



LEGISLATIVE FISCAL REPORT

2003 Biennium

Volume 1 – Statewide Perspectives

Presented to the Fifty-seventh Legislature

Submitted by

The Legislative Fiscal Division

Helena, Montana

June, 2001



MONTANA LEGISLATIVE BRANCH

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June 2001

Members of the Fifty-seventh Legislature
Members of the Legislative Finance Committee

In accordance with the provisions of Section 5-12-302, I submit the Legislative Fiscal Report for the 2003 Biennium. The report provides an overview and details of the 2003 Biennium budget for the State of Montana adopted by the 57th Legislature.

This four-volume report includes:

- ?? Volume 1: Statewide Perspectives – This volume provides a general summary of the 2003 Biennium state budget as well as significant fiscal policy addressed by the 2001 legislature. It also contains a general reference section.
- ?? Volume 2: Revenue Estimates – This volume provides the revenue estimates and underlying economic assumptions adopted by the 57th Legislature.
- ?? Volumes 3 and 4: Agency Budgets – These volumes provide a detailed report of the appropriations for each agency and program contained in the general appropriations act (House Bill 2) and in other legislation.

These volumes are intended as a reference document and historical archive of legislative budget action for the use of legislators, the public, and state agencies.

Respectfully submitted,

Clayton Schenck
Legislative Fiscal Analyst

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HOW TO USE THIS REPORT

The *Legislative Fiscal Report, 2003 Biennium* is published in four volumes. The report was designed to report to the 2001 legislature and all interested parties on the fiscal actions of the 2001 legislature (including both legislation passed and stated legislative intent related to fiscal issues) and the fiscal status of state government through the 2003 biennium. It accomplishes its purpose by: 1) reporting on appropriations to and revenues of state government as determined by the legislature; and 2) discussing other fiscal issues pertaining to the state's fiscal status.

Volume 1

Volume 1, which includes a legislative summary, provides a “broad brush” overview and summarizes significant fiscal actions that impact more than one agency or that did not fall under the jurisdiction of a single appropriation subcommittee.

This volume contains these major sections:

- ?? 2001 Biennium Budget Overview – an executive summary
- ?? Legislative Budget Summary
- ?? Budget Comparisons
- ?? Other Budget or Fiscal Actions
- ?? 2005 Biennium Outlook
- ?? General Reference

Explore these sections for a summary of legislative actions. The “2001 Biennium Budget Overview” section on pages 1 through 18 provides a high level summary of the material presented in *Legislative Fiscal Report*.

An index in the back of *Volume 1* is the most comprehensive for the purpose of searching for information in all four volumes.

Volume 2

Volume 2 includes a summary and overview of the state's major revenue sources, including the general fund. It delineates the economic assumptions used to derive revenue estimates as adopted by the legislature in House Joint Resolution 2.

Volumes 3 and 4

Volumes 3 and 4 offer detailed discussions of the appropriations established by the legislature for each agency and program in state government that receives an appropriation in HB 2. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

VOLUME 3:

- ?? House Bill 2 (the general appropriations act)
- ?? A – General Government and Transportation
- ?? B – Health and Human Services

VOLUME 4:

- ?? C – Natural Resources and Commerce
- ?? D – Corrections and Public Safety
- ?? E – Education
- ?? F – Long-range Planning

A specific agency can be located in any of three ways. The general index included in each volume provides an alphabetical listing of agencies and other topics, in conjunction with appropriate volume and page numbers. If the subcommittee addressing a given agency is known, the cover page of each section lists agencies, in order by appearance. Agency names are also visible on page headings within sections.

Volumes 3 and 4 briefly describe the agencies from all three branches of state government, as well as each program within an agency. The basic structure used for the report is consistent across agencies. These volumes detail an agency's appropriations, both in tables and narrative. These volumes present detailed discussions of present law adjustments, new proposals, new legislation, and significant fiscal issues by agency as identified by fiscal staff.

Agency budgets are presented in three tiers as required by statute:

1. **Base budget:** the level of funding authorized by the previous legislation;
2. **Present law base:** the additional level of funding authorized under present law to maintain operations and services at the level established by the previous legislature; and
3. **New proposals:** appropriations to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

By making this presentation in this tiered manner, the reader is able to see how the budget evolved from the base budget to the total amount appropriated, and the incremental increases or decreases that make up the total budget.

Proprietary Rate Setting

The 1995 legislature, in HB 576, removed the requirement that proprietary – or internal service and enterprise – funds be appropriated by the legislature. Instead, as provided in Section 17-8-101, MCA, the legislature approves the rates charged for those particular services and products. It also requires the Office of Budget and Program Planning to submit a report as part of the Executive Budget. The proprietary rates that the legislature approved can be found in Section R of HB 2 (located at the beginning of *Volume 3*). There are also brief discussions of the rates in the relevant agency sections.

