OTHER BUDGET OR FISCAL ACTIONS

INTRODUCTION

The "Other Budget or Fiscal Actions" section discusses several issues of either statewide or multi-agency fiscal impact. It addresses significant issues contained in HB 2, other cat and dog bills, and/or statutory appropriations, as well as issues not related to any specific legislation. The issues discussed in the next several pages are highlighted below:

- **Federal Tax Law Changes/Fiscal Relief to States (Page 85).** As part of tax relief legislation passed by Congress in May of 2003, $20 billion in funds is being made available to states to assist them through the fiscal crisis that has resulted from reduced state revenues. Montana's share could be $73 million. Changes to tax law in the same legislation could have impacts on state revenue collections.
- **Other Appropriation Bills (Page 89).** Beside HB 2, several bills were enacted that appropriated $16.4 million in general fund and $250.9 million in other funds.
- **General Fund Statutory Appropriations (Page 92).** Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process.
- **General Fund Non-Budgeted Transfers (Page 94).** Like statutory appropriations, transfers and their authorizations are in statute and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs.
- **Federal Match Funds Lost Due to Deficit Reduction (Page 96).** In spite of the efforts to reduce the deficit through spending reductions, the legislature was able to minimize the loss of matching federal funds.
- **Actions to Reduce Present Law Expenditures (Page 97).** The legislature applied assorted strategies in efforts to solve the general fund deficit: 1) funding switches; 2) fee changes; 3) specific service reductions; and 4) unspecified reductions
- **Fund Balance Adequacy (Page 102).** The legislature adopted a budget that includes an ending fund balance of $45.6 million.
- **Status of Tobacco Settlement Funds (Page 104).** Settlements funds of $57.2 million are expected for the 2005 biennium, the distribution of these funds for the 2005 biennium was altered in SB 485.
- **Public School Funding (Page 106).** The 58th legislature made major changes in the funding of teacher retirement costs, increased entitlements modestly and reduced HB 124 block grants to districts and county retirement accounts. The net impact on the state spending on schools was close to present law levels.

- **District Court Assumption (Page 110).** Getting a handle on the cost of the state's assumption of district court costs has been challenging to say the least. The legislature is counting on the experience of the upcoming biennium to help them establish a reliable expenditure base.
- **Replacement of POINTS (Page 112).** POINTS is the Department of Revenue's integrated revenue and tax system, Phase I of which was implemented in 1999. The legislature approved funding for a system to replace POINTS after a decision was made to scrap the beleaguered system.
- **Personal Services Funding. (Page 114)**
  - **State Employee Pay Plan (HB 13)** – The legislature passed a pay plan (HB 13) that includes two elements: 1) an increase in employer contributions for health insurance; and 2) and increase of $0.25 per hour in the second half of fiscal 2005.
  - **State Employees – FTE Summary** – HB 2 provides funding for a total 10,962.04 FTE state employees in fiscal 2004 and 11,286.46 in fiscal 2005, excluding the Montana University System, for an increase of 0.2 percent, the lowest increase in several biennia.
  - **Vacancy Savings** – The executive applied a 4 percent vacancy saving factor in her proposed budget. The legislature applied additional general fund reductions to most agencies resulting in an average combined vacancy savings of 4.5 percent.
- **Proprietary Funds and Rate-Setting (Page 120).** The 2003 legislature changed one Department of Administration function's accounting from general fund and special revenue to internal service, and took a Department of Commerce function off budget by changing the classification of the revenue supporting Section 8 Housing from federal funds to enterprise funds.
- **Long Range Planning Summary (Page 122).** The 2003 Legislature approved $121 million of grants, loans, and capital projects for Long Range Planning (LRP). The funding comes from various sources, with only $400,000 being general fund.
- **Fiscal 2003 Supplemental Appropriations (Page 125).** The legislature provided state agencies with an additional $12.5 million general fund in fiscal 2003, with the largest portion ($7.9 million) being for wildfire suppression.
- **Fee Changes (Page 127).** This section lists the impact of fee changes or new fees either adopted by the legislature or assumed in the budgeting process.
- **Legislative Interim Studies (Page 129).** The legislature approved 13 interim studies that have been assigned to various interim committees.
- **Other Major Funds. (Page 130)**
  - **Highways Special Revenue Account** – The account will continue to experience a negative cash flow as expenditures exceed revenues through the 2005 biennium.
  - **Resource Indemnity Trust** – In February of 2002, the Governor certified that the balance of the RIT trust had exceeded the $100 million threshold. Consequently, the trust no longer receives revenue. However, interest earnings are used as a funding source for several funds.
  - **Combined Coal Severance Tax** – A small number of programs receive revenue from a portion of the coal severance tax. The level of funding from this source has varied due to recent actions.

FEDERAL TAX LAW CHANGES/FISCAL RELIEF TO STATES

President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRR) in late May. In addition to several tax law changes, the act includes $20 billion in state assistance, half for enhanced federal matching payments for Medicaid, and half for flexible assistance to states to support essential government services and unfunded federal mandates. Various public policy groups have estimated that Montana would receive $73 million in federal funds - $50 million in support for essential state services or unfunded federal mandates and $23 million in enhanced federal Medicaid payments. The JGTRR tax law changes will have significant impacts, both positive and negative. Until a full analysis of JGTRR is complete, the impact will not be known. The following summarizes what is known as of this printing.

TEMPORARY FISCAL ASSISTANCE TO STATES FOR PROVIDING GOVERNMENT SERVICES

The act appropriates $5 billion annually in federal fiscal 2003 and 2004 for general assistance to be allocated to states based on population. Montana would receive the minimum allocation (0.5 percent of the total federal allocation), which will be $50 million over the two federal fiscal years. The first payment of $25 million is available immediately. The only criteria established for the use of the funds are that the funds must be used to:

- Provide essential government services[2]; or
- Cover the costs of state compliance with any federal intergovernmental mandate[3], to the extent that the mandate applies to the state and the federal government has not provided funds to cover the costs.

In addition, the state can only use the funds for types of expenditures permitted under the most recently approved budget for the state.

To receive the funds, the state must certify to the Secretary of the Treasury that it will use the funds in accordance with the purposes established in the act. For federal fiscal 2003, the Treasury Secretary is directed to make payments within 45 days of enactment or when the state certifies that it will spend the funds in accordance with the provisions of the act, whichever is later. For federal fiscal 2004, the Treasury Secretary is directed to make the funds available no later than October 1, 2003, or the date the state certifies that it will expend the funds in accordance with the provisions of the act. The state may make the certification of expenditures for both years on the same form. The section providing for temporary fiscal assistance to state governments sunsets September 30, 2004. Governor Martz received the certification forms on June 4, 2003.

Federal officials have not provided guidance on how they define “essential government services” or “most recently enacted budget”. Nor have officials mentioned whether there would be any audit or follow up on how states use the funds.

[2] “Essential government services” is not defined in the Act.

[3] The act uses the definition of federal intergovernmental mandate used in the Congressional Budget Act of 1974, as amended by the Unfunded Mandates Reform Act of 1995 (P.L. 104-4).

MEDICAID PROVISIONS

The act provides increased federal matching rates for most Medicaid services from the period of April 1, 2003 through June 30, 2004. In general, states will receive a 2.95 percent increase in the federal share of Medicaid services costs. Preliminary estimates for Montana indicate the legislative general fund appropriations for Medicaid match could be as much as $14 to $18 million higher than necessary to fund the same level of services during the period April 1, 2003 through June 30, 2004. Estimates of savings made by other groups are closer to $23 million, which includes the state special revenue as well as general fund used for state Medicaid match.

To qualify for the enhanced federal match, the state Medicaid plan must ensure that program eligibility will be no more restrictive than the eligibility effective in the state Medicaid plan on September 2, 2003. If the state restricts eligibility after that date, but later reinstates eligibility to comply with the maintenance of effort (MOE) provisions in the Act, the state would be eligible for enhanced matching payments effective in the first calendar quarter when the reinstatement is in effect. Finally, states are prohibited from increasing the local government share of state Medicaid matching payments in states where local governments contribute to the state Medicaid match.[4]

While the Medicaid relief portion of the act can be explained fairly simply, it will not be as simple to administer as the flexible grants. The legal staff at the Centers for Medicare and Medicaid Services (CMS) is still reviewing the language and working on developing answers to the many questions that have been raised. Rules to implement the Medicaid provisions of the act may alter some of the information provided in this summary.

FEDERAL TAX LAW CHANGES

The Job and Growth Tax Relief Reconciliation Act of 2003 (JGTRR), will have significant impacts on state individual and corporation license tax collections beginning in fiscal 2004 since Montana's tax law is based on the Federal tax laws. Montana's individual income tax revenues will be subject to both positive and negative effects resulting from JGTRR provisions. Until the full analysis of the JGTRR is complete, the aggregate impact on the individual income tax revenues will not be known. However, corporation license taxes are expected to decrease. Most of the provisions are temporary, and except where mentioned, are effective after December 31, 2002. The main taxation provisions are described below.

Accelerate the Increase in the Child Credit

The JGTRR increases the amount of the child credit from $600 to $1,000 for 2003 and 2004. This increase is temporary and after 2004 the credit will revert to the level provided under present law ($700 in 2005). For tax year 2003, the increased amount of the child credit (up to $400) will be paid in advance, beginning in July 2003, based on the information contained in the taxpayer's 2002 tax return. The provision will reduce federal income tax revenues and increase Montana individual income tax revenues.

[4] States are prohibited from increasing the local contribution above what was required in the state Medicaid plan on April 1, 2003.

Accelerate Marriage Penalty Relief

Two provisions of JGTRR will temporarily provide relief from marriage penalties. The provisions will apply to tax years 2003 and 2004, after which the laws will revert to the present law phase-in of both of the provisions. Both provisions are expected to increase state individual income tax collections.

- The basic standard deduction amount for married taxpayers filing a joint return will now be twice the basic standard deduction amount for single individuals for 2003 and 2004.
- The size of the 15 percent regular income tax rate bracket for married taxpayers filing joint returns will now be twice the width of the same bracket for single returns for taxable years of 2003 and 2004.

Accelerate Reductions in Individual Income Tax Rates

Three JGTRR provisions will accelerate the reduction of individual income tax rates, scheduled to become effective between tax years 2004 through 2008. The provisions are temporary. However, except where noted, present law changes will occur as scheduled. The state revenue effects of these provisions are expected to be positive because these provisions will reduce federal income taxes.

- For tax year 2003, the taxable income level for the 10 percent regular income tax rate bracket for single individuals is increased from $6,000 to $7,000, and twice that amount for married taxpayers filing joint returns. For 2004, these amounts will be indexed for inflation.
- In tax year 2003 and forward, marginal tax rates in excess of 15 percent will be 25 percent, 28 percent, 33 percent, and 35 percent. Because the provision does not modify the application of present-law implemented by the Economic Growth and Tax Relief Reconciliation Act of 2001, the changes will, in effect, be permanent.
- The alternative minimum tax exemption amount is increased to $58,000 for married taxpayers filing joint returns and surviving spouses and $40,250 for unmarried taxpayers in taxable years 2003 and 2004.

Capital Gains and Dividend Tax Relief for Individuals

Two provisions reduce the current tax rates applied to capital gains and dividends. Both provisions are temporary and will expire in 2009. The reductions of the capital gains tax and the dividend tax will have a positive effect on state individual income tax collections.

The tax rate on capital gains and dividend rates will be reduced from 10 and 20 percent to 5 percent (0 percent in 2008) for individuals in the 10 percent and 15 percent income tax brackets and 15 percent for individuals in tax brackets greater than 15 percent. The lower rates apply to both the regular tax and the alternative minimum tax and only to assets held more than one year. The capital gains provision becomes effective on or after May 6, 2003, while the dividends provision is effective January 1, 2003.

Growth Incentives for Business

The JGTRR provides two incentives to encourage new business investment. Both provisions will have a negative impact on individual income and corporation license tax revenues.

- The first year depreciation deduction (bonus depreciation) implemented by the Job Creation and Workers Assistance Act of 2002 is increased from 30 to 50 percent and extended to purchases through 2004. Property does not qualify if there was a binding written contract for the acquisition in effect before May 6, 2003. The provision is effective for taxable years ending after May 5, 2003.

- The maximum dollar amount deducted under Internal Revenue Code section 179 expensing is increased from $25,000 to $100,000 for property placed in service in taxable years 2003 through 2005. In addition, for purposes of the phase-out of the deductible amount, the $200,000 amount is increased to $400,000 for property placed in service in taxable years of 2003 through 2005. The dollar limitations are indexed annually for inflation for the taxable years of 2004 and 2005. The provision also includes off-the-shelf computer software placed in service in the taxable years of 2003 through 2005 as qualifying property. With respect to the taxable years of 2003 through 2005, the provision permits taxpayers to make or revoke expensing elections on amended returns without the required consent. The provision becomes effective January 1, 2003.

Corporate Estimated Taxes

The JGTRR provides that 25 percent of corporate estimated tax payments due on September 15, 2003 are not required to be paid before October 1, 2003. This provision will have no effect on state tax revenue collections.

OTHER APPROPRIATION BILLS

Although a large majority of direct appropriations occur in the general appropriations act (HB 2), other bills can also contain appropriations. Figure 1 lists all bills in which a separate appropriation was made. The list does not include bills that either establish or change existing statutory appropriations.

Figure 1
Other Appropriation Bills
2005 Biennium

		Fiscal 2004		Fiscal 2005		2005 Biennium	
Bill No.	Description	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Long Range Planning Bills							
HB 5	Capital Projects - Cash	$0	$79,740,172	$0	$0	$0	$79,740,172
HB 6	Renewable Resource Grants	0	4,000,000	0	0	0	4,000,000
HB 7	Reclamation and Development Grants	0	2,400,000	0	0	0	2,400,000
HB 8	Renewable Resource Bonds and Loans	0	10,662,991	0	0	0	10,662,991
HB 9	Cultural and Aesthetic Grants	249,575	335,000	249,757	0	499,332	335,000
HB 11	Treasure State Endowment	0	20,891,374	0	0	0	20,891,374
HB 12	General Obligation Bonds for Energy Conservation	0	2,900,000	0	0	0	2,900,000
	Total	$249,575	$120,929,537	$249,757	$0	$499,332	$120,929,537
Other Appropriation Bills							
HB 13	State Employee Pay Plan	$3,740,460	$6,129,171	$7,798,757	$11,465,503	$11,539,217	$17,594,674
HB 129	Extend funding for bull and cutthroat trout enhancement program	0	198,358	0	198,358	0	396,716
HB 160	Reauthorize Natural Resource Damage Program [1]	0	650,000	0	0	0	650,000
HB 429	Create Property Tax Exemption Study Committee	6,000	0	0	0	6,000	0
HB 481	Imposing a Utilization Fee on Hospitals for Acute In-patient Care Days	0	26,644,266	0	31,673,512	0	58,317,778
HB 705	Increase Utilization Fee on Nursing Facility Bed Days	0	12,903,702	0	18,759,641	0	31,663,343
HB 722	Provider Tax on Intermediate Care Facilities [2]	833,971	2,760,378	798,486	2,605,693	1,632,457	5,366,071
HB 736	K-12 Public School Renewal Commission	10,000	0	0	0	10,000	0
HB 743	Include Mental Health Nursing Care Center in Bed Tax	114,975	380,559	135,415	441,899	250,390	822,458
SB 271	Eliminate POINTS System -- UI tax Not Under Replacement System	1,204,200	196,650	1,187,185	1,703,350	2,391,385	1,900,000
SB 461	Mitigate Effects of Cyclical Reappraisal	60,000	0	0	0	60,000	0
SB 485	Transfer Some Tobacco Settlement Proceeds to Human Services Account	0	13,232,396	0	0	0	13,232,396
	Total	$5,969,606	$63,095,480	$9,919,843	$66,847,956	$15,889,449	$129,943,436
	Total All Bills	$6,219,181	$184,025,017	$10,169,600	$66,847,956	$16,388,781	$250,872,973

[1] Represents transfers, rather than appropriations.

[2] Also appropriated $426,018 GF and $1,410,331 other funds in fiscal 2003.

