



INTRODUCTION

The purpose of this section is to provide the reader with a summary of the 2005 biennium budget as adopted by the 58th Legislature. It provides the reader with a general overview of the budget from both sides of the equation, revenue and appropriations.

The first chapter begins with a discussion of how the legislature addressed a projected \$230 million budget deficit, including a summary of the combination of revenue enhancements (\$130 million), expenditure reductions (\$74.2 million), and fund balance adjustments (\$3.8 million) used to craft the final budget.

The next chapter provides a summary of the general fund balance as projected through the 2005 biennium (\$46.2 million), using legislative adopted revenue estimates and appropriations.

The third chapter, "Revenue Summary", provides a summary of the general fund revenue estimates as adopted in House Joint Resolution 2 (\$2.5 billion), plus the revenue impacts of legislation passed in the 2003 session (\$136 million), to arrive at the total general fund revenue projection for the 2005 biennium (\$2.6 billion). It also includes a summary of selected non-general fund revenue estimates. It further provides a summary of tax policy and initiatives adopted by the 2003 legislature, including a bill-by-bill summary of major tax policy and major revenue bills adopted in the 2003 session. This chapter provides highlights of the information provided in Volume 2 of this report, "Revenue Estimates".

The final chapter in this section, "Appropriations Summary", summarizes the major legislative appropriations for operating state governments in HB 2 (general appropriations act) and HB 13 (employee pay plan). It provides major highlights of appropriations plus a summary of appropriations by program area and fund type. This chapter provides data in summarized form of the information provided in detail for budgets of each state agency in Volumes 3 and 4 of the 2003 Biennium Legislative Fiscal Report, "Agency Budgets".



HOW THE BUDGET DEFICIT WAS SOLVED

For the first time in over a decade, the legislature experienced a substantial general fund budget deficit of \$230.4 million for the 2005 biennium. Included in this projection were fiscal 2003 costs of \$15.7 million for supplemental requests and \$6.7 million for legislative session costs. Without the fiscal 2003 costs, the projected deficit for the 2005 biennium was \$208.0 million. This amount represented the “present law” general fund dollars unavailable to fund government services at the level authorized by the previous 57th Legislature. The primary reasons that contributed to this projection were the estimated decline in individual and corporation income taxes, reduced investment earnings, and higher “present law” human service and correction costs.

The 58th Legislature erased the projected general fund deficit through HB 2 reductions and the enactment of numerous pieces of other legislation. When aggregated by broad budgetary categories, the solution was crafted with a combination of expenditure reductions, revenue enhancements, and a fund balance reserve adjustment reduction. As Figure 1 shows, the projected deficit was eliminated by enhancing revenues by \$130.0 million (62.5%), reducing expenditures by \$74.2 million (35.7%), and reducing the ending fund reserve by \$3.8 million (1.8%).