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INTRODUCTION

STATE FISCAL/ECONOMIC OUTLOOK

Less than a year ago, confidence and an air of invincibility permeated reports of record economic expansions, stock market gains, and unemployment and inflation lows nationwide. As the economy flourished, recessions and slowdowns were not a topic of economic policy debates.

But during the last several months, many layoffs have occurred and the stock market has been in a bearish mood. The U.S. economy faces its most potent recession risk since the early 1990s, and is in an increasingly precarious position. States and regions are experiencing downturns, and Montana has seen a slowdown in the growth of the economy. This translates to a revenue growth that is projected to be slow to moderate during the 2003 biennium. The premise is based on slower growth in income tax revenues, corporate profits that are moderating, and declining investment earnings.

The cost of government services however, continue to increase, even with slower growth in population. School enrollments are declining, yet the costs to operate public schools continue to increase. Human services costs are escalating because of greater caseload demands and higher medical costs.

Overall, the 2001 legislature faced a budget outlook that was not as positive as it had been in recent biennia, but generally sufficient to fund an existing level of services. The legislature faced significant challenges to balance the budget as it dealt with economic development, rising energy costs, education funding, and rising human services and corrections costs. The budget was tight and funding for a long list of Executive Budget new proposals and legislative initiatives was not available. Tax increases were not a viable option as the Governor clearly stated her intent to veto any tax increases. Because of the position on tax increases, the economic outlook and the corresponding state fiscal picture, the legislature had to prioritize the allocation of limited resources to address the state's needs. The 2003 biennium budget that is summarized in this report is a reflection of the 57th Legislature's priorities and public policy directions.

57TH LEGISLATURE: BUDGET CHALLENGES AND LEGISLATIVE SOLUTIONS

As discussed in the introduction, the 2001 legislature faced many fiscal challenges. The following key challenges and issues were identified in the Legislative Budget Analysis, 2003 Biennium at the beginning of the session. Included here also is a brief discussion of the actions taken by the legislature relative to each challenge or issue.

- ?? CHALLENGE - **Economic uncertainties** make budget planning and development difficult. Nagging concerns about the national/world economy, and federal budget reforms left policymakers uneasy about revenue estimates, program funding levels, and increases in demand for governmental services.

- ?? SOLUTION - The 2001 legislature made difficult budget prioritization decisions and adopted a spending plan that resulted in a projected general fund balance reserve of \$67 million, which was higher than the \$30 million general fund balance requested by the executive. This, along with conservative revenue estimates, provided an additional cushion for the uncertainty inherent in revenue estimates and unforeseen expenses.
- ?? CHALLENGE - **Utility costs** have increased so significantly that several large state businesses have either reduced their labor force or have shut down operations, and consumers and state agencies are faced with significant increases. The legislature was faced with considering how the state could respond to increased energy costs in light of the goal to retain jobs and further economic development.
- ?? SOLUTION – The 2001 legislature established a \$2.3 million dollar reserve for increased energy costs of state agencies in the 2003 biennium, approved a \$1.2 million supplemental appropriation for the university system for fiscal 2001, and adopted several bills that attempt to address the energy cost issue by encouraging increased supply via new tax policies.
- ?? CHALLENGE - **Adequacy of the ending fund balance** reserve for the general fund requires an evaluation by the legislature, particularly in view of economic uncertainties and the potential for future spending in the form of supplemental budget requests. The legislature needed to ensure that an adequate “safety net” is in place.
- ?? SOLUTION – The executive recommended a \$30 million ending fund balance, and the 2001 legislature set a target of \$40 to \$50 million as a reasonable level for the ending fund balance. It ended the session with an ending balance of \$54 million. Subsequent to the close of the session, additional revenues have been identified, resulting in a new projected fund balance for the 2003 biennium of \$67 million. There is still some concern for the adequacy of the fund balance because of the uncertainty that is inherent in revenue estimates given the current economy. However, the establishment of a higher ending funding balance reserve reflects the concern of the legislature to have a larger reserve in uncertain times.
- ?? CHALLENGE - **Controlled budget growth** (structural balance) will continue to be a concern as the 2003 biennium unfolds. The legislature had to give careful consideration to any budgetary actions in order to avoid over-committing available resources. This is particularly true in light of the fact that sustainable revenues were projected to be substantially lower than the proposed expenditure growth.
- ?? SOLUTION – The Executive Budget proposed significant general fund increases and recommended an ending fund balance of \$30 million, which would result in a significant structural imbalance. The 2001 legislature’s 2003 biennium spending plan provided for general fund reductions below the executive recommendation. In addition, the legislature adopted a plan that resulted in a much higher ending fund balance reserve. These actions helped to reduce the structural imbalance in the general fund, but did not completely eliminate it. The budget as approved still includes a significant general fund increase and the depletion of a high beginning general fund balance. This results in an ongoing expenditure base exceeding the existing revenue stream by over \$50 million. Further, there are a number of phased in costs that will have to be funded (annualized) in the 2005 biennium at a higher cost. The 2003 legislature will be faced with a need to allocate a significant share of revenue growth to cover the imbalance before funding any present law adjustments or new initiatives.