The long-range planning bills are discussed in Volume 4, Section F of this report. HB 13 (State Employee Pay Plan) is discussed under a separate section. The other bills are discussed in the narratives of the appropriate agencies in either Volume 3 or Volume 4. A short description of these bills follows.

HB 129 – State special revenue spending authority that remains from a 1999 session appropriation for a bull and cutthroat trout enhancement program is extended through the 2009 biennium. The original appropriation in 1999 was $750,000 from the general license account of the Department of Fish, Wildlife, and Parks.

HB 160 – The legislature appropriated a loan of up to $650,000 from the Coal Tax Permanent Fund to the Department of Justice to continue to pursue natural resource damage litigation. Repayment would be made from any settlement funds received.

HB 429 – This bill provides for the creation of a property tax exemption study committee and appropriates $6,000 general fund to cover necessary operating expenses.

HB 481 – A utilization fee on hospital inpatient "bed days" is established, with the Department of Revenue collecting the fee and depositing it in a state special revenue account. The money in this account is used by the Department of Public Health and Human Services to fund increased Medicaid payments to the hospitals by leveraging available federal matching dollars.

HB 705 – A utilization fee on nursing facility "bed days" is established, with the Department of Revenue collecting the fee and depositing it in a state special revenue account. The money in this account is used by the Department of Public Health and Human Services to fund increased Medicaid payments to the nursing facilities by leveraging available federal matching dollars.

HB 722 – The legislature imposed a utilization fee on resident bed days of intermediate care facilities for the mentally retarded. The Department of Revenue collects the fee and deposits 70 percent in a state special revenue account and 30 percent in the general fund. The money generated by the fee is used by the Department of Public Health and Human Services for the purposes of financing, administering, and providing health and human services. There is also a general fund appropriation to enable DPHHS to pay the utilization fee for persons in state facilities.

HB 736 – The legislation establishes a K-12 Public School Renewal Commission to study various components of K-12 public education in Montana, and appropriates $10,000 from the general fund for operating costs.

HB 743 – With this legislation, bed days at the Montana Mental Health Nursing Care Center are included under the utilization fee established in HB 722, allowing for the leveraging of additional federal matching dollars.

SB 271 – The legislature authorized the replacement of the Department of Revenue POINTS system, providing funding for the clean-up of data in preparation for conversion and providing a mechanism for funding the first $17 million of the planning and development of the new system. The bill also provides for the return of the unemployment insurance tax component to the Department of Labor and Industry (DLI), which will occur when DLI is ready to take it back. For more information, see the discussion "Replacement of POINTS" on page 112.

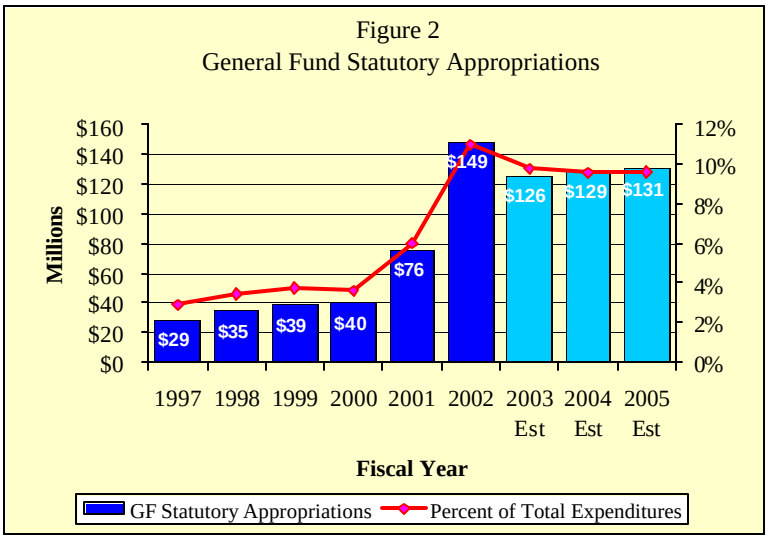
SB 461 – The legislature provided for a mechanism for mitigating the effects of the recent reappraisal of class 4 properties. The legislation includes an appropriation of $60,000 general fund for the expenses of two interim committees created by this bill: 1) an interim property tax reappraisal study committee and 2) an interim tax reform study committee.

SB 485 – For the 2005 biennium only, this bill allows tobacco settlement funds to be used for public health and human services beyond tobacco treatment and prevention. The bill appropriates moneys for various services.

Not shown in Figure 1 is HB 761, which allows the Department of Military Affairs to take property under the powers of eminent domain for the purposes of building a veterans' cemetery, and authorizes the department in initiate negotiations for property in the vicinity of Missoula. The bill appropriates in fiscal 2003 the amount of $150,000 state special revenue for the purpose of completing preapplication inspections and meeting other requirements.

GENERAL FUND STATUTORY APPROPRIATIONS

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanouve sponsored legislation (HB 12) that required statutory appropriations to be contained in a list of statutory appropriations in 17-7-502, MCA, in order to be valid. That list provides statutory citations for each statutory appropriation. Although there are currently 69 sections listed, some sections have multiple statutory appropriations and each appropriation listed in statute could have multiple appropriations established on the state accounting system. Of these, 16 sections statutorily appropriate general fund. In 1993, Senator Grosfield sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee. This requirement was removed by the 2001 legislature.



The significance of statutory appropriations lies not in the number of them, but rather in the amount of money being spent. All appropriations of general fund are available for the legislature to review, prioritize, and change if desired. Figure 2 shows the amount of general fund spent through statutory appropriations from fiscal 1997 through fiscal 2002 and estimated amounts from fiscal 2003 to 2005. From fiscal 1997 to fiscal 2002, general fund expenditures increased $120 million and now comprises 9.9 percent of all general fund expenditures for the 2005 biennium. Figure 3 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet.

The 2003 legislature enacted three laws that affect general fund statutory appropriations.

- HB 152 increased the Governor's $12.0 million biennial general fund statutory appropriation for declared emergencies to $16.0 million. The legislature chose not to include any reserve in the general fund balance for emergencies.
- HB 136 eliminated the $175,000 annual appropriation to the Office of Economic Development for business recruitment and retention. Under prior law, the appropriation would have terminated at the end of fiscal 2005.
- Beginning fiscal 2006, SB 115 creates eight general fund statutory appropriations totaling $6,065,000:
  - University system cooperative development center - $65,000
  - Department of Agriculture growth through agriculture- $1,250,000
  - Department of Commerce small business development center - $125,000

- Department of Commerce small business innovative research program - $50,000
- Department of Commerce certified regional development corporations - $425,000
- Department of Commerce Montana manufacturing extension center at MSU - Bozeman - $200,000
- Department of Commerce export trade enhancement - $300,000
- Department of Commerce research and commercialization account - $3,650,000

The first seven appropriations listed above existed in prior law, but would have terminated at the end of fiscal 2005. Beginning fiscal 2006, SB 115 makes these appropriations permanent in the same amounts. The eighth appropriation existed in prior law as a transfer from the general fund (see "General Fund Non-budgeted Transfers" below) to the research and commercialization state special revenue account in the same amount and also would have terminated at the end of fiscal 2005. Beginning fiscal 2006, SB 115 makes the funding of this account permanent through a statutory appropriation. Money in the research and commercialization state special revenue account is statutorily appropriated.

Figure 3 provides a list of all general fund statutory appropriations, the statute reference, and the estimated expenditures for fiscal 2003 through 2005.

Figure 3
General Fund Statutory Appropriations
Fiscal Years 2003-2005
(in millions)

MCA Cite	Name	Fiscal 2003	Fiscal 2004	Fiscal 2005
Prior				
10-3-312(1)	Emergency Appropriations	$0.054	$0.000	$0.000
15-1-111(6)	Local Asst-Prop red PA-SA	7.298	6.082	4.865
15-1-121(3)	HB124 Combined Distribution - SA	76.490	78.832	81.187
15-1-121(3)	HB 124 TIFF Distribution - SA	3.910	3.608	3.608
15-35-108(7)(b)(i)	Coop Developmental Center NMC	0.065	0.065	0.065
15-35-108(7)(b)(ii)	Add Vision 2005-SA	0.925	1.250	1.250
15-35-108(7)(b)(iii)	Economic Development	0.675	1.100	1.100
15-35-108(7)(b)(iv)	Econ Develop Statutory	0.175	0.175	0.175
15-35-108(7)(b)(v)	Reimbursement of TIFF-SA	0.600	0.600	0.600
17-3-106(2)	Cash Management Interest-SA	0.269	0.269	0.269
17-6-101(6)	Banking Charges-SA	1.181	1.172	1.172
17-7-502(4)	Trans Debt Service and Issuance Costs	1.603	1.482	1.769
17-7-502(4)	Transfer to Debt Service A/B Bond-SA	17.096	18.272	17.661
19-13-604	Prem Tax-Fire/Pol 19-13-604-SA	5.993	6.209	6.518
19-17-301	Prem Tax-Fire/Pol 19-17-301-SA	1.225	1.317	1.409
19-18-512(1)	Prem Tax-Fire/Pol 19-18-512-SA	0.162	0.164	0.165
19-19-305(1)	Prem Tax-Fire/Pol 19-19-305-SA	0.264	0.266	0.268
19-19-506(4)	Prem Tax-Fire/Pol 19-19-506-SA	0.017	0.017	0.018
19-20-604	Teachers GABA 19-20-604-SA	0.659	0.692	0.727
19-3-319	Local Government PERD 19-3-319 -SA	0.404	0.417	0.439
19-9-702	Ins Prem Tax-Fire/Police Ret 19-9-702-SA	6.886	7.232	7.634
Sub Total		$125.950	$129.219	$130.899
New (2003 Legislature)				
10-3-312(1)	Increase mergency appropriation by $4 million (HB 152)	NA	$0.000	$0.000
15-35-108(7)(b)(iv)	Eliminate Econ Develop Statutory (HB 136)	NA	(0.175)	(0.175)
15-35-108(7)(b)	Beginning FY 2006, $6.065 million for econ. devel. (SB 115)	NA	0.000	0.000
Sub Total		$0.000	($0.175)	($0.175)
Total		$125.950	$129.044	$130.724

GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs.

Over the last two biennia, an increasing amount of money has been transferred out of the general fund to other accounts that fund non-general fund programs. As illustrated in Figure 4, this amount has grown from $0 in fiscal 1999 to $19 million in fiscal 2002 and it is estimated to be over, $31 million in the 2005 biennium, 1.2 percent of total general fund. These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs.

Figure 4
General Fund Non-budgeted Transfers

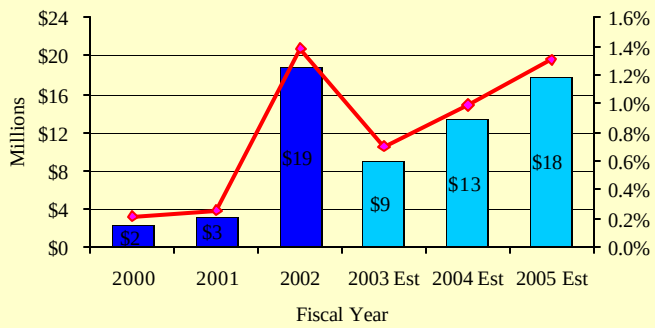


Figure 5 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet. The 2003 legislature enacted seven laws that affect general fund non-budgeted transfers:

1. HB 217 temporarily suspends the current law transfers to the Department of Highways state special revenue account for the 2005 biennium. Transfers are resumed beginning fiscal 2006.
2. HB 559, SB 112, SB 336, and SB 401 increase motor vehicle fees and deposit the increased revenue into the general fund. The money is then transferred into state special revenue accounts and used for various earmarked purposes.
3. HB 564 creates the Primary Business Workforce Training Program with the authorization to borrow up to $10 million for use as grants. Loan repayments are calculated on the number of new jobs created, expected to be 350 in fiscal 2004 and 800 in fiscal 2005. Additional income tax revenue to the general fund as a result of these jobs (expected to be $122,238 in fiscal 2004 and $525,709 in fiscal 2005) is transferred from the general fund to the Office of Economic Development to repay the loan.
4. HB 452 provides for a 30 percent income tax and corporation tax credit for contributions to a new developmental disability services state special revenue account. Thirty percent of the money in the account for which a tax credit will be claimed must be transferred to the general fund. Any amount transferred to the general fund in excess of the amount of the credits actually taken must be transferred back to the developmental disability services account. The amounts (if any) of this transfer out of the general fund are unknown.

Figure 5
General Fund Non-budgeted Transfers
Fiscal Years 2003-2005
(in millions)

MCA Cite	Name	Fiscal 2003	Fiscal 2004	Fiscal 2005
Prior				
15-1-122	HB 124 - Adoption services	$0.037	$0.040	$0.044
15-1-122	HB 124 - to DOT (amended by HB5 SS)	0.075	2.961	3.005
15-1-122	HB 124 - Junk vehicle titling fee	0.453	0.463	0.463
15-1-122	HB 124 - Junk vehicle registration fee	1.030	1.055	1.055
15-1-122	HB 124 - Weed registration fee	1.591	1.629	1.629
15-1-122	HB 124 - Weed fee OHV FILT	0.023	0.027	0.026
15-1-122	HB 124 - OHV decal fee	0.119	0.122	0.122
15-1-122	HB 124 - OHV duplicate decal fee	0.000	0.000	0.000
15-1-122	HB 124 - Watercraft decal fee	0.130	0.133	0.133
15-1-122	HB 124 - Snowmobile decal fee	0.121	0.124	0.124
15-1-122	HB 124 - Snowmobile duplicate decal fee	0.000	0.000	0.000
15-1-122	HB 124 - Parks recreational fee	0.218	0.224	0.224
15-1-122	HB 124 - Watercraft FILT 20%	0.249	0.292	0.289
15-1-122	HB 124 - Highway patrol retirement	0.317	0.324	0.324
15-1-122	HB 124 - DOT senior transportation	0.321	0.329	0.329
15-1-122	HB 124 - Veterans license plates	0.152	0.156	0.156
15-35-108	Research & commercialization (HB 5 SS)	3.165	3.650	3.650
17-3-240	To mineral impact account (HB 226)	1.044	2.934	5.745
39-71-2352(6)	Old state fund shortfall	Unknown	Unknown	Unknown
Subtotal		$9.044	$14.462	$17.318
New (2003 Legislature)				
15-1-122	Temporarily eliminate transfer to DOT (HB 217)	NA	(2.961)	(3.005)
15-1-122	Trailer registration fee to Highway Patrol (HB 559)	NA	0.234	0.186
15-1-122	Search & rescue surcharge (SB 112)	NA	0.034	0.051
15-1-122	Vehicle registration fee for parks (SB 336)	NA	1.059	2.023
15-1-122	Vehicle registration fee for veterans (SB 401)	NA	0.413	0.704
39-11-203	Loan costs for job credits (HB 564)	NA	0.122	0.526
53-20-171	Development disability tax credit (HB 452)	NA	Unknown	Unknown
Subtotal		$0.000	($1.099)	$0.485
Total		$9.044	$13.363	$17.803

FEDERAL MATCH FUNDS LOST DUE TO DEFICIT REDUCTION

Many state programs are funded through a combination of federal funds and state funds. When the federal government partners with the state to support certain activities, the state must often either provide funds on a matching basis based upon formulas, or must maintain expenditures at a pre-determined level (maintenance of effort, or MOE). Consequently, measures to reduce a general fund deficit can result in the loss of funds used to match or maintain MOE, with the result that federal funds can be lost.

As shown in Figure 6, the legislature attempted to maintain both matching funds and maintenance of effort requirements, with the result that the 2005 biennium budget results in the loss of only about $0.6 million federal funds.