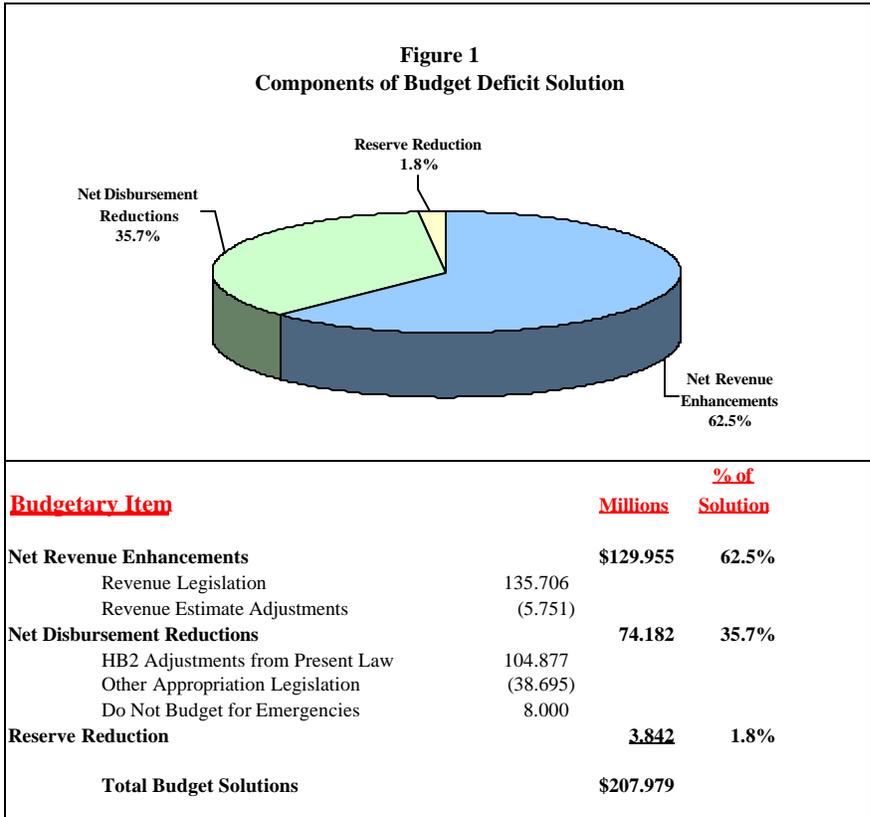


Figure 1 also shows the sub-detail for revenue enhancements and expenditure reductions. Net revenue enhancements are the sum of all general fund legislation (\$135.7 million) plus revenue estimate adjustments contained in HJR2 (negative \$5.8 million). Net expenditure reductions are the sum of HB2 adjustments as measured from present law (\$104.9 million¹), other appropriation legislation (\$38.7 million), and not budgeting for emergencies (\$8.0 million).

¹ It should be noted that in subsequent sections of this volume, HB2 adjustments from present law are shown as a negative \$94.8 million. This amount includes HB13 appropriations (pay plan) whereas Figure 1 has the impact of HB13 included in the “Other Appropriation Legislation” category.

The \$135.7 million in general fund revenue legislation shown in Figure 1 is itemized by legislative bill in Figure 2. As shown in Figure 2, the major pieces of legislation contributing nearly \$97 million of the revenue enhancements were HB 363 and SB 407. HB 363 provided for a transfer of \$26.3 million from the old fund in the state worker's compensation insurance fund. SB 407 provided for new revenues from a 52 cent increase in the cigarette tax, a tax on rental cars, and a new 3 percent sales tax on lodging accommodations, offset partially in the 2005 biennium by a reduction in income taxes through income tax reform provisions. The revenue legislation is discussed in more detail in the "Summary of Tax Policy and Initiatives" section beginning on page 47.