- ?? **CHALLENGE - Tax Reform** proposals are common during any legislative session as a viable option for tax policy initiatives. In a tight budget session, however, such proposals can add to the uncertainty surrounding the budget. Several tax reform proposals were introduced in the 2001 session that would significantly impact the current revenue base.
- ?? **SOLUTION** – Although a number of tax reform measures were considered, in view of a tight budget situation, the 2001 legislature did not pass any significant tax reform legislation. (See “Summary of Tax Policy”, page 35.)
- ?? **CHALLENGE - Correctional system population** continues to grow. Underestimating the growth can result in a budget-breaking supplemental request, and overestimating can skew the prioritization process, taking funding away from other program areas.
- ?? **SOLUTION** - The legislature changed statute for individuals cited with a fourth DUI (driving under the influence) to allow appropriate offenders to be placed in a residential alcohol treatment facility. The treatment facility will not be a secure facility and is projected to lessen the burden on contracted beds and to save money. The legislature did not provide funding for 100 new pre-release beds requested for fiscal 2003. If the number of offenders that could be placed in pre-release exceeds the number of available beds, costs could increase at secure facilities as offenders wait for placement in a pre-release center. The final Corrections budget was significantly reduced from the executive request.
- ?? **CHALLENGE - Local government funding** has experienced uncertainty resulting from property tax reductions. While most of these reductions have been reimbursed by the state, continued reimbursement is a priority for local governments. The 1999 legislature recognized this problem and authorized an interim Local Government Funding and Structure Committee, which proposed legislation to eliminate local government reimbursements, simplify local funding, assume certain costs, and create permanent local government entitlements.
- ?? **SOLUTION** – The 2001 legislature adopted HB 124, along with SB 176, and SB 339. This bill dramatically revised the method and philosophy of funding local government. Under SB 339 and beginning in fiscal 2002, the state will assume the costs of providing public assistance and child welfare in all 56 counties compared with 13 counties under old law. Under SB 176 and beginning in fiscal 2003, the state will assume nearly all costs associated with operating all district courts in the state. Counties will continue to pay for costs associated with district courts’ clerks of court and staff. Beginning in fiscal 2002, HB 124 reallocates certain revenue, which under old law was deposited in local government and school district accounts, to the state general fund. Under HB 124, local governments will receive permanent entitlement grants initially equal to the amount of revenue foregone (less adjustments for welfare and district court costs avoided). Future local government entitlement grants will grow with the economy of the state. School districts will receive temporary block grants equal to the revenue foregone, and future block grants will be dependent upon the outcome of a school funding study mandated in HB 625.
- ?? **CHALLENGE - Funding for schools** is an ongoing concern. In recent years, public schools have been faced with declining K-12 enrollments and declining budget authority without equal reductions in costs.

- ?? SOLUTION – Because of declining enrollments, if the 2001 legislature would have done nothing to increase state aid to school districts, the state would have saved \$21.5 million during the 2003 biennium compared with the 2001 biennium. However, the 2001 legislature increased total state aid to schools by \$36.8 million above present law during the 2003 biennium. School district entitlements were increased by 1.88 percent in fiscal 2002 and by 1.88 percent in fiscal 2003, increasing state aid by \$25.8 million. In addition, state aid was increased by \$1.0 million for special education, \$1.0 million for school facility reimbursements, \$1.7 million for school technology, \$5.1 million for school flexibility accounts, and \$0.9 million for changes in the way districts account for cross-county tuition payments. Districts were given some relief from falling enrollments in SB 390, which allowed districts to maintain prior year budgets through voter approval.
- ?? CHALLENGE - **Economic development** is a stated top priority for the new administration as the state attempts to address its economic climate and why Montana continues to rank close to the bottom in per capita income.
- ?? SOLUTION – Although economic development was not seemingly as much in the forefront during this session as in the previous session, the legislature did continue the economic development programs approved in the 2000 Special Session and approved a bill that reorganized the Department of Commerce and created an Office of Economic Development in the Governor's Office. There were also actions that indirectly benefit economic development, such as approval of federal funding and the passage of legislation providing incentives for the building of power plants.
- ?? CHALLENGE - **Higher federal-aid highway construction funds** will continue to be received to support highways infrastructure. Providing state match funds at this higher level, where annual expenditures exceed revenues, will be difficult over the long term. A long-term solution to the chronic structural imbalance of this account is needed.
- ?? SOLUTION – The legislature did not take any action that would increase state funding for the purpose of matching the higher level of federal highway moneys. The account is projected to be insolvent by the 2005 biennium. This challenge continues as an issue facing the next legislature.
- ?? CHALLENGE - **Health care cost inflation** continues to be a major contributor to greater than average growth in health and human services budgets such as Medicaid, state employee health insurance plans, institutions, and university system units. This could drain the general fund budget as it did in the early 1990s. Medicaid costs show signs of acceleration.
- ?? SOLUTION – The legislature approved budget actions that would improve management of human service funds such as Medicaid and provide for some cost savings. In addition, the legislature passed legislation in an attempt to authorize an interim legislative study to review: 1) purchasing pools for individual and small group insurance; 2) provider reimbursement rates and cost shifting of health care costs; 3) access to affordable prescription drugs; 4) strategies to decrease the number of uninsured Montanans; 5) factors causing health insurance rates to increase above the rate of inflation; 6) the feasibility of recreating the Health Care Advisory Council; and 7) any other issues that the committee or the staff deem appropriate and relevant to the problem. The legislature passed several other bills to require full disclosure of costs that insurance plan members are required to pay as well as directing the Health Insurance Commissioner to propose methods of financing the Montana Comprehensive Health Association Plan for persons who are unable to obtain insurance from private vendors.