Figure 6
Lost Federal Funds as a Result of Budget Balancing Actions
2005 Biennium

ency/Function	Biennial General Fund Reduction	Biennial Federal Reduction	Comments
Military Affairs/ DES	(139,907)	(140,177)	
Judiciary/Citizen's Review Board	(300,000)	(372,307)	Eliminate funding for the Citizen's Review Board which received federal reimbursements from IV.E Foster Care & Adoption funds
WIC Farmer's Market Vouchers	(25,796)	(103,184)	
Total	(465,703)	(615,668)	

ACTIONS TO REDUCE PRESENT LAW EXPENDITURES

As stated earlier, HB 2 and HB 13 contain expenditures that are $94.8 million below present law ($104.9 million if the pay plan is excluded). The legislature took a number of actions to reduce expenditures, as shown in Figure 7.

Figure 7
Changes from Estimated General Fund Present Law
2005 Biennium
in Millions

Component	Amount
2005 Biennium Below Present Law*	$ 94.8
Funding Switches	(48.3)
Non-duplicative Fee Changes	(0.5)
Specific Service Reductions	(13.4)
Unspecified Reductions	(48.6)
Other Miscellaneous Changes	15.9

*104.9 million if the pay plan is excluded.

The following sections provide more detail on: 1) funding switches, 2) all HB 2 fee changes (including those duplicated in funding switches); 3) specific service reductions; and 4) unspecified reductions.

FUNDING SWITCHES

Figure 8 shows the funding switches that were made from present law. As shown, the legislature added over $60.0 million in other funds, and replaced almost $48.2 million in general fund. The funding switches encompass a large part of state government, with about 60 percent of the general fund replaced through three actions in human services: 1) use of tobacco settlement funds in accordance with the provisions of I-146; 2) creation of the prevention and stabilization fund; and 3) refinancing. Please note that some of these switches duplicate the fee changes discussed later.

Funding switches generally maintain present law services by providing alternative funding. Therefore, if funding switches are excluded, general fund present law reductions are less than $50 million in the final legislative budget.

Figure 8
Funding Switches*
2005 Biennium

Agency/Program	General Fund Biennium	Other Funds Biennium	Comments
Justice/Criminal Investigation	(2,210,352)	2,210,352	Included in fee increase worksheet. Replace general fund with state special.
Justice/Information Technology Services	(241,633)	580,960	Included in fee increase worksheet. Replace general fund with state special.
DNRC/Water Resources	(448,000)	448,000	Change ARM 36.12.103 to reflect a 100 percent increase in water rights filing fees/ replace general fund with state special
DNRC/Water Resources	(46,000)	46,000	Change ARM 36.12.103 to require water rights applicants to pay noticing fees/ replace general fund with state special
DNRC/Water Resources	(328,000)	328,000	State special revenue in the water right appropriation fund for water rights work
DNRC/Forestry	(173,150)	173,150	Foresters funded with federal funding
FWP/Parks Division	(160,000)	160,000	Funding switch from parks earned revenue to federal Wallop-Breaux
DEQ/ Planning Prevention	(100,000)	100,000	Funding switch from general fund to federal funding
Gov/Executive Office	(127,179)	127,179	Eliminate general fund for the Mental Health Ombudsman and replace with federal Medicaid reimbursement.
Gov/Executive Office	(100,739)	100,739	Eliminate general fund for the Consensus Council and replace with state special revenue authority
Auditor/Securities Program	(758,799)	758,799	Eliminate general fund and replace with state special revenue collected from portfolio revenue. Since unspent portfolio revenue transfers to the general fund, there is no net impact to the general fund
Judiciary/Boards & Commissions	(50,000)	50,000	Reduce general fund and replace with state special revenue collected from class registration fees for judges training. Since class registration fees were previously deposited to the general fund, there is no net impact to the general fund.
Judiciary/Supreme Court Operations	(71,000)	71,000	Automation surcharge replaces general fund for computer replacements and other IT needs
Administration/Admin Financ Services	(913,878)	918,065	Establish an indirect cost pool for central services
Administration/agencywide	94,333		General fund increases in programs to pay for indirect cost pool
Administration/General Services	(64,527)	64,527	Move 0.60 FTE to funding out of proprietary funds (Statewide Fueling Network)
Administration/Consumer Affairs Office	(459,142)	459,142	Funding switch for Consumer Affairs Office
Administration/General Services	(853,727)	853,727	Fund Capitol Building maintenance with Capitol Land Grant
Ag/Central Management Div.	(33,356)	33,356	Replace general fund within Central Management Division with Pesticide state special revenue funding.
Agriculture/Apiary Program	(96,207)	106,672	Restructure/Increase Apiary registration fee structure
Ag/Ag Sciences Division	(22,960)	22,960	Replace general fund in Pesticide program with Pesticide state special revenue funding.
Labor and Industry	(1,209,223)	1,209,223	Replace general fund with ESA funding in all or a portion of: Displaced Homemaker program, Jobs for Montana's Graduates, Hearings Bureau, Human Rights Bureau, and Office of Community Service.
Justice	(6,284,386)	6,284,386	Partially replace general fund in Motor Vehicle Division with highways state special revenue.
Justice	(2,370,287)	2,370,287	Replace general fund for prisoner per diem costs with highways state special revenue
Military Affairs Challenge Pgm**	2,250,880	(2,250,880)	Replace ESA funds in the Executive Budget with general fund.
Following Items Related to the Department of Public Health and Human Services			
General Fund Replaces Fed Institutional Reimbursement; Fed Revenue to Gen. Fund	6,360,238	(6,360,238)	Replace federal funds with general fund; deposit federal funds as revenue to the general fund
General Fund Reduction due to Refinancing - CFSD	(5,411,920)	5,411,920	Refinance costs with Federal Title IV-E and Medicaid Funds
Gen. Fund Reduction, Refinancing Comm Supp/Supp Living - No Svc Reduction - DSD	(2,848,790)	7,569,871	Refinance costs with Federal Medicaid
Gen. Fund Reduction, Refinancing of Cong. Living - No Svc Reduction - DSD	(3,600,000)	9,566,004	Refinance costs with Federal Medicaid
Gen. Fund Reduction, Increase Soc. Sec. for FC Cases - CFSD	(256,640)	431,640	Obtain federal Soc. Security to offset FC costs
Gen. Fund Reduction, Increase Fed. Funds for FC Cases - CFSD	(649,007)	1,209,007	Use county funds to offset general fund Medicaid match for senior community services
Offset General Fund with County Funds - Nursing Home Intergovernmental Transfer	(2,000,000)	2,000,000	Refinance costs with Federal Title IV-E Funds
Gen. Fund Reduction, Increase Fed. Funds for Children's Svcs - DSD	(1,000,000)	1,000,000	Refinance costs with Federal Medicaid
Offset General Fund with Lien and Estate Collections from Former Medicaid Recipients	(325,980)	325,980	Offset general fund Medicaid match with collections from the estates of former Medicaid recipients
Tobacco Settlement Funds (I-146)	(10,623,232)	10,623,232	No Service Reduction - Refinance costs with tobacco settlement funds allocated by I-146
Prevention/Stabilization - DPHHS	(13,033,996)	13,033,996	General fund reductions due to funding items from state special revenue in the proposed Stabilization and Prevention Fund.
Total	(48,166,659)	60,037,056	

*May be some duplication with "Fee Changes" worksheet.
**Change from Executive Budget, which funded the program with ESA funds.

FEE CHANGES

The following figure shows that the legislature made a number of fee changes. Please note that the table includes those fee changes reflected in HB 2 only, and duplicates some entries in the "Funding Switches" table. The legislature also made a number of other changes in fees for which other appropriation authority was made. The largest of these were utilization fees on nursing homes and hospitals, which are anticipated to generate almost $25 million over the biennium. For a further discussion, see page 127. Also, please note that tuition increases adopted by the Board of Regents are not included.

As shown in Figure 9, over $16.8 million in additional or new fees were added, including over $3.1 million that replaced or reduced general fund expenditures.

Figure 9
Fee Changes Reflected in HB 2*
2005 Biennium

Agency/Program		Biennial Impact General Fund	Biennial Impact Other Funds	Bill # (if required)	Comments
Justice	Justice/Gambling Control Division		720,000	HB 162	Increase in gambling permit fee to make account solvent for 2005 biennium
Justice	Justice/Motor Vehicle Division		4,400,000	HB 261	$5 increase in the certificate of ownership fee on vehicles to fund automation debt service of $4.4 million. Debt service appropriated in HB 2
Justice	Justice/Division of Criminal Investigation	(2,210,352)	2,210,352	HB 124	$10 surcharge on criminal convictions in courts of limited jurisdiction to fund Law Enforcement Academy and replace general fund
Justice	Justice/Information Technology Services	(241,633)	580,960	SB 128	Increase fee on name-based background checks and dedicate revenues to fund background check functions in the division. (Fee to be established by agency.)
Livestock	Livestock/Diag. Lab/Milk and Egg Progam		699,103	HB 311	Require license on all classes of milk
Livestock	Livestock/Diagnostic Lab	(20,000)	1,434,572		Increase Diagnostic Lab fees
Agriculture	Agriculture/Apiary Program	(96,207)	106,672	HB 62	Restructure/Increase Apiary registration fee structure
Agriculture	Agriculture/Ag. Sciences Division		24,200	HB 311	Increase Anhydrous Ammonia Inspection Requirements/Fees
Military Affairs	Military Affairs/Army Guard Program		630,000		Implement shared usage fee for MT Nat. Guard Distance Learning program
Fish, Wildlife, Parks	Fish, Wildlife and Parks		1,380,000	SB 130	Adds a $2.00 fee to the conservation license and will allow access to state school trust land
DPHHS	DPHHS- Health Policy		430,125	SB 464	Increase in fees for food establishment inspection/regulation
DPHHS	DPHHS- Health Policy		22,401	HB 159	Implement licensure/regulation of wholesale food manufacturers
DPHHS	DPHHS- Senior/Long Term Care		11,616	HB 698	Donation at time of title registration to fund education and advisory council for traumatic brain injury
DPHHS	DPHHS- Health Policy		17,500		Pool/spa inspection charge for publicly owned facilities
DNRC	DNRC -- Water Resources Division	(448,000)	448,000		Change ARM 36.12.103 to reflect a 100 percent increase in water rights filing fees
DNRC	DNRC -- Water Resources Division	(46,000)	46,000		Change ARM 36.12.103 to require water rights applicants to pay noticing fees
Judiciary	Judiciary -- Supreme Court Operations	(71,000)	3,659,444	HB 18	$5 increase in the court automation surcharge on case filings in courts of original jurisdiction to fund branch information technology needs of $3.4 million
	Total	(3,133,192)	16,820,945		

*May be some duplication with the "Fund Switches" worksheet.

SPECIFIC SERVICE REDUCTIONS

While a number of reductions were made to agency budgets without a specification of anticipated or desired service reductions, the legislature took specific action in a number of instances. Figure 10 shows reductions to present law for which a specific service impact is targeted. As shown, the most significant reductions in dollar impact are in human services, and include reduced childcare, services to mentally ill, and Medicaid eligibility.

Figure 10
Specific Service Reductions
2005 Biennium

Department/Item		Biennial Gen. Fund	Biennial Total Funds
Judiciary	Eliminate Citizen's Review Board (includes 4.00 FTE)	$ (300,000)	$ (372,307)
Revenue	Reduce property tax services	(938,486)	(938,486)
Commerce	Eliminate Kumamoto Trade Office	(140,000)	
Commerce	Eliminate Community Technical Assistance Program (includes 2.25 FTE)	(541,978)	
Labor and Ind.	Eliminate Apprenticeship and Training Education Offset Grants	(280,000)	
Labor and Ind.	Eliminate Job Registry Program	(32,002)	
Arts Council	Reduce technical asssistance to artists and arts administrators	(54,206)	(54,206)
Arts Council	Reduce Arts Education Program	(30,000)	(30,000)
Arts Council	Reduce Local Community Grants	(32,240)	(32,240)
Historical Society	Reduce Bricks and Mortar Historic Preservation Grants	(45,204)	(45,204)
University System	Eliminate Yellow Bay funding for coalbed methane study (OTO)	(196,500)	(196,500)
Natural Resources and Conservation	Eliminate funding for the Rangeland Management Program	(66,000)	(66,000)
Natural Resources and Conservation	Eliminate funding for the Water Resource Education Program	(96,367)	(96,367)
Justice	Eliminate general fund support for AARS	(461,700)	
DPHHS	Big Brothers Big Sisters - Elimination of all State Support for the Program	(366,528)	(366,528)
DPHHS	**Estimated** Net Impact All Items - Reduced Funding for Childcare	0	(9,000,000)
DPHHS - HCSD	Reduction in County Welfare Office Operations	(576,206)	(576,206)
DPHHS - OTD	Reductions in TEAMS and CAPS contractor services and mainframe costs	(505,501)	(995,304)
DPHHS - Health Policy	WIC Farmer's Market Vouchers	(25,656)	(128,280)
DPHHS - Senior Services	Aging Services - may result in lowered support for feeding programs	(514,000)	(514,000)
DPHHS - Senior Services	Reduce adult protective services grant funds	(100,000)	(100,000)
DPHHS - Child/Adult Health Care	Limit physician visits for adult Medicaid clients to 10 per year	(1,461,370)	(5,342,744)
DPHHS	Medicaid eligibility changes in income test - delay eligibility	(1,596,580)	(5,833,162)
DPHHS - Mental Health Services	Reduced funding for low-income mentally ill adults ineligible for Medicaid*	(5,000,000)	(5,000,000)
Total		$ (13,360,524)	$ (29,687,534)

*Amount is estimated based on a variety of factors including receipt of a federal Medicaid access payment that will defray about $4 million per year in costs.

UNSPECIFIED REDUCTIONS

The legislature made $48.6 million in unspecified general fund present law reductions. As shown in Figure 11, the unspecified reductions are concentrated in two actions: 1) a general reduction based upon the cost of about 200 FTE statewide, applied to all general fund agencies; and 2) the Montana University System. Please note that the table reflects legislative action, only. The Board of Regents voted to replace about $28.1 million, or about 72 percent, of the unspecified reduction in the Montana University System by increasing tuition by an average of about 11 percent each year (prior to the fiscal 2003 surcharge). (Total additional tuition collections are estimated at about $39 million. The balance will be used to fund other initiatives.)

Figure 11
Unspecified Reductions
Legislative Action
2005 Biennium

Agency Number	Program	--- General Fund --- Fiscal 04	Fiscal 05
Legislative Branch	Statewide Personal Service Reduction	(74,851)	(74,851)
Judiciary	Statewide Personal Service Reduction	(255,458)	(255,458)
Governor's Office	Statewide Personal Service Reduction	(42,712)	(42,712)
Governor's Office*	General Operating Reduction	(15,327)	(15,327)
Commissioner of Pol Practices	Statewide Personal Service Reduction	(3,891)	(3,891)
Commissioner of Pol Practices	Ongoing Gov Spending & Special Session Reductions	(56,648)	(56,547)
OPI	Statewide Personal Service Reduction	(49,649)	(49,649)
Board of Crime Control	Statewide Personal Service Reduction	(10,210)	(10,240)
Justice	Statewide Personal Service Reduction	(245,489)	(245,489)
Board of Public Ed	Statewide Personal Service Reduction	(1,711)	(1,711)
Commissioner of Higher Ed**	Montana University System		(39,388,000)
School for Deaf/Blind	Statewide Personal Service Reduction	(61,868)	(61,868)
Arts Council	Statewide Personal Service Reduction	(2,026)	(2,026)
Arts Council	Legislative General Fund Reduction	(12,194)	(12,194)
State Library	Statewide Personal Service Reduction	(10,940)	(10,940)
Historical Society	Statewide Personal Service Reduction	(24,660)	(24,660)
Historical Society	Governor and Public Service Reductions	(210,507)	(210,957)
Environmental Quality	Statewide Personal Service Reduction	(41,861)	(41,862)
Livestock	Statewide Personal Service Reduction	(7,614)	(7,614)
DNRC	Statewide Personal Service Reduction	(209,190)	(209,190)
Revenue	Statewide Personal Service Reduction	(435,648)	(435,648)
Administration	Statewide Personal Service Reduction	(55,138)	(55,138)
Appellate Defender	Statewide Personal Service Reduction	(2,334)	(2,334)
Agriculture	Statewide Personal Service Reduction	(8,804)	(8,804)
Corrections	Statewide Personal Service Reduction	(831,651)	(831,651)
Commerce	Statewide Personal Service Reduction	(13,770)	(13,770)
Labor and Industry	Statewide Personal Service Reduction	(19,040)	(19,040)
Military Affairs	Unspecified GF Reduction DES/VAD	(87,435)	(88,391)
Military Affairs	Statewide Personal Service Reduction	(48,508)	(48,508)
DPHHS	Statewide Personal Service Reduction	(1,245,030)	(1,245,030)
DPHHS	Legislative General Fund Reduction	(500,000)	(500,000)
	Total	(4,584,164)	(43,973,500)

*Mental Disabilities Board of Visitors
**Biennial amount. Included in executive budget and approved by legislature.