| Figure 2 | | | |
|--|---|-------------------|-----------------------|
| How the Budget Deficit was Solved | | | |
| Revenue and Other Appropriation Legislation | | | |
| In millions | | | |
| Revenue Legislation | | | |
| HB0121 | Clarify deposit of payment from state hospital and nursing care center | 6.360 | HB2 Offset |
| HB0363 | Remove reserve requirements for old fund | 26.348 | One-Time |
| HB0559 | Registration decal as evidence of fee payment for vehicles and vessels | 10.333 | One-Time |
| HB0616 | Revise endowed philanthropy tax credit | 1.942 | One-Time |
| HB0722 | Provider tax on intermediate care facilities | 2.023 | C&D Offset |
| HB0748 | Simplification of oil and natural gas tax distribution | 3.273 | One-Time |
| SB0118 | License plates -- delay new issue, change costs, generic specialty plates | 1.569 | On-Going |
| SB0294 | Revise interest rate applied to refund of protested property taxes | 11.020 | One-Time |
| SB0336 | Implement recommendations of state parks future committee | 3.180 | C&D Offset |
| SB0401 | Revise membership and duties concerning veterans affairs | 1.164 | C&D Offset |
| SB0407 | Income tax reduction with revenue from limited sales tax | 70.531 | One-Time |
| SB0461 | Mitigate effects of cyclical reappraisal | (8.004) | On-Going |
| SB0493 | Revise motor vehicle computer system law to implement appropriations bi | 3.700 | One-Time |
| ----- | All Other Revenue Legislation | 2,267 | |
| | Total Revenue Legislation | \$135.706 | |
| Other Appropriation Legislation | | | |
| HB0001 | Feed bill | (6.499) | Fiscal 2003 |
| HB0002 | General appropriations act (language appropriation) | (0.646) | On-Going |
| HB0003 | Supplemental appropriations bill | (9.127) | Fiscal 2003 |
| HB0013 | State employee pay plan | (11.539) | On-Going |
| HB0016 | Fire and emergency supplemental appropriation | (6.572) | Fiscal 2003 |
| HB0217 | Eliminate general fund transfers to highway nonrestricted account for bienn | 5.966 | One-Time |
| HB0722 | Provider tax on intermediate care facilities | (2.058) | Rev. Offset |
| HB0564 | Create primary sector business workforce training act | (0.648) | Rev. Offset |
| SB0271 | Eliminate POINTS system -- UI tax not under replacement system | (2.391) | On-Going |
| SB0336 | Implement recommendations of state parks future committee | (3.082) | Rev. Offset |
| SB0401 | Revise membership and duties concerning veterans affairs | (1.117) | Rev. Offset |
| ----- | All Other Appropriation Legislation | (0.982) | |
| | Total Other Appropriation Legislation | (\$38.695) | |

"C&D" refers to "cat and dog" (other appropriation) bills

"Offset" means a corresponding revenue or expenditure increase or decrease

The \$38.7 million in other appropriation legislation shown in Figure 1 is also itemized in Figure 2. As shown in Figure 2, the major other appropriations legislation was HB 1, the feed bill for the 2003 session (\$6.5 million), HB 13, the state employee pay plan (\$11.5 million), and HB 3 and 16, the 2003 supplemental appropriation bills (\$15.7 million). The other appropriation legislation is discussed in more detail in the "Other Appropriations Bills" section beginning on page 89.

The \$104.9 million in general fund reductions from present law reflected in Figure 1 for the general appropriations act (HB 2) are itemized by agency in Figure 3. As shown, nearly all agencies were reduced below present law levels of service, for an average reduction below present law of 4.3 percent. It is important to note, however, that although there was an over \$100 million reduction in general fund present law, nearly half of the reductions (48.2 million) were due to fund switches, and the services were generally maintained by funding them with other funding sources. A list of fund switches is shown on page 98. Reductions shown in Figure 3 for the Department of Justice and the Department of Public Health and Human Services were largely offset by funding switches. The HB 2 reductions are discussed in more detail in the "Appropriations Summary" section beginning on page 55 and in the agency budget narratives in Volumes 3 and 4.