- ?? **CHALLENGE - Supplemental emergency appropriations** for the next biennium are not budgeted for by the legislature and not accounted for in the ending fund balance. Yet the state experiences some supplemental appropriations each biennium, particularly for fire suppression. Potential supplemental appropriations need to be considered when determining an appropriate ending fund balance.
- ?? **SOLUTION** – Supplemental appropriations for fire suppression have been a perennial occurrence. The legislature approved in HJR 42, a study of wildland fire suppression funding methodology. The study will occur during the 2001-2002 interim. No other direct action was taken to address budgeting for supplemental costs, although the establishment of a higher ending fund reserve provided a greater ability to address supplementals.
- ?? **CHALLENGE - Higher education** has been funded to a greater and greater degree in recent biennia with increased tuition charges, as general fund becomes a smaller share of total funding. The legislature faces issues relative to appropriate funding levels for higher education.
- ?? **SOLUTION** – The legislature increased state funds for the Montana University System by providing an additional \$100 per student in fiscal 2002 and an additional \$100 per student in fiscal 2003, replacing reduced 6 mill due to previous action, and funding for personal services increases. Because of higher costs in general, however, the percentage of state support to the total current unrestricted operating budget for the university units and colleges of technology will not increase appreciably. In fiscal 2000, the state funded 49.6 percent of current unrestricted operating expenditures for the university units and colleges of technology; in the 2003 biennium, state funds will support 50.6 percent of current unrestricted operating expenditures for the university units and colleges of technology. The Board of Regents chose to increase tuition considerably beyond the legislative assumed level to fund a number of other priorities. If these increases are taken into consideration, the percentage of state support to the total current unrestricted operating budget for the university units and colleges of technology will decrease to 48.2 percent. While the legislature, in establishing the budget for the university system, anticipated a 5.6 percent tuition increase, the Board of Regents subsequently approved a 13 percent increase.



LEGISLATIVE BUDGET HIGHLIGHTS

This section provides an executive summary of the legislative budget, including a discussion of the general fund ending balance projection, a summary of revenue estimates, and an appropriations summary.

GENERAL FUND

The general fund supports a majority of the general operations of the state, and represents over 40 percent of all state expenditures in the budgeted fund types. Total revenues are estimated to exceed \$2.7 billion for the 2003 biennium, a 15.8 percent increase over the 2001 biennium. This represents a \$374 million increase, of which \$277 million is additional revenue due to enactment of HB 124 (local government entitlements), and \$75 million is for public schools' mineral rights purchases. The legislature adopted a budget that will leave an ending fund balance of \$67 million.

The projected general fund balance at the end of the current 2001 biennium is \$124 million, nearly double the \$66 million balance anticipated by the May 2000 special session. The increased revenue that contributed to the improved projection is discussed on page 21 of this volume.

The improved fund balance for the 2001 biennium carries over to the 2003 biennium projection, and after taking into consideration the legislative adopted revenue estimates and the appropriations passed by the legislature, the projected ending fund balance is \$67 million. This represents a nearly 2.5 percent fund balance reserve. The projected balance doesn't include any potential revenue gain from the sale of Montana Power Company assets or from federal tax reform. The legislature adopted what can be characterized as conservative revenue estimates in House Joint Resolution 2, recognizing the tenuous nature of the economic outlook.

The general fund appropriations for the 2003 biennium are \$388 million higher than the 2001 biennium, due to a one-time \$75 million authorization for school trust land mineral rights purchases as well as a net \$265 million for local government distribution transfers (HB 124). The largest dollar increases for state operations were in human services, corrections, and education. The legislature added \$67 million in new proposals, primarily for human services program enhancements and for increased support of education.

Total appropriations for statutory, local government, and non-budgeted transfers is \$450 million, or 16 percent of the general fund total budget. They are subject to limited legislative review or evaluation.