FUND BALANCE ADEQUACY/RESERVES

Experts indicate that recovery from the recent economic downturn will be slow. Events of the past two years have shown that the state's fiscal stability is not immune to economic and political changes, globally and nationally. General economic factors that have had an impact resulting in much slower growth in state revenues during fiscal 2002 and fiscal 2003 include significantly reduced values in equity markets and lower interest rates. The economic outlook for the 2005 biennium remains uncertain.

Attaining general fund budget stability means more than setting appropriations equal to anticipated revenues, with a positive ending fund balance serving as a safety net. The adequacy of the state fund balance can signify the difference between whether or not the state is forced to confront the unpleasant consequences of fiscal instability.

Montanans are all too familiar with the consequences of general fund balance inadequacy. In the late 1980's and early 1990's, the state general fund experienced a deficit between revenues and disbursements. Much of the growth in the disbursement rate is a result of natural growth in expenditures due to population, inflation and/or caseload and enrollment increases, as well as supplemental spending for such contingencies as fire suppression. Revenue growth in the state has not always kept pace with expenditure growth. During the 2003 biennium, actual revenue growth has been well below forecasts, primarily because of reduced income tax collection and lower interest rates, circumstances that could not be predicted when the 2003 biennium budget was being approved.

The Fifty-seventh Legislature adjourned from the 2001 regular session with a projected 2003 biennium general fund ending balance of $54 million (2.3 percent of biennial appropriations). While revenues came in strong for the first months of the biennium, in November 2001 the Legislative Fiscal Division reported a significant downturn in general fund revenues. By the end of the first fiscal year, revenue estimates for the biennium had dropped $153 million. In June 2002, the Governor directed statutory spending reductions of $23 million in fiscal 2003 and called the legislature into special session to close the remaining gap to achieve an acceptable ending fund balance reserve. The legislature adopted $59 million in budget balancing actions and adjourned with a $40 million projected balance. Revenues remained unstable as the Fifty-eighth Legislature prepared for deliberation of the 2005 biennium budget.

Recognizing that budgetary imbalances occur, the state can either take a reactive or a proactive approach. During the 1993 and 1995 biennia, the state held three special legislative sessions to deal with budget shortfalls. Another occurred in August of 2002. Although special sessions allow lawmakers the ability to address issues relative to revenues and expenditures, special sessions can cost the taxpayers approximately $47,000 per day. The need for special sessions is also closely scrutinized by the national agencies that rate the state's debt. Rating agencies also use a state's general fund balance as a percent of revenues as one of the key financial indicators for credit analysis.

Again from a reactive stance, budgetary fluctuation can be temporarily resolved through spending reductions. In accordance with 17-7-140, MCA, the Governor can authorize spending reductions: "...in an amount that ensures that the projected ending general fund balance for the biennium will be at least 1 percent of all general fund appropriations during the biennium." Essentially, the executive branch assumes control of the budget decision-making process by implementing and prioritizing spending reductions. Further, budgetary imbalances can be addressed only from one side of the equation –

expenditures – and even then, 50 percent of the spending authority cannot be reduced by the Governor. This means that legislative priorities could potentially get lost in the process.

Because of the cost and disadvantages of taking a reactive approach to budget imbalances, a more effective method may be to approach these issues proactively through provision of adequate fund balance reserves. National fiscal experts such as the National Conference of State Legislatures (NCSL) recommend a reserve fund balance of three to five percent of total appropriations or revenues. Because Montana's budget is implemented on a biennial basis -- resulting in considerably more risk than an annual budgeting process -- the three to five percent should be applied to biennial totals. At a minimum, the budget process should include a general fund ending fund balance of 2.5 percent of total biennial appropriations or revenues. For Montana, with a total general fund budget of $2.6 billion, this equates to a minimum $65.0 million ending fund balance. The revenue volatility during the current biennium might suggest that a higher reserve would be more prudent.

The provision of an adequate general fund balance is essential to achieving a sound financial foundation. The level of fund balance reserves must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases, and in the 2005 biennium, economic uncertainty is predominant. It is even more important since Montana is one of only four states that do not have a rainy day fund provision. Note that during the 2003 legislature, five bills were introduced that included provisions for a rainy day fund. Select concepts from these bills were combined into one bill that passed out of the House but failed to advance in the Senate.

The legislative budget for the 2005 biennium included an ending fund balance of approximately $46.2 million, or 1.7 percent. In addition, the approved budget is relying on projections of improving revenue growth in the second year of the biennium.

STATUS OF TOBACCO SETTLEMENT FUNDS

Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 37 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payment: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two in fiscal 2000 with an additional one per year in fiscal 2001, 2002, and 2003); 3) on-going annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The Master Settlement Agreement places no restrictions on how states are to spend the money. Contrary to popular belief, the payments will be received in perpetuity.

REVENUE

The total amount of tobacco settlement funds available to Montana is affected by a number of adjustments. The two most important are the adjustments for inflation and volume of cigarettes shipped nationally. The amount of Montana's annual share will increase by a minimum amount of three percent or more if inflation is greater than three percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. Figure 12 shows the revenue Montana has received through fiscal 2002 and the amounts to be received through fiscal 2005, as estimated by the 2003 legislature.

DISTRIBUTION

In fiscal 2000, the revenue received from the Master Settlement Agreement was deposited to the general fund. However, due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, beginning in January 2001, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be distributed to the trust fund, the revenue estimates assume 40 percent. From fiscal 2001 through fiscal 2003, the remainder of the money (60 percent) continues to be deposited into the general fund. Due to passage of Initiative 146 by the electorate in November 2002 (and as amended in SB 485 by the 2003 legislature), beginning fiscal 2004, 32 percent of the total tobacco settlement money funds tobacco prevention and human services programs and 17 percent funds the Children's Health Insurance Program and can be used to match federal Medicaid money. The remaining 11 percent of the total settlement money is deposited to the general fund. Figure 12 shows actual amounts distributed between the general fund, the trust fund, and state special revenue accounts through fiscal 2002 and the amounts estimated to be distributed from fiscal years 2003 through 2005. SB 485 also transfers $5,831,360 in fiscal 2004 and $6,057,600 in fiscal 2005 from the account receiving the 32 percent allocation to a newly created prevention and stabilization state special revenue account. Money in the account is to be used by the Department of Public Health and Human Services to finance, administer, and provide health and human services.

As stipulated in the Montana Constitution, interest earnings from the tobacco trust are to be distributed: 1) 90 percent for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage related to the health care needs of the people of Montana; and 2) 10 percent to the tobacco trust. Figure 12 also shows these actual and estimated amounts. The trust fund balance is expected to be $36.1 million at the end of fiscal 2003, $47.6 million at the end of fiscal 2004, and $59.5 million at the end of fiscal 2005. Money in the tobacco trust can be spent if approved by 2/3 of each house of the legislature. Appropriations of principal, income, or interest from the trust

fund cannot be used to replace state or federal money that support tobacco disease prevention programs that existed on December 31, 1999.

Figure 12

Tobacco Settlement Revenue						Tobacco Trust Interest Earnings		
			State Special Revenue					
Fiscal Year	General Fund	Trust Fund	Prevention & Human Ser.	CHIPS & Med. Match	Total	State Special	Tobacco Trust	Total
2000 Actual	$34,804,411	$0	$0	$0	$34,804,411	$0	$0	$0
2001 Actual	15,990,244	10,650,750	0	0	26,640,994	98,519	71,172	169,691
2002 Actual	18,647,410	12,431,607	0	0	31,079,017	1,015,407	22,212	1,037,619
2003 Actual	19,025,400	12,683,600	0	0	31,709,000	1,566,900	174,100	1,741,000
2004 Estimate	3,104,530	11,289,200	9,031,360	4,797,910	28,223,000	2,217,600	246,400	2,464,000
2005 Estimate	3,182,300	11,572,000	9,257,600	4,918,100	28,930,000	2,927,700	325,300	3,253,000
Totals	$94,754,295	$58,627,157	$18,288,960	$9,716,010	$181,386,422	$7,826,125	$839,184	$8,665,310

PUBLIC SCHOOL FUNDING

The 58th legislature made major changes in the funding of teacher retirement costs, increased entitlements modestly, and reduced HB 124 block grants to districts and county retirement accounts by 26 percent. The net impact on the state spending on schools was close to present law amounts.

The legislature approved all present law adjustments for state and federal appropriations, approved all new proposals for federal spending, passed SB 424 (the school funding bill) and SB 461 (the reappraisal mitigation bill), all affecting state appropriations for schools during the 2005 biennium. In addition, special education was increased.

The legislature approved $78.1 million in increased federal appropriations for Title 1 (low income students), Special Education, Teacher Training and the "No Child Left Behind Act", compared with spending in fiscal 2002.

The present law adjustments included changes from fiscal 2002 in several state distribution items for the 2005 biennium. Compared with fiscal 2002, present law adjustments for the 2005 biennium included a reduction of $15.0 million general fund for reduced enrollment, and an increase of $13.2 million general fund for higher retirement Guaranteed Tax Base (GTB), special education, and other categorical appropriations. Also included was a one-time reduction of $91.2 million for removal of the guarantee account (funded by common school interest and income) from HB 2. The guarantee fund is statutorily appropriated during the 2005 biennium, but did not exist in fiscal 2002. The Base Aid costs now funded by the guarantee account were funded out of the general fund in fiscal 2002.

Enrollments in K-12 continue to decline as shown in Figure 13.

Figure 13
Average Number Belonging (ANB) in Montana Schools

	Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total	Percent Change
Actual & Present Law							
A	1994	111,507		45,443		156,950	
A	1995 *	114,772	2.9%	47,818	5.2%	162,590	3.6%
A	1996	114,734	0.0%	49,045	2.6%	163,779	0.7%
A	1997	114,160	-0.5%	50,582	3.1%	164,742	0.6%
A	1998	112,449	-1.5%	51,432	1.7%	163,881	-0.5%
A	1999	109,852	-2.3%	51,885	0.9%	161,737	-1.3%
A	2000	107,724	-1.9%	52,022	0.3%	159,746	-1.2%
A	2001	106,014	-1.6%	51,524	-1.0%	157,538	-1.4%
A	2002	103,633	-2.2%	50,794	-1.4%	154,427	-2.0%
A	2003	101,133	-2.4%	50,366	-0.8%	151,499	-1.9%
E	2004	99,436	-1.7%	49,989	-0.7%	149,265	-1.5%
E	2005	97,333	-2.1%	49,329	-1.3%	146,541	-1.8%

* includes for the first time, students who spend more than 1/2 day in special education class

Between fiscal 2002 and fiscal 2005, Average Number Belonging (ANB), a measure of enrollment, is expected to decline by 7,886. On a yearly basis ANB is expected to decline between 1.5 percent and 1.8 percent per year. Declines in ANB are expected to continue through 2012.

Figure 14 shows the impact of all the major bills affecting the HB 2 appropriation for OPI's distribution to schools program. A discussion of each follows.

Figure 14
Distribution to Schools - Legislation 2005 Biennium

	Fiscal 2004	Fiscal 2005
SB 424		
Base Aid	$6,893,400	$12,730,900
Transportation Aid	1,700,000	1,700,000
School Facilities	4,020,735	4,051,293
HB124 Block Grants	(16,435,035)	(16,559,942)
Total SB 424	(3,820,900)	1,922,251
HB002 - Special Education	0	1,500,000
SB 454 - Adjust HB 124 Block Grants		
Base Aid	(33,000)	(33,150)
HB 124 Block Grants	189,855	191,297
SB 461 - Mitigate Reappraisal	680,000	1,560,000
HB 135 - Base Aid	0	(16,100)
HB 2 - Base Aid / I&I	(14,317)	(20,243)
SB 130 - Base Aid / I&I	(254,220)	(508,440)
SB 409 - Base Aid / I&I	300,000	0
HB 537 - Base Aid / I&I	40,000	0
SUM - All Other	908,318	1,173,364
Total	(4,247,870)	5,075,498
Net Biennium		$827,628

I&I refers to interest and income revenue deposited in the guarantee account, which in addition to the appropriation in HB2 is used to pay for base aid and the timber for technology programs. The bills with this designation had no impact on Base aid itself, but reflect legislated changes in I&I revenue, thus impacting the HB2 share of of Base Aid.

MAJOR K-12 LEGISLATION

The major piece of legislation affecting state spending on schools was SB 424. SB 424 did the following:

- Increase school district entitlements by 1.1 percent in fiscal 2004 and by 2.07 percent in fiscal 2005
- Require federal funds to pay retirement costs for federally salaried employees, excluding school food and special education cooperative employees.
- Eliminate HB 124 block grants to the county retirement accounts
- Increase district transportation funding – paid for by elimination of one-half of HB 124 block grants to district transportation funds
- Increase school facility reimbursements – paid for by eliminating all HB 124 block grants to school facility funds
- Establish inflation factors for entitlements in the 2007 biennium and beyond.

Relative to present law, SB 424 saves the state $3.8 million in fiscal 2004 and increases state spending by $1.9 million in fiscal 2005, for a net savings of $1.9 million for the biennium. See the Office of Public Instruction narrative Section E, Volume 4, page E-15 of the LFD Fiscal Report for a more detailed explanation of SB 424.

In HB 2, the legislature increased the state appropriation for special education by $1.5 million in fiscal 2005.

SB 454 – Beginning in July 1, 2003, SB 454 changes the HB 124 block grants to the county retirement accounts and the county transportation account to reflect more accurate data on vehicle revenue given up to the state in HB 124, passed during the 2001 session.

SB 461 – Beginning for tax year 2003, SB 461 mitigates the impact of reappraisal on class 4 residential and commercial property and class 3 agricultural land. See Volume 2 – "Revenue Estimates" – for an explanation of the property tax provisions of SB 461. Reappraisal would have saved spending on state Base Aid if it had been allowed to proceed unmitigated. The mitigation increases Base Aid by $680,000 in fiscal 2004 and by $1.6 million in fiscal 2005.

HB 135 – Beginning July 1, 2003, students who are enrolled in private day-treatment under an approved individualized education program will no longer count for Average Number Belonging (ANB) purposes. Because ANB counts lag enrollment counts by one year, the impact on the general fund will be a savings of $16,100 less Base Aid in fiscal 2005.

Other bills affected the HB 2 appropriation for Base Aid by either increasing or decreasing revenue to the guarantee account that also pays a portion of Base aid. These bills are:

HB 2 - The legislature changed appropriations from the trust land administration account, revenue to the guarantee account, and the statutory appropriation for Base Aid. As a result, the HB 2 Base Aid appropriation was adjusted downward by $14,317 in fiscal 2004 and by $20,234 in fiscal 2005.

SB 409 - The Department of Natural Resources and Conservation is authorized to conduct various inventories and assessments of land acquired in the Crown Butte land exchange. The department estimates that archaeological surveys and market assessments will cost $300,000 for the biennium to be paid from common school trust mineral royalties deposited to the trust land administration account. Since mineral royalties net of amounts deposited to the account are deposited to the guarantee account and statutorily appropriated for Base Aid, revenues to the guarantee account will decrease by $300,000. Thus, the HB 2 Base Aid appropriation was adjusted upward by $300,000.

SB 130 - The Board of Land Commissioners is authorized to enter into an agreement with the Department of Fish, Wildlife and Parks to compensate trust land beneficiaries for allowing hunting, fishing, and trapping on trust lands. A person who hunts, fishes, or traps on state lands would then not be required to purchase a recreational use license. The legislation also increases the resident and nonresident conservation licenses by $2.00. The HB 2 Base Aid appropriation was adjusted downward by $254,220 in fiscal 2004 and by $508,440 in fiscal 2005.