| Figure 3 | | | | | |
|--|---------------------------------|--------------------|--------------------|---------------------|---------------|
| How the Budget Deficit was Solved | | | | | |
| HB 2 Adjustments from Present Law | | | | | |
| HB2 Adjustments from Present Law | | Present Law | Legislative | Legislative | Percent |
| Agcy | | Budget | Budget | - Present Law | Change |
| Code | Agency Name | 2005 Biennium | 2005 Biennium | 2005 Biennium | 2005 Biennium |
| 1104 | Legislative Branch | \$17,639,209 | \$16,171,239 | (\$1,467,970) | -8.32% |
| 2110 | Judiciary | 58,585,818 | 58,240,251 | (345,567) | -0.59% |
| 3101 | Governor's Office | 8,766,773 | 8,534,268 | (232,505) | -2.65% |
| 3202 | Commissioner of Political Prac | 753,633 | 632,656 | (120,977) | -16.05% |
| 3401 | State Auditor's Office | 758,799 | 0 | (758,799) | -100.00% |
| 3501 | Office of Public Instruction | 1,029,847,424 | 1,028,905,411 | (942,013) | -0.09% |
| 4107 | Crime Control Division | 3,732,775 | 3,271,708 | (461,067) | -12.35% |
| 4110 | Department of Justice | 52,057,880 | 37,667,756 | (14,390,124) | -27.64% |
| 5101 | Board of Public Education | 325,186 | 321,764 | (3,422) | -1.05% |
| 5102 | Commissioner of Higher Ed | 290,256,164 | 274,544,124 | (15,712,040) | -5.41% |
| 5113 | School for the Deaf & Blind | 7,310,134 | 6,926,412 | (383,722) | -5.25% |
| 5114 | Montana Arts Council | 718,294 | 573,408 | (144,886) | -20.17% |
| 5115 | Library Commission | 3,836,183 | 3,173,786 | (662,397) | -17.27% |
| 5117 | Historical Society | 4,058,771 | 3,439,345 | (619,426) | -15.26% |
| 5201 | Dept. of Fish, Wildlife & Parks | 580,499 | 0 | (580,499) | -100.00% |
| 5301 | Dept of Environmental Quality | 8,065,309 | 6,238,134 | (1,827,175) | -22.65% |
| 5401 | Department of Transportation | 0 | 0 | 0 | |
| 5603 | Department of Livestock | 1,037,595 | 1,044,495 | 6,900 | 0.66% |
| 5706 | Dept Nat Resource/Conservation | 37,566,012 | 33,994,706 | (3,571,306) | -9.51% |
| 5801 | Department of Revenue | 61,887,807 | 59,224,014 | (2,663,793) | -4.30% |
| 6101 | Department of Administration | 9,347,695 | 6,944,473 | (2,403,222) | -25.71% |
| 6102 | Appellate Defender | 380,012 | 372,824 | (7,188) | -1.89% |
| 6201 | MT Dept of Agriculture | 1,409,135 | 1,239,004 | (170,131) | -12.07% |
| 6401 | Dept of Corrections | 217,132,456 | 209,285,232 | (7,847,224) | -3.61% |
| 6501 | Department of Commerce | 4,423,853 | 3,120,714 | (1,303,139) | -29.46% |
| 6602 | Labor & Industry | 3,874,849 | 2,349,610 | (1,525,239) | -39.36% |
| 6701 | Dept of Military Affairs | 6,582,662 | 8,532,593 | 1,949,931 | 29.62% |
| 6901 | Public Health & Human Services | <u>583,664,639</u> | <u>534,974,085</u> | <u>(48,690,554)</u> | <u>-8.34%</u> |
| | Total | \$2,414,599,566 | \$2,309,722,012 | (\$104,877,554) | -4.34% |



GENERAL FUND SUMMARY – FUND BALANCE

INTRODUCTION

The general fund is the primary account that funds a majority of the general operations of state government. General fund expenditures represent about 37 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types. Total revenues to the account for the 2005 biennium are estimated to exceed \$2.6 billion, which is an increase of \$157.5 million (6.3 percent) from the 2003 biennium. Included in this increase is \$108.0 million of additional revenue due to the enactment of tax policy/revenue legislation. Four bills, HB 363 (old fund transfer), HB 559 (vehicle registration fees), SB 294 (protested property tax), and SB 407 (income tax reduction/sales tax) account for about 87 percent of this increased revenue. Balancing general fund appropriations against anticipated revenues is a major challenge of each legislature and requires a significant coordination between the taxation and appropriation committees. Based on legislative adopted revenue estimates, there are sufficient revenues to support the total general fund budget, leaving an ending fund balance of \$46.2 million. This projected balance does not include any potential revenue gain from the federal tax package signed by President Bush on May 28th, 2003, or potential expenditures for emergencies.

This chapter provides a summary of the general fund account as projected through the 2005 biennium. It begins with a reconciliation of the current (2003 biennium) projected fund balance in order to arrive at the beginning balance for the 2005 biennium. It is followed by a summary of the 2005 biennium projected general fund balance using legislative adopted revenue estimates and appropriations.