GENERAL FUND REVENUE ESTIMATES

The legislature adopted revenue estimates in HJR 2 of \$2.4 billion, and other legislation enacted resulted in \$343 million in revenue increases, for a consolidated revenue projection of \$2.8 billion for the biennium. Income taxes account for over 50 percent of the general fund revenues. Property taxes contribute over 12 percent of the budget, and investment earnings over 7 percent. Excluding increases resulting from local distributions and trust lands, the biennial general fund increase is 1 percent.

TAX POLICY AND INITIATIVES

The 2001 legislature approved only seven bills with a general fund revenue impact, none of which provided for major changes in state tax policy. Five of the seven relate to changes in tax liability.

A detailed discussion of revenue estimates and tax policy in the 2003 biennium begins on page 27 of this volume, and is further detailed in Volume 2.

APPROPRIATIONS HIGHLIGHTS

- ?? General fund increases in HB 2, the general appropriations act, is \$158 million (7.3 percent) more than the 2001 biennium, with education and human services increases comprising over 78 percent of the increase
- ?? Total funds increase \$852 million (17 percent), with nearly 80 percent of the increase attributable to federal funds. Federal funds largely support human services, transportation, and education, which is where the largest total funds increases occur
- ?? Human services show both the highest general fund (16 percent) and total funds increase (28 percent). They also represent nearly half of the total general fund increase
- ?? Over half of all general fund expenditures in HB 2 support education, human services add another 23 percent, and corrections another 8 percent of the budget
- ?? The legislature added 308 actual FTE to the budget in the 2003 biennium budget plan. Over 55 percent of the new positions were added to the Departments of Public Health and Human Services, and Corrections
- ?? The funding priorities of the legislature in HB 2 as measured by increased funding, are for maintenance of Medicaid services for current recipients, human services provider and direct care worker rate increases, support for K-12 education, and corrections
- ?? General fund functional area primary increases
 - ?? Human Services (\$75 million)
 - ~~///~~ Maintain services to existing eligible persons
 - ~~///~~ Provide increased compensation to service providers/direct care workers
 - ~~///~~ Expand the Children's Health Insurance Program
 - ?? K-12 Education (\$27 million)
 - ~~///~~ Additional BASE aid to implement schedule increases of 1.88 percent each year
 - ~~///~~ A flexible spending account of \$5 million
 - ~~///~~ \$75 million authority for purchasing mineral rights for the benefit of schools (in DNRC)
 - ?? Higher Education (\$22 million)
 - ~~///~~ Replacement of lost 6 mill levy revenue due to previous legislative action
 - ~~///~~ An additional \$100 per student in fiscal 2002 and a further \$100 per student in fiscal 2003

?? Corrections (\$15 million)

- ~~///~~ Maintenance of staff and a pay exception

- ~~///~~ Addition of contract beds for anticipated male and female populations

- ~~///~~ Additional pre-release beds

?? State special revenues increase \$19 million (2.4 percent), primarily in Dept. of Transportation, for increased state match funds for federal highway funds, and an accounting change

?? Federal Revenue increases \$669 million (32 percent), primarily for increased funding for human services, an expanded highways program, and grants for education

A detailed discussion of appropriations in the 2003 biennium budget begins on page 39 of this volume.



BUDGET COMPARISONS SUMMARY

The following highlights the budget comparisons that are presented in detail beginning on page 53. The three comparisons are: 1) budget levels of the legislative 2003 biennium budget to the Governor's budget request; 2) to the prior biennium expenditures', and 3) a "by fund" biennial comparison.

COMPARISON TO EXECUTIVE BUDGET

The legislature passed a budget in HB 2 that is net \$16.3 million general fund lower and \$79.3 million total funds higher than the level requested by Governor Martz in HB 2. This difference is the net of a large number of partially offsetting increases and decreases. The major differences are:

- ~~///~~ HB 124 (local government funding) resulted in several major differences: 1) HB 124 removed local government reimbursements from HB 2 (Department of Revenue) and provided a statutory appropriation instead, resulting in a reduction from the Governor's recommendation of \$109.9 million over the biennium; 2) state special revenues were replaced with general fund in the Department of Public Health and Human Services, the Montana University System, and the Appellate Defender, increasing general fund by \$29.2 million and total funds by \$0.9 million; and 3) the state assumed most costs of the district courts, with the Judiciary receiving \$800,500 over the biennium to administer the courts (actual court costs are included in a statutory appropriation in HB 124)
- ~~///~~ The legislature added \$75.0 million in general fund authority not included in the Governor's budget to provide authority to spend a loan from the permanent coal tax trust to purchase mineral rights to benefit schools
- ~~///~~ Medicaid estimates were updated during the legislative session, which added \$8.5 million general fund and \$31.4 million total funds
- ~~///~~ The legislature funded an Office of Economic Development, recommended by the Governor but not funded in the introduced budget
- ~~///~~ The legislature established an intergovernmental transfer program to provide higher Medicaid reimbursements through access to additional federal funds. This program adds \$23.0 million in federal funds and replaces \$4.0 million general fund
- ~~///~~ The legislature made several changes to K-12 education funding for a total difference of an additional \$13.0 million including a higher BASE aid increase than recommended and establishment of a flex account
- ~~///~~ The Department of Corrections is \$9.5 million general fund less than initially recommended by the Governor due to reductions in secure care, pre-release, and juvenile placement, and establishment of an intensive alcohol treatment program.