HB 537 - The Department of Natural Resources and Conservation is directed to commission a new study to determine the annual sustainable yield on forested state lands. The department estimates that the new study will cost $40,000 to be paid from the trust land administration account. Since increased expenditures from the account result in less money deposited to the account, the guarantee account revenues and the statutorily appropriation for Base Aid will decrease by $40,000. As a result, the HB 2 Base Aid appropriation was adjusted upward by $40,000.

Until the new study is completed, the legislation directs the department to set the annual timber sale target at 50 million board feet. Since the current sustainable annual harvest rate is 42.2 million board feet, additional timber harvest will result in additional revenue. It is estimated that revenue to the guarantee account to purchase school technology will increase $132,134 in fiscal 2004 and $499,495 in fiscal 2005. This money is statutorily appropriated.

The net impact of this legislation is an increase of $0.8 million in state spending during the 2005 biennium compared with present law amounts for the 2005 biennium. Not shown in the table is the additional $0.6 million in added spending for school technology from the increased timber harvests in HB 537.

BIENNIAL COMPARISONS

Another way to view the impact of legislation on state spending on schools is a biennial comparison between the 2005 biennium and the 2003 biennium. The 2003 biennium includes actual spending in fiscal 2002 plus appropriated spending in fiscal 2003. The 2005 numbers are the appropriations for the distribution to schools. The comparison includes appropriations (or spending) from all state accounts and from federal accounts.

Figure 15
Comparison of State and Federal Aid to Schools for 2005 Biennium and 2003 Biennium

	FY2002 Actual	FY2003 Appropriated	FY2004 Appropriated	FY2005 Appropriated	2003 Biennium Actual/Approp	2005 Biennium Appropriated	Biennial Difference
State Spending/Approps							
Base Aid	$438,708,896	$399,357,192	$401,286,894	$401,402,820	$838,066,088	$802,689,714	($35,376,374)
Special Ed	33,904,056	34,916,846	34,912,640	36,412,640	68,820,902	71,325,280	2,504,378
All Other GF	83,567,335	82,150,485	72,736,718	73,257,465	165,717,820	145,994,183	(19,723,637)
Guarantee Acct	0	47,271,424	44,926,671	46,950,178	47,271,424	91,876,849	44,605,425
State Special	906,750	5,050,000	750,000	750,000	5,956,750	1,500,000	(4,456,750)
Total Spending/Approps	557,087,037	568,745,947	554,612,923	558,773,103	1,125,832,984	1,113,386,026	(12,446,958)
Federal Spending/Approps	87,782,182	107,000,000	121,345,668	132,277,417	194,782,182	253,623,085	58,840,903
Total	$644,869,219	$675,745,947	$675,958,591	$691,050,520	$1,320,615,166	$1,367,009,111	$46,393,945

As shown in Figure 15, state appropriations decline by $12.4 million in the 2005 biennium compared to spending in the 2003 biennium. The major part of the difference is the additional spending in fiscal 2003 for the flexibility fund ($4.3 million) and the added entitlements that were enacted by the 2001 legislature which increased entitlements by 1.88 percent in fiscal 2003.

Appropriations for federal funds in the 2005 biennium increase by $58.8 million over spending in the 2003 biennium, due mainly to increases in funds for Title I, special education, and the “No Child Left Behind” Act.

DISTRICT COURT ASSUMPTION

BACKGROUND

Prior to July 1, 2002, Montana district courts were primarily funded by the counties, except district court judge's salaries and reimbursements to counties for some costs related to criminal felony cases, which were provided by the state. This changed during the 2001 legislative session when SB 176 was approved, requiring district courts to become a state administered and funded program, along with HB 124, intended to simplify the state and local government funding structure.

Under SB 176, the district courts, with the primary exception of the clerks of court and the provision of office space, became a state-funded function. Beginning in fiscal 2003, the state Judiciary assumed responsibility for oversight and administration of the 22 courts, including approximately 245 additional FTE. Implementation was accomplished through the efforts of the District Court Council, provided in SB 176 (2001 regular session), along with Judiciary staff.

LEGISLATIVE ACTION

The Fifty-eighth Legislature, in HB 2, provided funding for district court assumption at the Executive Budget level - $37.3 million general fund. This is over $250,000 per year more than the fiscal 2003 appropriation, and is established as a biennial appropriation, and is about $1.8 million less than the amount requested by the Judicial Branch during the General Government and Transportation Appropriation Subcommittee hearings.

The Fifty-eighth Legislature was concerned with uncertainties regarding funding adequacy due to the state's limited ability to control or predict those costs that vary with caseload, including juror fees, witness fees, psychiatric examinations, indigent defense, court appointed special advocate (CASA)/guardian ad litems (GALs), youth court/juvenile probation, and youth in need of care. Due to these uncertainties, the legislature provided an additional appropriation in HB 2 language of up to $1.8 million general fund from 2003 biennium general fund reversions of the Judicial Branch. Branch reversions are estimated at about $645,900 based on fiscal 2002 actual reversions plus fiscal 2003 spending reductions. If variable costs exceed the appropriation, the Judiciary will have to either reduce other operations or seek a supplemental appropriation.

Other legislative actions related to district court assumption include:

1. Senate Bill 490 – SB 490 was initiated by a subcommittee of Senate Finance and Claims and Senate Judiciary, and adopted by the legislature, to sort out court assumption costs and responsibilities. Major provisions include:
    a. Clarifying when district court expenses must be paid directly by the state or paid by the counties and reimbursed by the state.
    b. Requiring the Judiciary to pay costs of jury supplies and meals not previously paid by the state (about $23,200 over the biennium).
    c. Applying retroactive county responsibility for accumulated sick and vacation leave for county employees who became state employees upon state assumption of district court expenses (about $769,600 over the biennium).
    d. Creating a state special revenue account for deposits of county payments and use by the Supreme Court for costs of the assumed leave liability.

2. Related HB 2 Appropriations
   a. *Funding for 2.25 FTE* - $185,790 general fund appropriation over the biennium to the Supreme Court Operations Program to fund 2.25 FTE: 1.0 FTE accounting technician to assist with invoice processing to pay expenses for district courts and probation offices in 56 counties around the state; and 1.25 FTE to replace 1.25 FTE that are currently filled, but whose statutory authority was eliminated with the passage of Senate Bill 176 (2001 regular session).
   b. *Juvenile Probation State Special Revenue Authority* - $300,000 state special revenue authority over the biennium to spend fines and fee revenue collected by juvenile probation offices. This revenue source was unknown at the time of district court assumption and will be used to support operations of the juvenile probation offices.

BIENNIUM COMPARISON

The 2005 biennium budget is about $18.9 million more than the 2003 biennium budget as shown in Figure 16. However, the 2003 biennium budget includes funding for only one year since state assumption occurred in mid-biennium. Due to delayed implementation of state district court assumption in the 2003 biennium (July 1, 2003), the fiscal 2002 base contains no district court expenditures, and a full biennium cost is added to the 2005 biennium budget. Funding in the 2005 biennium increases more than $250,000 per year over the fiscal 2003 appropriation.

Figure 16
District Court Assumption Funding Comparison
2005 Biennium to 2003 Biennium

	2003 Biennium Budget (HB 124)			2005 Biennium Budget			Biennium Difference
	Fiscal 2002	Fiscal 2003	Biennial Total	Fiscal 2004	Fiscal 2005	Biennial Total	2005 to 2003
District Court Assumption							
FTE	0.00	245.18	245.18	245.18	245.18	245.18	0.00
Personal Services	$ -	$ 9,316,475	$ 9,316,475	$ 10,778,617	$10,768,670	$ 21,547,287	$ 12,230,812
Operating Costs	-	8,804,084	8,804,084	7,882,167	7,882,166	15,764,333	6,960,249
Equipment	-	268,786	268,786	-	-	-	(268,786)
DC ASSUMPTION TOTAL	$ -	$ 18,389,345	$ 18,389,345	$ 18,660,784	$18,650,836	$ 37,311,620	$ 18,922,275

District Court Assumption refers to the personal services costs for all FTE and associated operating costs assumed by the state under district court assumption as outlined in SB 176 (2001 regular session). This includes the operating costs of the District Court judges.

For more information on district court assumption, see the corresponding agency narrative in Volume 3; page A-19 of this analysis.

REPLACEMENT OF POINTS

In 1997 and 1999 combined, the legislature authorized the issuance of general obligation bonds in the amount of $32 million for the development of an integrated revenue and tax system for income tax, unemployment insurance (UI) contributions, income modernization, and property tax collected by the Department of Revenue, with part of the funding for a reengineering of the department's business processes. The new system was called the Process Oriented Integrated System (POINTS). The first phase incorporated base administrative functions common to all tax types, the payroll based taxes such as income tax withholding and the UI contributions, and was intended to establish the infrastructure for adding components of the second phase. Although Phase I of POINTS was accepted as complete by the Department of Revenue, the system contained many defects that have plagued the system since its implementation. There were ongoing concerns about the accuracy of the data being maintained by the POINTS system. Phase II work was initiated but continued difficulties with Phase I and similar concerns for the future success of the whole POINTS system caused the entire project to come under heightened review during the 2001-2002 interim.

In the fall of 2002, the executive made the decision to discontinue the development of Phase II of POINTS. In the 2003 session, the legislature passed legislation (SB 271) that requires the replacement of the Phase I modules of this computer system. As part of this action, the legislature transfers (when the UI program is ready for it) the UI contribution portion of the system back to the Unemployment Insurance Division in the Department of Labor and Industry.

SB 271 also provided initial funding for the replacement system. Figure 17 shows the funding provided, including the funding in HB 4 for the UI contribution system.

Figure 17
Funding for POINTS Replacement
2005 Biennium

Description	Source	Auth.	Fiscal 2004	Fiscal 2005	Biennium
Department of Revenue					
Replacement of Federal Funds	GF	SB 271	$0	$714,785	$714,785
Data Clean-up	GF	SB 271	725,400	0	725,400
Conversion Costs	GF	SB 271	440,400	440,400	880,800
Training Costs	GF	SB 271	38,400	32,000	70,400
Debt Service	SSR[1]	SB 271	1,900,000	0	1,900,000
Sub-Total			$3,104,200	$1,187,185	$4,291,385
Information Technology Services Div. (DofA)					
Bond Proceeds for Replacement System	CPF	SB 271	17,000,000	0	17,000,000
Department of Labor & Industry					
UI Contributions System	FF[2]	HB 4	4,023,000	0	4,023,000
			$24,127,200	$1,187,185	$25,314,385

[1] SSR account is funded by assessment against certain taxes collected by the Department of Revenue
[2] Federal funds are from the Reed Act distribution

For the 2005 biennium, $2.4 million general fund (GF), $1.9 million state special revenue funds (SSR), $17.0 million capital projects funds (CPF), and $4.0 million federal funds are appropriated. The state special revenue account is funded by an assessment established in SB 271 of up to 0.45 percent of certain taxes collected by the Department of Revenue, which will determine which taxes through a rule-making process. The rate will be set annually at a level that generates the funds needed for the debt

service payments each year. The $17 million in capital projects funds will come from a loan from the Board of Investments (INTERCAP loan) and is appropriated to the Department of Administration for development of the new Department of Revenue system. The $4.0 million federal funds are from a Reed Act distribution, with spending authorized in HB 4, and are for the cost of developing a UI contributions system.

Other legislation was enacted that relates to this topic as well:

- HB 236 clarified that the remaining bond proceeds could be used for other costs besides development of POINTS and can be part of the funding for the new (replacement) system.
- HB 471 limited the term of financing of information technology systems to the life of the system, by linking it to the loan payback period.

PERSONAL SERVICES FUNDING

PAY PLAN

The legislature passed a pay plan (HB 13) that includes two elements: 1) an increase in employer contributions for health insurance; and 2) and increase of $0.25 per hour in the second half of fiscal 2005. The legislature also provided a personal services contingency. Figure 18 shows the general fund and other funds added by type of adjustment.

Figure 18
Pay Plan by Type of Adjustment
2005 Biennium

Type of Adjustment	General Fund	Other Funds	Total Funds
Insurance Increase	$ 8,177,430	$ 11,734,897	$ 19,912,327
Increase in Pay Schedules	1,861,787	2,859,777	4,721,564
Contingency	1,500,000	3,000,000	4,500,000
Total	$ 11,539,217	$ 17,594,674	$ 29,133,891

Figure 19 shows the increase by year and by entity responsible for distributing the pay plan to individual agencies.

Figure 19
Pay Plan Adjustments by Entity
2005 Biennium

	-- Fiscal 2004 --			-- Fiscal 2005 --			-- 2005 Biennium --		
Entity	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds
Legislative Branch	$ 24,969	$ 6,399	$ 31,368	$ 110,035	$ 28,200	$ 138,235	$ 135,004	$ 34,599	$ 169,603
Consumer Counsel	-	1,277	1,277	-	5,462	5,462	-	6,739	6,739
Judicial Branch	85,726	12,247	97,973	330,568	47,224	377,792	416,294	59,471	475,765
Executive Branch	1,042,381	1,926,519	2,968,900	4,474,666	8,248,297	12,722,963	5,517,047	10,174,816	15,691,863
University System	1,087,384	1,182,729	2,270,113	2,883,488	3,136,320	6,019,808	3,970,872	4,319,049	8,289,921
Subtotal	$ 2,240,460	$ 3,129,171	$ 5,369,631	$ 7,798,757	$ 11,465,503	$ 19,264,260	$ 10,039,217	$ 14,594,674	$ 24,633,891
Contingency*	1,500,000	3,000,000	4,500,000	-	-	-	1,500,000	3,000,000	4,500,000
Total	$ 3,740,460	$ 6,129,171	$ 9,869,631	$ 7,798,757	$ 11,465,503	$ 19,264,260	$ 11,539,217	$ 17,594,674	$ 29,133,891

*Biennial appropriation to the Office of Budget and Program Planning for distribution.

Insurance Increase

The legislature increased the monthly employer contribution to allow the same coverage at no additional cost to the employee. The increase does not cover increases in the cost of dependent coverage, however.

The legislature added $44 per month for calendar year 2004 and an additional $50 per month for calendar year 2005. The legislature then required the $44 per month increase to start on July 1, 2003 (the beginning of fiscal 2004) to build-up the fund reserve. Employer contributions will total $410 on July 1, 2003 and $460 on January 1, 2005. While an increase in funding (with a 4 percent vacancy savings) was provided to agencies for the employer contributions beginning on January 1, no increase was given for the first 6 months of fiscal 2004 for the $44 per month increase to build the reserve. The unfunded cost equates to an additional vacancy savings of about 0.5 percent.

Because the cost of the increase is phased-in over the biennium, the 2007 biennium cost will be about $17.5 million general fund and $25.3 million other funds.

Per Hour Salary Increase

The legislature provided a $0.25 per hour increase for all employees starting on January 1, 2005. The increase is intended to partially offset insurance increases for dependent coverage not addressed in the employer contribution increase discussed above. Because the increase is only in effect for a portion of the biennium, the 2007 biennium cost will be about $7.4 million general fund and $11.4 million other funds.

Personal Services Contingency

In keeping with the practice of the last several biennia, the legislature provided a contingency pool to the executive to distribute to agencies unable to meet vacancy savings targets. General fund of $1.5 million and other funds of $3.0 million over the biennium were appropriated to the Office of Budget and Program Planning.

STATE EMPLOYEES

HB 2 provides funding for a total 10,962.04 FTE state employees in fiscal 2004 and 11,286.46 in fiscal 2005, excluding the Montana University System. These totals represent an increase of 20.24 FTE (0.2 percent) in fiscal 2005 over the fiscal 2003 level used for budgeting purposes. This increase is the lowest in several biennia, and reflects increases due primarily to new or enhanced federal grants and other programs, and decreases due to a number of factors, including program elimination or curtailment and elimination of vacant FTE.