2003 BIENNIUM GENERAL FUND BALANCE

After completion of the Special Legislative Session (August 2002), the general fund balance was projected to be \$27.2 million. This balance was based on: 1) revenue estimates adopted in HJR 1; 2) LFD statutory appropriation and reversion estimates; and 3) all general fund appropriations authorized by the legislature. The August 2002 Special Session Legislature anticipated there would be \$5.6 million of supplemental appropriations requested during the 2003 biennium.

As shown in Figure 1, on the next page, the revised general fund balance at the end of the 2003 biennium is projected to be \$16.5 million. The revised projection for the 2003 biennium general fund balance is based on: 1) revenue estimates adopted by the 2003 legislature in HJR 2; 2) LFD statutory appropriation and reversion estimates; and 3) general fund appropriations, including supplemental appropriations, adopted by the Fifty-eighth Legislature. This projected balance equals 0.66 percent of anticipated revenues for the 2003 biennium and is \$10.6 million below the balance anticipated by the August 2002 Special Session Legislature.

| Figure 1 | | | |
|---|----------------------------------|--------------------------------|-----------------------------|
| Comparison of 2003 Biennium General Fund Balance | | | |
| Post Special Session Budget vs. Post Session Fiscal Report | | | |
| In Millions | | | |
| | Special Session 2003 Biennium | Fiscal Report 2003 Biennium | Difference 2003 Biennium |
| Beginning Fund Balance | \$172.897 | \$172.897 | |
| Revenues | | | |
| Current Law Revenue | 2,494.059 | 2,460.727 | (33.332) |
| Legislation Impacts | | 27.709 | 27.709 |
| Total Funds Available | \$2,666.956 | \$2,661.333 | (\$5.623) |
| Disbursements | | | |
| General Appropriations | 2,181.256 | 2,179.145 | (2.111) |
| Statutory Appropriations | 278.558 | 275.058 | (3.500) |
| Local Assistance Appropriations | | | |
| Miscellaneous Appropriations | 157.593 | 152.937 | (4.656) |
| Non-Budgeted Transfers | 30.133 | 27.812 | (2.321) |
| Continuing Appropriations | 9.262 | 8.026 | (1.236) |
| Supplemental Appropriations | 5.580 | 15.699 | 10.119 |
| Feed Bill Appropriations | 7.698 | 8.422 | 0.724 |
| Executive Reductions | (16.148) | | 16.148 |
| Legislative Reductions | (0.350) | | 0.350 |
| Anticipated Reversions | <u>(14.941)</u> | <u>(23.678)</u> | (8.737) |
| Total Disbursements | \$2,638.641 | \$2,643.421 | \$4.780 |
| Adjustments | (1.163) | (1.391) | (0.228) |
| Unreserved Ending Fund Balance | <u>\$27.152</u> | <u>\$16.521</u> | <u>(\$10.631)</u> |

The decrease in the projected general fund balance is due to several factors that have transpired since the adjournment of the August 2002 Special Legislative Session. Total general fund revenues (revenues plus fund balance) are expected to be \$5.6 million less than anticipated, while disbursements are expected to be \$4.8 million more than authorized by the Fifty-seventh Legislature after the August 2002 Special Session.

DECLINING REVENUES

The reasons for the declining revenue condition are shown in Figure 2. The information shown in Figure 2 is segregated into revenue estimate adjustments and legislation impacts adopted by the Fifty-eighth Legislature. All of the revenue estimate adjustments were the result of additional information becoming available during the budget development cycle.

