	3.600		7.200
Executive Pay Proposal			9.508	22.036		31.544
Language Appropriations			0.887	0.705		1.592
HB2 New Proposals			24.076	15.960		40.036
Total Disbursement Inititative			**$55.984**	**$62.301**		**$118.285**
Potential Ending Fund Balance With Reserves			**$166.515**	**$166.361**	**$194.725**	**$166.361**

Figure 30