BIENNIAL BUDGET COMPARISONS

The legislature adopted a 2003 biennium spending plan that is a \$521 million (22.8 percent) increase in general fund, and a \$1,186 million (21.8 percent) increase in total funds, when looking at all comparable appropriations. When looking at just HB 2, the general fund increase is \$186.8 million or 8.7 percent, and the total funds increase is \$906.2 million or 18 percent. The most significant increases in general fund appropriations occur for programs in the Department of Public Health and Human Services, the Department of Natural Resources and Conservation (for a one-time \$75 million appropriation to purchase mineral rights on state trust lands), and the Commissioner of Higher Education. Total funds increase most significantly in the Department of Public Health and Human Services, the Department of Transportation, the Department of Natural Resources and Conservation, and the Office of Public Instruction. The increases are somewhat distorted by fund shifts, accounting changes, and one-time expenditures that don't reflect true state costs. The discussion of budget comparisons begins on page 58 of this volume.

AGENCY BUDGET COMPARISONS BY FUND

This comparison, detailed beginning on page 63, looks at appropriations contained in HB 2 and HB 13 (except for contingency funds). These are, by fund type, a comparison of the 2001 and 2003 biennium agency appropriations. In total, federal fund increases constitute nearly 80 percent of all budget increases.

General fund increases by \$186.8 million, or 8.6 percent. Major reasons for this increase are:

- ?? \$35 million for increased Medicaid expenditures for current eligible recipients, and to continue provider rate increases established by the 1999 legislature
- ?? \$12.9 million for additional provider rate increases
- ?? \$26.9 million for increased aid to schools, including \$5.0 million for a flexible spending account and a 1.88 percent increase each year in BASE aid and special education
- ?? \$10.7 million for correctional population growth, additional staff, and a pay exception for certain correctional staff (net of a reduction in juvenile placement)
- ?? \$7.5 million for enhanced per student state support in the Montana University System
- ?? \$29.0 million to replace 9 and 6 mill levy in the Department of Public Health and Human Services and the Montana University System due to passage of HB 124
- ?? \$75.0 million to the Department of Natural Resources and Conservation to expend the proceeds of a loan from the permanent coal tax trust to purchase mineral rights to benefit schools
- ?? \$29.2 million for pay plan increases appropriated in HB 13
- ?? \$1.7 million in the Governor's Office for an Office of Economic Opportunity

Partially offsetting these increases is a reduction in the Department of Revenue of \$70.6 million over the biennium that had been appropriated for local government reimbursements. These reimbursements will be made through a statutory appropriation in the 2003 biennium.

State special revenue increases by \$33.4 million, or 4.4 percent, due to a number of offsetting increases and decreases.

Federal funds increase by \$678.9 million, or 32.5 percent. The major increases occur in the department of Public Health and Human Services, although these increases, along with the increase in the Montana University System and the Department of Transportation, are skewed by the inclusion of \$172.7 million in required accounting changes.

Proprietary funds increase \$5.2 million, or 23.5 percent, primarily due to provision of enterprise funds to support a portion of gambling and liquor control in the Department of Justice, and expansions in the Montana State Lottery. Proprietary funds within the Departments of Commerce, Labor and Industry, and Administration were significantly affected by the reorganization of the Department of Commerce.



HIGHLIGHTS OF OTHER BUDGET OR FISCAL ACTIONS

The “Other Budget or Fiscal Actions” section (page 69) discusses several issues of either statewide or multi-agency fiscal impact. It addresses significant issues contained in HB 2, other “cat and dog” bills, statutory appropriations, and issues not related to any specific legislation. This section provides highlights of those issues.