Figure 20: 1) provides a listing of all FTE for which funding was appropriated in HB 2 in the 2005 biennium; and 2) compares this total to the 2003 biennium total. Please note that the listing does not include any FTE that may have been added in the 2003 biennium in budget amendments or other action, or funded through language or statutory appropriations. Because the legislature does not appropriate funding specifically for FTE in the Montana University System, those FTE are not listed in the main part of the table. Also, please note that the table does not include any FTE that may be added through other legislation.

As shown, the largest change occurs in DPHHS, where the net reduction of 53.59 FTE shown is the result of increases for new or expanded federal initiatives and decreases due primarily to the closure of the Eastmont Human Services Center in Glendive and the downsizing of the Montana Mental Health Nursing Care Center in Lewistown. The increase in the Department of Military Affairs is primarily due to the expansion of the Challenge Program and miscellaneous additions, including bioterrorism. The increase in the Department of Labor and Industry primarily reflects the addition of FTE due to the eventual transfer of unemployment insurance payments from the Department of Revenue (the Department of Revenue FTE were not reduced in HB 2; however, a reduction will be made to reflect the transfer).

Figure 20
Total State Employees General Appropriations Act*
2003 Biennium to 2005 Biennium

Section/Agency	Actual Fiscal 2002	Approp Fiscal 2003	Approp Fiscal 2004	Approp Fiscal 2005	FY03-FY05 Difference	Percent Increase
Section A - General Government**						
Legislative Branch	125.27	130.44	124.77	129.94	(0.50)	-0.4%
Consumer Counsel	5.04	5.04	5.04	5.04	-	0.0%
Judiciary****	357.43	364.43	374.68	374.68	10.25	2.8%
Governor's Office	57.00	57.00	55.50	56.00	(1.00)	-1.8%
Commissioner of Political Practices	5.00	5.00	5.00	5.00	-	0.0%
State Auditor	69.50	69.50	71.50	71.50	2.00	2.9%
Transportation	2,170.16	2,171.44	2,164.17	2,176.13	4.69	0.2%
Revenue*****	663.53	669.53	347.03	643.53	(26.00)	-3.9%
Administration***	145.38	145.69	151.07	153.07	7.38	5.1%
Appellate Defender	3.00	3.00	3.00	3.00	-	0.0%
Total Section A	3,601.31	3,621.07	3,301.76	3,617.89	(3.18)	-0.1%
Section B - Health and Human Services						
Public Health and Human Services*****	2,788.09	2,815.58	2,791.49	2,761.99	(53.59)	-1.9%
Section C - Natural Resources and Commerce						
Fish, Wildlife, and Parks	581.18	585.19	628.19	626.48	41.29	7.1%
Environmental Quality	361.03	362.99	356.03	356.03	(6.96)	-1.9%
Livestock	139.49	144.49	145.49	145.49	1.00	0.7%
Natural Resources and Conservation	492.36	496.35	486.26	486.26	(10.09)	-2.0%
Agriculture	109.05	109.55	111.55	111.55	2.00	1.8%
Commerce	68.50	65.00	47.00	47.00	(18.00)	-27.7%
Total Section C	1,751.61	1,763.57	1,774.52	1,772.81	9.24	0.5%
Section D - Corrections and Public Safety						
Board of Crime Control	18.00	18.00	19.00	19.00	1.00	5.6%
Justice	713.20	713.70	712.35	711.60	(2.10)	-0.3%
Public Service Commission	39.00	39.00	39.00	39.00	-	0.0%
Corrections	1,092.80	1,087.30	1,095.80	1,095.80	8.50	0.8%
Labor and Industry	659.64	665.63	664.99	705.24	39.61	6.0%
Military Affairs	114.00	158.00	168.90	168.90	10.90	6.9%
Total Section D	2,636.64	2,681.63	2,700.04	2,739.54	57.91	2.2%
Section E - Education and Cultural Resources						
Office of Public Instruction	114.91	116.51	125.31	125.31	8.80	7.6%
Board of Public Education	4.00	4.00	4.00	4.00	-	0.0%
School for the Deaf and Blind	81.68	81.68	81.68	81.68	-	0.0%
Commissioner of Higher Education	87.06	87.05	90.06	90.06	3.01	
Arts Council	7.00	7.00	7.00	7.00	-	0.0%
State Library Commission	30.50	30.50	28.50	28.50	(2.00)	-6.6%
Historical Society	57.63	57.63	57.68	57.68	0.05	0.1%
Total Section E	382.78	384.37	394.23	394.23	9.86	2.6%
Total - All Sections	11,160.43	11,266.22	10,962.04	11,286.46	20.24	0.2%

*Does not include the Montana University System.
**Secretary of State FTE are all off-budget (proprietary fund)
***Includes 2.0 Consensus Council FTE transferred from the Governor's Office
****Reflects assumption of district courts in fiscal 2002 for comparison purposes. FTE were assumed in fiscal 2003.
*****Fiscal 2003 includes 13.30 FTE in Revenue and 5.00 FTE in DPHHS added in the August Special Session

The net increase of 20.24 FTE reflects increases that offset a number of FTE reductions. These reductions are summarized in Figure 21. Please note that the reduction in FTE does not necessarily equate to termination of employment for a current FTE. In many cases, either positions are vacant or current incumbents will be eligible to apply for other positions within the department or state government. However, while the number of actual reductions in force is not possible to estimate, the employment of some state employees will likely be terminated sometime in the 2005 biennium.

Figure 21
FTE Reductions
2005 Biennium

Section/Agency	Program	FY 2004 FTE	FY 2005 FTE	Biennial Cost General Fund	Biennial Cost Other Funds	Comments
Section A						
Legislature	Audit & Examination	(1.50)	(1.50)	$ (107,589)		Eliminate 1.50 FTE due to a change in audit approach for the MT University System
Judiciary	Supreme Court Operations	(4.00)	(4.00)	(300,000)	(372,307)	Eliminate funding for the Citizen's Review Board that reviews foster care placements
Governor	Executive Office Program	(1.00)	(1.00)	(78,948)	0	Eliminate 1.00 FTE in the Office of Economic Opportunity
Governor	Office of Budget & Program Planning	(1.00)	(1.00)	(109,799)	0	Eliminate 1.00 FTE executive budget analyst
DOT	General Operations Program	(2.00)	(2.00)		(155,197)	Eliminate 2.00 FTE via efficiencies identified in agency
DOT	Construction Program	(5.00)	(5.00)		(387,168)	Eliminate 5.00 FTE through restructuring of district offices administrative functions
DOT	Maintenance Program	(11.03)	(11.03)		(1,037,508)	Eliminate 11.03 FTE identified in agency conducted needs survey
Revenue	Director's Office	(5.00)	(5.00)	(530,600)		Eliminate positions doing change management, performance management, management specialist, and strategic planning
Revenue	Resource Management	(1.00)	(1.00)	(68,575)		Eliminate one training officer position
Revenue	Compliance Valuation and Resolution	(9.50)	(13.00)	(938,486)		Eliminate position doing property tax appraisal services
Revenue	Compliance Valuation and Resolution	(3.00)	(3.00)	(386,459)		Eliminate 3.00 FTE who tested system changes in support of POINTS phase II development
Admin	State Personnel Division	(1.13)	(1.13)	(89,877)		Eliminate 1.13 vacant FTE
Section B						
DPHHS	Human & Community Services	(1.00)	(1.00)	(24,828)	(24,828)	Eliminate various vacant positions
DPHHS	Child & Family Services	(6.30)	(6.30)	(261,860)	(193,302)	Eliminate various vacant positions
DPHHS	Disability Services Division (DSD)	(9.02)	(9.02)	(433,946)	(129,271)	Eliminate various vacant positions
DPHHS	DSD - Change in Mission Eastmont	(40.27)	(72.27)	(140,559)	1,267,819	Decrease in FTE associated with the change in the mission of Eastmont. The legislative budget is $3.8 million general fund less than the Executive Budget due to the change at Eastmont. A portion of this reduction is due to a reduction in FTE.
DPHHS	Nursing Care Center Downsize	(21.56)	(21.56)	(692,042)	(694,926)	About 35 persons will be moved out of the nursing care center into the community; 1 wing will close
DPHHS	Child/Adult Health Resources	(1.00)	(1.00)	(40,418)	(44,722)	Eliminate various vacant positions
DPHHS	Senior/Long Term Care	(1.50)	(1.50)	(81,090)	(34,642)	Eliminate various vacant positions
DPHHS	Addictive/Mental Disorders	(5.00)	(5.00)	(309,952)	(66,420)	Eliminate various vacant positions
DPHHS	Addictive/Mental Disorders	(3.00)	(3.00)			Federal grant funds discontinued
DPHHS	Quality Assurance - FTE Red.	(2.00)	(2.00)	(63,656)	(118,916)	Eliminate various vacant positions
Section C						
FWP	FWP	(9.28)	(9.28)		(658,228)	Eliminate 9.28 FTE vacant seven months or longer
DNRC	DNRC Centralized Services	(3.00)	(3.00)	(134,685)	(134,400)	Eliminate 3.00 FTE deputy director, receptionist, and information support specialist positions
DNRC	DNRC Centralized Services	(1.00)	(1.00)	(142,145)		Eliminate 1.00 FTE attorney position
DNRC	DNRC CARDD	(1.00)	(1.00)	(48,810)	(48,730)	Eliminate 1.00 FTE agriculture engineering specialist
DNRC	DNRC CARDD	(1.00)	(1.00)	(105,191)		Eliminate 1.00 FTE resource specialist
DNRC	DNRC Water Resources	(1.00)	(1.00)	(116,596)	(111,780)	Eliminate 1.00 FTE Civil engineering specialist and related operations costs
DNRC	DNRC Reserved Water Rights	(1.00)	(1.00)	(76,177)		Eliminate 1.00 FTE administrative support position
DNRC	DNRC Forestry	(4.15)	(4.15)	(349,893)	(91,433)	Eliminate 4.15 FTE rural fire coordinators and mechanics
DEQ	DEQ	(8.00)	(8.00)		(723,126)	Eliminate 8.00 FTE to make alternative pay plan costs permanent in nature
Commerce	Community development Division	(2.75)	(2.75)	(26,121)	(302,026)	Eliminate Various FTE within Community Development Division
Section D						
PSC	Public Service Regulation	(1.00)	(1.00)		(129,597)	Eliminate 1.00 FTE policy advisor
Justice	Vacant FTE	(3.15)	(3.15)	(225,464)	0	Reduced vacant positions - 2.00 Attorney Specialists in Legal Services and 1.15 Administrative Support in MVD
DMA	Disaster and Emergency Services	(1.00)	(1.00)	(50,270)	(50,540)	Eliminate 1.00 FTE Emergency Management Specialist
DMA	Veterans' Affairs Division	(1.00)	(1.00)	(72,136)		Eliminate 1.00 FTE Veteran Service Representative
Section E						
State Library	Statewide Library Resources	(2.00)	(2.00)	(80,410)		Eliminate 2.00 FTE vacant positions due to an agency reorganization
MHS	Administration Program	(0.30)	(0.30)	(29,179)		Eliminate 0.30 FTE communisty outreach position
Total		(176.44)	(211.94)	$ (6,115,761)	$ (4,241,248)	

VACANCY SAVINGS

Vacancy savings is the difference between the cost of fully funding a position for the entire year and the actual cost of authorized employee positions during that period. A vacancy savings reduction, usually a percentage reduction from full funding, has been applied to budgets in prior years in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than appropriated.

Legislative Vacancy Savings

The Executive Budget recommended a 4.0 percent vacancy savings rate on all personal services (including insurance) for all agencies except:

- those with fewer than 20 FTE, except for the Montana Consensus Council which was transferred from the Governor's Office to being attached to the Department of Administration;
- university system faculty;
- elected officials;
- the legislative branch; and
- the judicial branch.

The final legislative budget incorporated the 4.0 percent vacancy savings. In addition, the legislature applied additional reductions (general fund only) to most agencies as a final budget balancing strategy. This reduction was applied without consideration of the exceptions mentioned above and varied as a percentage. The end result was an average vacancy savings of 4.5 percent for all state agencies excluding the university system units, which were excluded from the final reduction action and therefore received only the 4.0 percent reduction. Of the agencies affected by the final reduction action, the combined vacancy savings reduction ranges from a low of 0.6 percent for the Montana Arts Council to a high of 5.8 percent for the Montana School for the Deaf and Blind. Other agencies with the higher combined vacancy savings reductions are the Department of Corrections at 5.7 percent and the Department of Revenue at 5.6 percent.

Total budget reductions as a result of the imposition of vacancy savings are about $20.9 million general fund and $30.1 million other funds over the 2005 biennium.

Personal Services Contingency

Vacancy savings are assessed against personal services budgets on the assumption that actual vacancy savings will be sufficient to cover the reduction. Sometimes, agencies don't generate enough actual vacancy savings, resulting in a shortfall.

Consequently, in order to assist agencies that have insufficient authority to meet all personal services costs in the 2005 biennium, the legislature provided a contingency fund totaling $1.5 million general fund and $3.0 million other funds. Agencies will have to apply to the Office of Budget and Program Planning for these funds during the 2005 biennium.

PROPRIETARY FUNDS AND RATE SETTING

There are two types of proprietary funds: 1) internal service funds; and 2) enterprise funds. Internal service funds are used to account for "internal service" functions that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. Enterprise funds are used to account for "enterprise" functions that provide goods or services to the public on a user-charge basis. Examples of internal service funds are those collected by the Information Services Division of the Department of Administration for providing computer services to other agencies and those collected by the Central Stores program for providing various supplies to state agencies. An example of an enterprise fund is the state lottery. Since the 1997 biennium, the legislature has not appropriated proprietary funds to the program receiving the funds (except in cases where the proprietary funds are used as a part of a program that is not an enterprise or internal service function and otherwise requires an appropriation.)

In the past, the legislature appropriated internal service funds to the agency receiving the funds and simultaneously provided funding to the agencies that would pay the internal service functions for services received, which resulted in a double counting of the cost of providing internal service functions. To avoid this double-counting, the legislature no longer appropriates proprietary funds to the internal service functions receiving the funds, but instead sets the maximum rates that the internal service functions may charge. Statute requires that rates be commensurate with costs and prohibits an internal service function from raising rates above the legislatively established rates during the biennium. The legislature reviews enterprise functions and enterprise funds, but statute does not require that the legislature establish rates for enterprise functions. (SB 55 passed by the 1999 legislature requires that enterprise funds that transfer profits to the general fund or to an account subject to an appropriation must be appropriated by the legislature. The two enterprise accounts that currently fall under the requirement are the state lottery and liquor accounts.)

Figure 22
Internal Services Functions
2005 Biennium

Agency/Program or Function
- **Transportation**
  - Motor Pool
  - Equipment
- **Revenue**
  - Customer Service Center
- **Administration**
  - Administration and Financial Services Division
    - Legal Services
    - Management Services
    - Network Support
    - Warrant Writer
    - Human Resources
  - General Services Division
    - Facilities Management
    - Mail Services
    - Print Services
    - Central Stores
    - Statewide Fueling Network
    - State Procurement Card
  - Information Technology Services Division
  - State Personnel Division
    - Professional Development
    - Payroll Processing
    - State Recruitment Advertising
  - Risk Management and Tort Defense
- **Fish, Wildlife, and Parks**
  - Administration and Finance
  - Vehicle Account
  - Aircraft Per Hour
  - Duplicating
  - Bindery
  - Capital Grounds Maintenance
- **Environmental Quality**
  - Central Management
- **Natural Resources and Conservation**
  - Air Operations
- **Commerce**
  - Board of Investments
  - Director's Office/Management Services
- **Justice**
  - Agency Legal Services
- **Corrections**
  - Cook/Chill
  - Laundry
- **Labor and Industry**
  - Centralized Services
  - Business Standards
- **Office of Public Instruction**
  - Indirect Cost Pool
- **Montana University System**
  - Employee Benefits

SUMMARY OF PROGRAMS/FUNCTIONS

Figure 22 shows each function for which the legislature sets rates in HB 2, by agency.

CHANGES BY THE 2003 LEGISLATURE

The 2003 legislature changed one function's accounting from general fund and special revenue to internal service: the Management Support Unit in the Department of Administration. Funding for this function will now be made through the assessment of a rate on other functions in the department. Budgets in those functions were increased to pay for the new assessment.

In addition, the legislature took an additional function off budget by changing the classification of the revenue supporting Section 8 Housing in the Department of Commerce from federal funds to enterprise funds.

LONG RANGE PLANNING SUMMARY

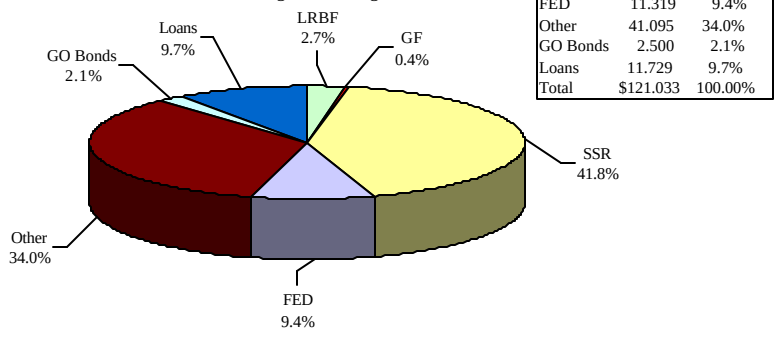
The 2003 Legislature approved $121 million of grants, loans, and capital projects for Long Range Planning (LRP). Figure 23 summarizes the funding for each of the LRP programs. In some instances the amounts shown reflect the funding available rather than the amounts appropriated or authorized for projects. For total appropriations or authorizations for these bills, see the figure entitled "Other Appropriations Bills" on page 89. More detailed information can be found in Section F of Volume 4 of this report.

Figure 23
Legislative Action -- 2005 Session
Long Range Planning Programs

		2005 Biennium (dollars in millions)							
Bill #	Program	LRBF	GF	SSR	FED	Other	GO Bonds	Loans	Total
HB 5	LRBP - Cash	$3.282	-	$24.044	$11.319	$41.095	-	-	$79.740
HB 6	Renewable Resource Grant Program	-	-	4.000	-	-	-	-	4.000
HB 8	Renewable Resource Loan Program	-	-	-	-	-	-	11.729	11.729
HB 7	Reclamation & Development Grant Program	-	-	2.400	-	-	-	-	2.400
HB 9	Cultural & Aesthetic Grant Program	-	0.499	0.659	-	-	-	-	1.158
HB 10	Libby Bond Program	-	-	-	-	-	-	-	-
HB 11	Treasure State Endowment Program	-	-	17.146	-	-	-	-	17.146
HB 11	Treasure State Regional Water System Grants	-	-	2.360	-	-	-	-	2.360
HB 12	State Building Energy Conservation Program	-	-	-	-	-	2.500	-	2.500
	Total	$ 3.282	$ 0.499	$ 50.609	$ 11.319	$ 41.095	$ 2.500	$ 11.729	$ 121.033

Funding for the LRP programs is derived from a number of different sources. Figure 24 shows the proportional breakdown of the funding for LRP. The largest source of LRP funding is state special revenue (SSR). Most SSR funds are appropriated to Department of Fish, Wildlife, and Parks in the Long Range Building Program (LRBP). The Treasure State Endowment program also appropriates significant sums of SSR. Another large funding source of LRP is captured in the "Other" category. The size of this category can be attributed in large part to the funding in the LRBP for Montana University projects. Other funding consists of monies from a combination of federal special revenue, donations, grants, state special revenue, and higher education funds. General fund makes up only 0.4 percent of the LRP appropriations. The general fund supports approximately 43.1 percent of the Cultural and Aesthetic Grant Program.

Figure 24
Long Range Planning
Program Funding

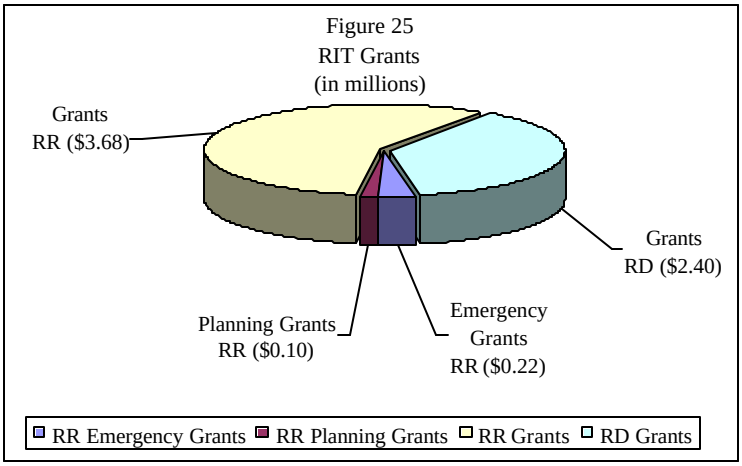


LONG-RANGE BUILDING PROGRAM

HB 5 authorized a total of $79.7 million for 49 Long Range Building Program (LRBP) cash projects. HB 5 combines $3.3 million of long-range building funds with $76.4 million in additional funds consisting of state special revenue funds, federal special revenue funds, and other funds for the cash program. For the first time since the 1989 biennium, no LRBP projects were funded through general obligation bonds.

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

Two LRP programs receiving interest from the resource indemnity trust (RIT) are the Renewable Resource Grant & Loan Program (RRGL) and the Reclamation and Development Grant Program (RDGP). The two statutory appropriations from the RIT equal $6.4 million in the 2005 biennium. Appropriations from RIT interest include, $100,000 for renewable resource (RR) planning grants; $220,932 for RR emergency grants; $3.7 million for RR grants; and $2.4 million for reclamation and development grants (RD). A graphical representation of the individual grant types funded from RIT interest is shown in Figure 25.



Renewable Resource Grants and Loan Programs (RRGL)

The biennial statutory allocation of RIT interest income for RRGL grants is $4.0 million, appropriated in HB 6. Loans made under the RRGL are financed with bonds backed by coal severance tax revenue and are authorized in HB 8. The purpose of RRGL projects is "to enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources (85-1-602, MCA). The 2003 legislature appropriated $3.7 million for RRGL grants in HB 6 and authorized $11.7 million for loans in HB 8. The interest rates on loans appropriated in HB 8 are, in some cases of financial need, subsidized with coal severance tax revenues.

Reclamation and Development Grant Program (RDGP)

The RDGP was established to fund projects that: 1) repair, reclaim, and mitigate environmental damages to public resources from non-renewable resource extraction; and 2) develop and ensure the quality of public resources for the benefit of all Montana citizens. The RDGP receives $2.4 million in RIT investment income for the 2005 biennium for grant awards, which are appropriated in HB 7. The current $2.4 million of interest funding was reduced from the $3.0 million received in previous biennia. The reduced interest, an action approved in the August 2002 Special Session to aid in the general fund shortfall, will be increased to its original statutory appropriation in fiscal 2006. The 2003 legislature authorized the entire appropriation for grants.

CULTURAL & AESTHETIC GRANT PROGRAM

The Cultural & Aesthetic Grant Program (C&A), administered by the Montana Arts Council (MAC), is funded with interest earned from the C&A Trust and general fund appropriations, for the purposes authorized in 22-2-3, MCA. The 2003 legislature authorized a total of $804,150 for C&A grants and $354,000 in administrative expenses in the 2005 biennium. Appropriations of $659,000 of C&A interest and $499,150 of general fund will fund the C&A program.

LIBBY BOND PROGRAM

The Libby Bond Program (LBP) furnishes the mechanism to provide the debt service for the funding of cleanup efforts in Libby and Troy and will be administered by the Department of Environmental Quality. In the absence of a viable potentially responsible party, the state is required under Section 104 of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) to provide a 10 percent match to remedial action expenditures and to provide for 100 percent of any subsequent cost associated with the operations and maintenance of the remedy.

To provide the CERCLA match, approximately $5.0 million in bonds will be issued during the 2005 biennium. The authority for the bonds, established by the 1983 legislature, is contained in 75-10-623, MCA. HB 10 authorizes the use of the Resource Indemnity and Groundwater Assessment Tax for the payment of the debt service associated with bonds. The debt service is expected to cost approximately $430,630 per year during the 2005 biennium.

TREASURE STATE ENDOWMENT PROGRAM

The Treasure State Endowment Program (TSEP) is funded with investment earnings on the Treasure State Endowment Trust in accordance with Section 90-6-701, MCA. The Treasure State Endowment Trust receives 75.0 percent of the coal severance tax revenues deposited into the coal severance tax permanent fund. Interest from the trust is estimated to be $16.3 million in the 2005 biennium. From those earnings, HB 11 authorizes $15.7 million for 40 TSEP grants to local governments. In addition, $100,000 is authorized for emergency grants and $425,000 for preliminary engineering grants.

HB 11 also authorizes not more than $3.9 million from the TSEP Regional Water fund interest earnings to finance the state's share of regional water system projects. Beginning in the 2005 biennium, administrative expenses may be appropriated from the interest earnings. Currently, two regional authorities are authorized to use these funds, the Dry Prairie Rural Water Authority and the North Central Montana Regional Water Authority.

STATE BUILDING ENERGY CONSERVATION

The State Building Energy Conservation Program (SBEC), operated by the Department of Environmental Quality (DEQ), was established by the 1989 legislature to reduce operating costs in state facilities by identifying and funding cost-effective energy efficiency improvement projects. Through this program, the state sells general obligation (G.O.) bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service.

HB 12 authorizes the Board of Examiners to issue up to $2.5 million in G.O. bonds for SBEC. In addition, HB 12 grants DEQ a biennial appropriation of $400,000 from the bond proceeds to fund analysis, design, and program administration.

SUPPLEMENTAL APPROPRIATIONS

The legislature provided state agencies with an additional $12.5 million general fund from supplemental appropriations in fiscal 2003.

Figure 26 compares this total with supplemental appropriations since the 1987 biennium. As shown, the 2003 biennium total is among the lowest in recent biennia.

Figure 27 shows each supplemental appropriation, by agency and purpose. Following the figure is a brief description of each. Each supplemental appropriation is discussed in detail in the relevant agency narratives in Volumes 3 and 4.

Figure 26
General Fund Supplementals
1987 to 2003 Biennia

Biennium	Millions
1987	$ 32.7
1989	17.1
1991	20.4
1993	82.2
1995	19.9
1997	14.2
1999	11.5
2001	68.2
2003*	12.5

*HB 3 and HB 16. Does not include up to $8.0 million general fund appropriated to the Office of Public Instruction should revenue to the school guarantee account be less than estimated.

Figure 27
Supplemental Appropriations
Fiscal 2003

Department/Program	General Fund
Public Health and Human Services	
Disability Services Division	$ 924,354
Child Support Enforcement	1,200,000
Natural Resources and Conservation	
Forestry*	
Justice	7,897,528
Legal Services Major Litigation	110,000
Highway Patrol Prisoner Per Diem	390,000
Montana University System	
Indirect Cost Recoveries	76,000
Office of Public Instruction	
School Base Aid	1,940,000
Total**	$ 12,537,882

*Includes $6,571,766 included in HB 16 and $1,325,762 included in HB 3.
**Does not include up to $8.0 million general fund provided in a language appropriation should deposits to the school guarantee account be less than estimated.

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES (DPHHS)

The legislature provided two appropriations to DPHHS:

- $924,354 for costs at the Montana Developmental Center (MDC) in the Disability Services Division for increased staffing to maintain Medicaid certification and costs of a lawsuit initiated by the Montana Advocacy Program (MAP).
- $1.2 million to the Child Support Enforcement Division (CSED) due primarily to reductions in federal incentive funding.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION (DNRC)

The legislature does not appropriate for the costs of fire suppression in HB 2, and does not assume any costs when projecting the ending fund balance. Instead, DNRC pays these costs out of current operating appropriations and is reimbursed through a supplemental appropriation. The supplemental appropriation for fire costs in the 2003 biennium consists of the following parts:

- Payment of direct state fiscal 2003 fire costs.
- Reimbursement for costs to fight fiscal 2002 fires.
- Payment to the U.S. Forest Service for assistance from other entities.
- The estimated cost of Spring, 2003 fires.

Ordinarily, the supplemental would also include costs for which the state anticipates reimbursement from the U.S. Forest Service for assistance provided by Montana to other entities. However, those costs have already been paid.

DEPARTMENT OF JUSTICE

The legislature provided two supplemental appropriations for the Department of Justice

- Additional funds for major litigation costs for which the department represents the state; and
- Additional costs of the highway patrol for prisoner per diem.

COMMISSIONER OF HIGHER EDUCATION

The legislature provided $76,000 general fund to the Commissioner of Higher Education to allow the office to comply with a legislative audit recommendation to properly account for indirect costs associated with federal grants. A like amount of revenue will be deposited to the general fund.

OFFICE OF PUBLIC INSTRUCTION

The legislature appropriated $1.94 million to the Office of Public Instruction for school Base Aid costs. The increase was provided due to lower than estimated deposits to the common school trust interest and income account. The legislature also provided a language appropriation of up to $8 million should the actual deposits be lower than estimated during the legislative session, as the total deposits will not be known until after adjournment of the legislature.

FEE CHANGES

The 2003 legislature enacted changes to fees (increases or decreases) and created new fees that will raise an estimated net $59.0 million. Of that amount, $16.9 million of that is reflected in appropriations in the general appropriations act (HB 2). 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. Figure 28 lists 55 bills that contain fee increases. In addition, there are four instances of fee changes being a result of the level of spending authority authorized in the HB 2. Legislation is included on this list if there is: 1) a fee increase, 2) a fee decrease, 3) new fees imposed, or 4) a new group of fee payers. Not included on the list are university system tuition hikes that are certain to occur (based upon recent Board of Regents decisions) during the 2005 biennium, because of the level of funding provided for distribution to the university units. While this list may not be complete because of the difficulty of sometimes defining what is a "fee", it is a representative list of fee bills.