- ?? **Other Appropriation Bills.** Besides HB 2, there were 27 bills enacted by the 2001 legislature containing appropriations totaling \$474.5 million. Nine Long-Range Building Program bills account for \$0.5 million general fund and \$156.1 million in other funds. The remaining bills include appropriations totaling \$194.8 million general fund and \$123.1 million other funds, with the largest appropriation of \$162.5 million general fund contained in HB 124, which revised local government funding.
- ?? **Fund Balance Adequacy.** The legislature adopted a spending plan resulting in a 2003 biennium general fund ending fund balance reserve of \$66.7 million. This represents a 2.5 percent budget reserve, and is over double the reserves established in the 1999 biennium and prior. However, there are still concerns over long-term financial stability, since the 2003 biennium appropriation level significantly exceeds the level of ongoing revenues, primarily due to spending down a high beginning fund balance. Revenues for the 2005 biennium would have to grow by \$57 million, or 2 percent just to maintain current budget levels. Concurrently, there are instances of delayed funding for expenditures that will need to be annualized at a higher cost in future biennia.
- ?? **Local Government Distributions (“the big bill”).** Beginning in fiscal 2002, HB 124 reallocates revenue received by local governments, school districts, and some state special revenue accounts to the general fund. HB 124 replaces foregone revenue with permanent state entitlement grants to counties and cities, two-year block grants to school districts and countywide school accounts, permanent entitlement grants to tax increment financing districts and permanent transfers to state special revenue accounts. Each of these payments is from the state general fund. HB 124, in conjunction with SB 339 and SB 176, also requires the state to assume the costs for welfare and district courts in each county of the state.
- ?? **Status of Tobacco Settlement Funds.** Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 25 subsequent companies to end a four-year legal battle with 52 states and U.S. territories. The total amount of tobacco settlement funds available to Montana is affected by a number of factors, including inflation and sales volume changes. In the 2003 biennium, the general fund is expected to receive \$38.1 million and the tobacco trust fund is expected to receive \$25.4 million. Interest earnings from the trust are expected to exceed \$3.0 million, 90 percent of which can be appropriated by the legislature. The legislature, however, appropriated \$3.1 million for Medicaid health care provider rate increases from this source with instructions that if the earnings are insufficient, other sources will have to make up the difference.

- ?? **Public School Funding.** The 57th Legislature, in HB 2, increased total state aid to K-12 districts by \$36.8 million over present law amounts for the 2003 biennium. BASE aid was increased by \$26.7 million (HB 121 and SB 65), the state special education appropriation was increased by \$1.0 million (HB 2), school facility reimbursements were increased by \$1.1 million (HB 2), and spending for timber for technology was increased by \$2.9 million (HB 41). In addition, the legislature created a new state school flexibility account from which \$5.1 million is appropriated to school districts in fiscal 2003 (SB 390).
- ?? **Energy Issues.** In the few months before the 2001 legislature convened, energy costs quickly moved to the top of the list of issues that needed to be addressed. However, even as the session began, the picture was not clear. Although efforts to increase supply are already in the works and are being further encouraged by legislation passed by this legislature, it appears higher prices will not be avoided. The legislature set aside \$2.3 million general fund in an unreserved, designated fund balance for “energy costs reserve”, designating it as a contingency for increased electricity and natural gas costs above what is appropriated in HB 2. For state and local governments, the legislature anticipated that the legislation discussed below would help resolve the issues of supply and demand, and will ultimately keep prices at affordable levels, avoiding at least a long-term crisis, if not the short-term spike in prices. Although limited action was taken to directly control prices, the legislature did attempt to address problems at the root of these increased costs. Eleven bills that were approved are discussed beginning on page 92.
- ?? **Economic Development.** The legislature approved a reorganization of the Department of Commerce that is expected to make the department more effective in its economic development endeavors. The legislature also approved an office of economic development in the Governor’s Office, a move to elevate the policy direction for economic development efforts. Economic development initiatives approved in the 2000 Special Session were allowed to continue and various other bills (i.e., energy bills) approved by the 2001 legislature contained provisions that indirectly contribute to the goals of economic development.
- ?? **Department of Commerce Reorganization.** Senate Bill 445 established an office of economic development within the Office of the Governor and reorganized the Department of Commerce by transferring several functions to other agencies (departments of Administration, Labor and Industry, and Livestock). Stated goals of SB 445 were to: 1) streamline the Department of Commerce to allow it to better focus on economic development initiatives; and 2) provide the Governor with direct access to an Office of Economic Development. All together, the effects of SB 445 on HB 2 funding are: 1) an FTE increase of 4.0 for the 2003 biennium; a general fund increase of \$1.7 million across the biennium; and a state special revenue decrease of approximately \$407,000 across the biennium.
- ?? **Information Technology Governance.** The 2001 legislature passed legislation that revised and reinforced how information technology assets of the state are managed. The 2001 legislature passed SB 131, which provides for direction and oversight of information technology activities of state government. No additional funding was provided to implement any of the changes.
- ?? **Mental Health Services Interim Study.** The Legislative Finance Committee (LFC) studied public mental health services during the 2001 biennium interim as directed by the 56th Legislature in HJR 35. As part of its study recommendations, the LFC recommended six bills to the 2001 legislature and requested that the Health and Human Services Joint Appropriations Subcommittee review several issues. Each of the bills recommended by the LFC passed and are discussed beginning on page 98.