Figure 28
Increased or Decreased Revenues from New or Changed Fees
2005 Biennium

Bill #	Description	Estimated Biennial Impact	Assumed in HB 2	Amount in HB 2
Requiring Statutory Change or Result of Statutory Change				
HB 18	Increase court information technology surcharge	$ 3,704,092	Y	$ 3,659,444
HB 31	Increase fee for inspection of anhydrous ammonia facilities	24,200	Y	24,200
HB 32	Allow hunting mountain lions and bobcats with dogs	2,000		
HB 45	Revise licensing requirements for escrow companies	1,800		
HB 62	Revise apiculture laws	114,642	Y	106,672 a
HB 97	Revise taxidermy laws	28,000		
HB 100	Revise shooting preserve and game bird laws	20,480		
HB 124	Surcharge on court cases to fund a portion of the law enforcement academy	2,556,244	Y	2,210,352 b
HB 144	Revised underground storage tank act	392,736		
HB 159	Separate licensure of food manufacturers from retail establishments	22,501		22,501
HB 162	Increase gambling machine fee	720,000	Y	720,000
HB 169	Revise insurance producer licensing laws	270,000		
HB 174	Revise professional occupation and licensing laws	(98,010)		
HB 181	Euthanasia for animals in humane centers	26,215		
HB 196	Combine board of barbers and board of cosmetology	(40,490)		
HB 206	Change driver license fee -- distribution	771,356		
HB 222	DOC sentencing revisions -- revise suspended sentence laws	55,000		
HB 248	Free first year youth combo license	(84,738)		
HB 261	Increase municipal finance debt limits, increase vehicle fees	4,885,510	Y	4,400,000
HB 311	Require fee for all classes of milk sold by licensed person	699,103	Y	699,103
HB 420	Revise pesticide disposal laws	(34,970)		
HB 424	DOA to establish phone solicitation no-call list	90,000		
HB 481	Impose a utilization fee on hospitals for acute in-patient care days	16,022,009		
HB 538	Revise laws on moter vehicle titling and registration	62,796		
HB 545	Statutory water quality permit fees for suction dredge operations	1,650		

(Figure 28 continued on next page)

Figure 28 (Continued)
Increased or Decreased Revenues from New or Changed Fees
2005 Biennium

Bill #	Description	Estimated Biennial Impact	Assumed in HB 2	Amount in HB 2	
Requiring Statutory Change or Result of Statutory Change					
HB 549	Increase scholarship donation for collegiate license plates	455,700			
HB 558	Revise terms of nonresident temporary snowmobile use fees	351,604			
HB 618	Double driver license reinstatement fee	894,600			
HB 636	Generally revise tow truck laws	5,000			
HB 681	Licensure of medication aids in personal-care facilities	45,000			
HB 689	Revise laws relating to lobbying	(19,400)			
HB 705	Increase utilization fee on nursing facility bed days	8,671,517			
HB 722	Provider tax on immediate care facilities	899,511			
HB 743	Include mental health nursing care center in bed tax	175,273			
SB 22	Establish maximum licensing fees for seed program	13,526			
SB 65	Revise veteran's property tax and vehicle fee benefits	(6,939)			
SB 108	Generally revise workers comp laws	338,792			
SB 112	Fund search and rescue with certain fees	382,969			
SB 128	Criminal background checks (C)	365,552	Y	580,960	c
SB 130	Revise laws on recreational use of trust land	2,164,000	Y	1,445,202	
SB 138	Revise tax laws on alternative energy and energy conservation	27,000			
SB 213	Increase wheat and barley assessments	3,768,360			
SB 247	Establish default electricity supply procurement process *	495,040			
SB 253	10-day nonresident fishing license	414			
SB 254	Regulate rental vehicle entities' sale of rental vehicle insurance	6,000			
SB 282	Revise worker's compensation laws **	4,859			
SB 306	Uniform athlete agents act	1,200			
SB 336	Implement recommendations of state parks future committee	2,369,300			
SB 386	Eliminate applicability of MT Major Facility Siting Act to certain pipelines	(21,000)			
SB 395	Sport hunting of bison as management tool	28,500			
SB 401	Revise membership and duties concerning veterans affairs	1,117,117			
SB 402	Mortgage broker and loan originator licensing act	146,500			
SB 432	Establish appraisal trainee classification	7,500			
SB 464	Revise health and safety laws regarding food establishements	430,125	Y	430,125	
SB 473	Provide a prescription drug expansion program under Medicaid	3,105,470		-	
	Subtotal	$56,435,216		##########	
Other HB 2 Not Requiring Statutory Change					
	Department of Livestock - Increase diagnostic lab fees	$ 1,434,572		$ 1,434,572	
	Military Affairs - Shared usage fees for distance learning program	630,000		630,000	
	Natural Resources and Conservation - Water rights filing fee	448,000		448,000	
	Natural Resources and Conservation - Noticing fees	46,000		46,000	
	Subtotal	$ 2,558,572		$ 2,558,572	
	Total	$58,993,788		##########	

(a) Amount in HB 2 represents a reduction in general fund of $35,460 over the biennium.
(b) Amount in HB 2 represents a replacement of general fund
(c) Amount in HB 2 represents increased expenditures. Total impact on general fund is a savings of $117,633. Reduction in HB 2 is $241,633.
* Increase would be taken into consideration when setting rates -- would likely be passed on to suppliers
** Fiscal note assumes State Fund will have to increase premiums by 0.2 - 0.3 percent, or $200,000 - $250,000. SSR increase is

LEGISLATIVE INTERIM STUDIES – SUMMARY

The Fifty-eighth Legislature adopted 13 joint resolutions for interim studies. The interim studies are listed in Figure 29, along with an indication of how each were assigned by the Legislative Council, at its May 2003 meeting. All were assigned to various legislative interim committees, with one indicating the preparation of a staff white paper.

While many of the assigned studies likely include significant fiscal issues or may impact the state budget in some way, none seem to imply any direct fiscal impacts that can be addressed at this time. As the studies run their course, legislators and legislative staff members need to be cognizant of the potential for fiscal impacts that may have budget implications for the current and future biennia.

Figure 29
Legislation Requesting or Requiring Studies
2005 Biennium

Bill No.	Study Description	Legislative Council Assignment
HJR 3	Study child abuse and neglect proceedings	Children and Families (CFHHS)
HJR 4	Study Water management practices	Environmental Quality Council (EQC)
HJR 8	Study drop-out issues with regard to American Indian students	State-Tribal Relations (STR)
HJR 35	Study state share of water under Yellowstone River Compact	Environmental Quality Council
HJR 37	Study subdivision and platting act	Education and Local Government (ELG)
HJR 40	Study effect of ponds on water use	Environmental Quality Council (EQC)
HJR 43	Study the reclamation efforts at the Zortman and Landusky mine sites	Environmental Quality Council (EQC) - Staff White Paper
SJR 11	Study the problems of alcohol and drug abuse and of prevention, early intervention, and treatment	Children and Families (CFHHS)
SJR 13	Study energy efficiency in state building codes	Energy and Telecommunications (EAT)
SJR 17	Study simplification of work comp laws	Economic Affairs (EAC)
SJR 29	Study appraisal of centrally assessed property	Revenue and Transportation (RATIC)
SJR 31	Study elements of Montana'a juvenile justice system regarding juvenile probation	Law and Justice (LJIC)
SJR 32	Study malpractice rates and tort reform	Legislative Council subcommittee, plus others

OTHER MAJOR FUNDS

HIGHWAYS SPECIAL REVENUE ACCOUNT

Projections for the highways state special revenue account (HSRA) indicate that expenditures from the account will exceed account revenues and the working capital balance would be depleted by the end of the 2005 biennium. In this situation, the Department of Transportation (DOT) would require short-term debt financing to meet its cash flow needs if all appropriations were expended. Expenditures are expected to exceed revenues through the foreseeable future. Expenditures at the level appropriated by the legislature are expected to exceed revenues by nearly $32.4 million during the 2005 biennium and the account is forecast to end the 2005 biennium with a deficit of just under $1 million. At the current level of service, expenditures could exceed revenues by nearly $19.8 million during the 2007 biennium, without factoring in any expenditure growth.

Figure 30 shows the projected revenues, expenditures, working capital balance, and the estimated annual structural imbalance for the HSRA through fiscal 2009. The projections use HJR 2 revenue estimates and assume full expenditure of appropriations.

Figure 30
Highways State Special Revenue Account
Projected Working Capital Analysis
Fiscal Years 2002 - 2009
(in $ Millions)

	Fiscal 2002 Actual	Fiscal 2003 Approp.	Fiscal 2004 Approp.	Fiscal 2005 Approp.	Fiscal 2006 Estimate	Fiscal 2007 Estimate	Fiscal 2008 Estimate	Fiscal 2009 Estimate
Beginning Working Capital Balance	$41.1	$51.4	$31.5	$13.4	($0.9)	($11.6)	($20.8)	($28.3)
Revenues	214.0	215.0	214.3	210.8	214.7	216.3	217.9	219.6
Available Working Capital	255.1	266.4	245.8	224.2	213.8	204.7	197.2	191.3
Authorized Expenditures	205.2	234.9	232.4	225.1	225.4	225.4	225.4	225.4
Adjustments	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending Working Capital Balance	$51.4	$31.5	$13.4	($0.9)	($11.6)	($20.8)	($28.3)	($34.1)

Expenditures are projected to exceed revenues from fiscal 2003 through fiscal 2009, the last year of the analysis. Because expenditure projections for biennia beyond the 2005 biennium contain no growth estimates, except for the estimates for DOT major building maintenance and repair items in the Long-Range Building Program, the imbalances could grow above those shown.

Two factors contributed $14.7 million toward the $32.4 million imbalance for the 2005 biennium:

- Funding switches in the Department of Justice increased reliance on HSRA by $8.7 million for the biennium
- Elimination of the general fund transfer to the HSRA that was originally established in statute to offset lost revenues from HB 124 of the 2001 legislature (which changed how local government and state revenues are collected and distributed) reduced HSRA revenues by $6.0 million for the biennium

The remaining imbalance is attributed to expenditures exceeding revenues by $17.7 million for the biennium. One factor for high expenditures is the reliance of the DOT on a construction plan that attempts to expend all available federal-aid highway construction funds. The DOT budget was approved on the assumption that federal aid would average $325 million per year under a reauthorization of the federal surface transportation program that expires at the end of federal fiscal year 2003. The assumption of average federal funding represents a $65 million per year increase in federal funds that must be matched with roughly 13 percent state funds or a roughly $10 million increase in state expenditures per year. However, the level of federal aid funding for highways Montana would receive is not known for certain as the federal program has not been reauthorized. The actual funding level could either improve or degrade the financial condition of the HSRA as the DOT matches fewer or more federal funds with state funds, up to the 2005 biennium appropriations.

Three revenue sources – gasoline taxes, diesel taxes, and gross vehicle weight fees – provide roughly 98 percent of the revenues into the account. These three revenue sources rely on increased usage to provide revenue growth. Inflationary factors tend to have an inverse effect on increased usage. However, increased usage directly increases expenditures, because as highways see more use, maintenance and construction costs tend to increase with the higher level of wear. Cost increases from increased use compound the cost increases from inflation to widen the imbalance between expenditures and revenues.

Given the declining financial condition of the account, the 2005 legislature may be faced with the need to either increase highway user fees or fuel taxes or to reduce the level of services provided for the state's transportation infrastructure. See the table and discussion of the HSRA in Volume 3, page A-79 of this report for additional information.

RESOURCE INDEMNITY TRUST

The Montana Constitution (Article IX, Section 2) requires the existence of the Resource Indemnity Trust (RIT) and states, "The principal of the resource indemnity trust shall forever remain inviolate in an amount of one hundred million dollars ($100,000,000), guaranteed by the state against loss or diversion." In February of 2002, the Governor certified that the balance of the RIT trust had exceeded the $100 million threshold. Consequently, the trust no longer receives revenue. However, interest earnings are used as a funding source for several RIT related funds. The legislature did not change RIT interest distributions.

Several RIT-related funds receive statutory allocations of resource indemnity and ground water assessment taxes (RIGWA), a portion of the oil and gas tax, and the metalliferous mines tax. These revenue sources are distributed to a number of natural resource accounts. Distributions of both RIGWA and oil and gas tax were changed during the legislative session.

- **RIGWA** - The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal, as well as most minerals, excluding metals and oil and natural gas. Beginning in fiscal 2003, the first $366,000 of the RIGWA tax is deposited into the ground water assessment account. Of the remainder, 50 percent is deposited into the reclamation and development account (R&D) for the purpose of making grants to be used for mineral development reclamation projects. All remaining funds are deposited into the orphan share account.

The following legislation in the 2003 session changed the distribution of RIGWA:

  - HB 10 provides an Environmental Protection Agency funding match through the issuance of up to $9.0 million in bonds (authorized under 75-10-623, MCA) that would be used to clean up the Libby and Troy areas. Debt service would come from the first $430,630 per year from the RIGWA tax stream. As a result of the changes, less funding goes to the reclamation and development and orphan share accounts.
- **Oil and gas taxes** - A portion of oil and natural gas production taxes are distributed to the main RIT natural resource funds. 15-36-324 (9)(c), MCA, directs the first $400,000 into the coal bed methane protection account. The remainder of the applicable portion of oil and gas proceeds is diverted to the general fund for fiscal 2003.

- The following legislation in the 2003 session changed the distribution of oil and gas taxes:
  - HB 748 changes the methodology used to distribute oil and natural gas production taxes between state and local governments.
  - HB 584 eliminates the termination date for the Controlled Allocation of Liability Act. Further, it eliminates the requirement that any money remaining in the orphan share fund after June 30, 2005, and after outstanding claims are paid, must be deposited to the general fund. This bill is coordinated with HB 748 allowing continued distributions to the orphan share account.
- **Metalliferous mines tax** - 7 percent of this funding source is directed to the reclamation and development account. The legislature did not change the distribution of the metalliferous mines tax.

Fund Balances

Of the seven tracked funds that derive income from the RIT related sources, two are projected to have a negative balance at the end of the 2005 biennium based upon legislative action, the renewable resources and water storage accounts. The significantly negative balance in the renewable resource fund could be problematic during the interim.

The Office of Budget and Program Planning indicated that this fund will be closely monitored and efforts such as fund switches with the reclamation and development account (to the extent possible) will be used to preserve the balance in the fund. Further, this fund is used for renewable resource grants and these projects will not all start at the same time. Thus, the delayed starting time of some projects will help maintain the ending fund balance.

Although the water storage account also appears to be over-appropriated, the Department of Natural Resources and Conservation (DNRC) is the only user of these funds and spending will ultimately be limited by the amount of revenue over the biennium. Positive fund balances are projected for the other funds. For further discussion of the RIT, please see the DNRC narrative in Section C of Volume 4, page C-92.

COMBINED COAL SEVERANCE TAX

Prior to the 2002 Special Session, 8.36 percent of coal severance tax collections were allocated to the coal severance tax shared state special revenue account. Entities funded from this account included:

- Growth Through Agriculture (Department of Agriculture)
- Coal Board, including local impact assistance grants (Department of Commerce)
- Conservation Districts (Department of Natural Resources and Conservation)
- Library Services (State Library Commission)

- County land planning (Department of Commerce – funded with general fund in 2003 biennium as a result of the passage of HB 124)

During the 2002 Special Session, the legislature temporarily reduced the allocation into the shared account to 6.01 percent for fiscal 2003, and adjusted the permanent allocation to 7.75 percent to accommodate the removal of the county land planning function from the funding split within the shared account.

Subsequently, the 2005 biennium Executive Budget included a proposal to reduce the allocation to 4.18 percent, and reduce appropriations from the shared account accordingly.

During the 2003 session, the legislature did not accept this proposal, and did not pass any legislation which changed the allocation of coal severance tax revenues into the shared account. Allocation to the account for the 2005 biennium remains at 7.75 percent of coal severance tax collections. Appropriations from the account were carried through approximately equal to the fiscal 2002 level, and adjusted for projected revenues during the 2005 biennium.

The figure below shows the 2005 biennium projected revenues and expenditures for the coal severance tax shared state special revenue account. As shown, appropriations exceed revenues by approximately $2,000, or 0.05 percent of biennial revenues. This projected deficit is due to funding of the statewide pay plan subsequent to legislative appropriations in HB 2.

Figure 31
Coal Severance Tax Shared Account
6.01 /7.75 Percent of Coal Severance Taxes
2005 Biennium

	Fiscal 2003	Fiscal 2004	Fiscal 2005
Legislatively-Adopted Coal Sev. Tax Projections	$ 30,936,000	$ 30,598,000	$ 28,677,000
% Allocation	6.01%	7.75%	7.75%
Projected Allocation Into Shared Account	**$ 1,859,254**	**$ 2,371,345**	**$ 2,222,468**

Uses	Fiscal 2002 Actuals	Fiscal 2003 Budgeted	Fiscal 2004 Appropriated	Fiscal 2005 Appropriated
Growth Through Agriculture (Agriculture)	$ 300,095	$ 193,473	$ 450,065	$ 452,355
Local Impacts - Coal Brd (Commerce) (1,2)	1,179,702	883,136	839,498	838,921
Conservation Districts (DNRC)	754,952	607,435	632,134	632,134
Library Services (State Library Commission) (3)	284,222	214,227	375,389	375,389
Total Appropriated/Requested	**$ 2,518,971**	**$ 1,898,271**	**$ 2,297,086**	**$ 2,298,799**
Difference (revenues minus expenditures)			$74,259	($76,332)
Biennial Difference (revenues minus expenditures)				($2,073)

(1) 2003 Coal Board budget includes Governor-mandated expenditure reductions of $194,842
(2) Coal Board appropriation is biennial
(3) 2003 State Library Commission budget includes Governor-mandated expenditure reductions of $9,904

It should be noted that any unreserved fund balance in the account at the end of a fiscal year is statutorily required to be transferred into the general fund. The legislature designated the Coal Board appropriation as biennial, to allow the coal board the flexibility to adjust requests for local impact assistance grants to available funds within the account. Therefore, this figure assumes no transfers to the general fund for the 2005 biennium.