- ?? **TANF Spending.** The current authorization of the Temporary Assistance for Needy Families (TANF) grant expires in fiscal 2003 (September 2002) and the program will require reauthorization by Congress. It is unknown what will occur when Congress considers reauthorization during the summer and fall of 2002. Due to uncertainty surrounding continued availability of unexpended TANF funds, the legislature appropriated all available TANF funds in HB 2. Appropriations of TANF funds, as included in HB 2, result in expenditure of all federal TANF funds (prior and current year grants) by the end of the 2003 biennium.
- ?? **POINTS Issues/Operations.** To address legislative concerns and project issues, the 2001 legislature approved a \$319,100 general fund supplemental appropriation in HB 3 for Department of Revenue POINTS system related costs. Legislative concerns also produced language in HB 2 that directs the department to provide status reports to the Revenue and Transportation Committee during the interim on the progress of POINTS development and the status of fixing mission-critical defects in the system.
- ?? **Personal Services Funding**
- ?? **State Employee Pay Plan (HB 13).** The legislature passed a pay plan (HB 13) with two main components: 1) a salary increase; and 2) an insurance increase. At a cost of \$29.2 million general fund and \$35.7 million other funds over the biennium, this pay plan is the largest since the 1993 biennium pay plan enacted by the 1991 legislature.
 - ?? **State Employees – FTE Summary.** HB 2 provides funding for a total of 10,874.11 FTE state employees in fiscal 2002 and 10,915.69 in fiscal 2003, excluding the Montana University System. These totals represent an increase of 488.73 FTE (4.7 percent) in fiscal 2003 over the fiscal 2001 level used for budgeting purposes.
 - ?? **Vacancy Savings.** The 2003 biennium vacancy savings rate imposed totals of 4 percent each year for most state programs. Total budget reductions as a result of the imposition of vacancy savings are about \$19.0 million general fund and \$23.1 million other funds over the 2003 biennium.
- ?? **Proprietary Funds and Rate-Setting.** The legislature changed accounting for several functions from budgeted to proprietary accounts in the 2003 biennium: 1) cook/chill in the Department of Corrections, including 15.0 FTE; 2) Statewide Accounting, Budgeting, and Human Resource System (SABHRS) vendor maintenance costs in the Department of Administration (most SABHRS operating costs were already funded with a proprietary fund); and 3) Personnel Unit of the Department of Administration, including 1.75 FTE. The legislature also changed the Customer Service Center in the Department of Revenue from a proprietary to a budgeted fund, including 123.7 FTE.
- ?? **Long Range Planning Summary.** The 2001 Legislature approved \$156.6 million for grants, loans, and capital projects for the Long-Range Planning (LRP) programs. For a summary of these actions, see page 114. More detailed information can be found in Section F of Volume 4 of this report.
- ?? **Fiscal 2001 Supplemental Appropriations.** The legislature funded \$68.2 million general fund and \$44.7 million other funds in supplemental appropriations in fiscal 2001, for 10 agencies. Mental health costs, wildfire costs, distributions to schools, and corrections costs top the list of programs requiring additional general funds to complete the 2001 biennium.
- ?? **Fee Changes.** The 2001 legislature enacted changes to fees (increases or decreases) and created new fees that will raise an estimated \$28.2 million in revenue over the 2003 biennium. The increased fee revenue, which will mostly be deposited in accounts other than the general fund, will be used to fund new and existing agency programs.

?? **Legislative Interim Studies.** The 2001 legislature adopted 17 joint resolutions calling for interim studies, in addition to three studies requested or required by House or Senate bills. Of the 20 studies, 15 were assigned to various legislative interim committees, and two were not assigned. State agencies are being asked to conduct the remaining three studies.

?? **Other Major Funds**

~~///~~ **Highway Special Revenue Account.** Projections for the highways state special revenue account indicate that expenditures from the account will exceed account revenues and the working capital balance would be depleted by the end of fiscal 2002. This situation of excess expenditures is expected to continue through the foreseeable future. Expenditures at the level appropriated by the legislature are expected to exceed revenues by nearly \$12.1 million during the 2003 biennium and the account is forecast to end the 2003 biennium with a deficit of more than \$6.4 million. At the current level of service, expenditures could exceed revenues by nearly \$6.8 million during the 2005 biennium.

~~///~~ **Resource Indemnity Trust.** During the 2003 biennium, the Resource Indemnity Trust is expected to reach the \$100 million threshold, the level at which the trust fund is to be capped. Once this threshold is reached, revenues that would have otherwise flowed into the trust, will flow into other accounts that are available for appropriation by the legislature. The 2001 legislature appropriated \$1.3 million of such moneys for the 2003 biennium.

~~///~~ **Combine Coal Severance Tax.** The revenue estimate for the 2003 biennium for the combined coal tax account is \$5.7 million. Almost all of these funds are allocated to five uses (agencies in parentheses): Growth Through Agriculture (Agriculture), Local impacts – Coal Board (Commerce), county land planning (Commerce), conservation districts (DNRC), and library services (State Library). The ending balance is projected to be \$40,279 at the end of the biennium.