| Figure 2 | | | |
|--|------------------------------------|-----------------------------------|--------------------------------------|
| Significant Revenue Adjustments 2003 Biennium | | | |
| August Special Session vs Fiscal Report | | | |
| In millions | | | |
| Revenue Source | Spec. Sess. To Rev. & Trans. | Rev. & Trans. To Final HJR2 | Total Change For 2003 Biennium |
| Revenue Estimate Adjustments | | | |
| Individual Income Tax | (4.220) | (6.636) | (10.856) |
| Property Tax | (1.020) | (3.059) | (4.079) |
| Corporation Income Tax | (9.281) | (6.467) | (15.748) |
| Vehicle Tax | (0.714) | 1.263 | 0.549 |
| Treasury Cash Account Interest | (3.972) | (3.744) | (7.716) |
| Oil & Natural Gas Production Tax | 0.708 | 2.360 | 3.068 |
| Estate Tax | 0.854 | 0.862 | 1.716 |
| All Other | <u>(1.871)</u> | <u>1.602</u> | <u>(0.269)</u> |
| Total Revenue Estimate Adjustments | (\$19.516) | (\$13.819) | (\$33.335) |
| Legislation Impacts | | | |
| All Other Revenue | | | \$18.741 |
| Oil & Gas Production Tax | | | 3.273 |
| Public Institution Reimbursements | | | 0.310 |
| Lodging Facility Use Tax | | | 0.710 |
| Cigarette Tax | | | 4.538 |
| Tobacco Tax | | | <u>0.137</u> |
| Total Legislation Impacts | | | \$27.709 |
| Total Adjustments | | | (\$5.626) |

As shown in Figure 2, total general fund revenue estimates for the 2003 biennium were adjusted downward by \$33.3 million when measured from the end of the August 2002 Special Session to adjournment of the Fifty-eighth Legislature. A majority of the adjustments were in the sources impacted by capital gains, interest rates, and economic growth. Individual and corporation income taxes plus treasury cash interest categories reflect the largest adjustment.

Since some legislation enacted by the Fifty-eighth Legislature was effective in fiscal 2003, these bills increased general fund revenues by \$27.7 million for the 2003 biennium.

INCREASED DISBURSEMENTS

The primary reason for the increased disbursements is higher supplemental appropriations of \$10.1 million, offset by greater year-end reversions. A complete listing of all supplemental appropriations can be found on page 125, "Fiscal 2003 Supplemental Appropriations".

2003 BIENNIUM PROJECTED FUND BALANCE

As Figure 1 shows, the combined impact of lower revenues, greater disbursements, and a negative \$0.2 million fund balance adjustment is a net decrease in the projected fund balance of \$10.6 million for the 2003 biennium.

2005 BIENNIUM GENERAL FUND BALANCE PROJECTION

Figure 3 shows the 2005 biennium projected balance in the general fund account prior to and after the Fifty-eighth Legislature. The purpose of this comparison is to highlight legislative action that established the 2005 biennium budget.

| Figure 3 | | | |
|--|------------------------------|-------------------------------|-----------------------------|
| Comparison of 2005 Biennium General Fund Balance | | | |
| Pre-Session Present Law vs. Post-Session Total Budget | | | |
| In Millions | | | |
| | Pre Session 2005 Biennium | Post Session 2005 Biennium | Difference 2005 Biennium |
| Beginning Fund Balance | \$4.782 | \$16.521 | \$11.739 |
| Revenues | | | |
| Current Law Revenue | 2,527.919 | 2,537.899 | 9.980 |
| Legislation Impacts | | 107.996 | 107.996 |
| Total Funds Available | \$2,532.701 | \$2,662.416 | \$129.715 |
| Disbursements | | | |
| General Appropriations | 2,414.599 | 2,319.761 | (94.838) |
| Statutory Appropriations | 268.118 | 259.768 | (8.350) |
| Miscellaneous Appropriations | | 6.350 | 6.350 |
| Language Appropriations | | 0.646 | 0.646 |
| Non-Budgeted Transfers | 31.780 | 31.165 | (0.615) |
| Continuing Appropriations | | | |
| Supplemental Appropriations | | | |
| Feed Bill Appropriations | 6.699 | 6.699 | |
| Anticipated Reversions | <u>(8.191)</u> | <u>(8.191)</u> | |
| Total Disbursements | \$2,713.005 | \$2,616.198 | (\$96.807) |
| Adjustments | | | |
| Projected Ending Fund Balance | (\$180.304) | \$46.218 | \$226.522 |
| Anticipated Reserve | 50.060 | 46.218 | (3.842) |
| Excess/(Deficit) Balance After Reserve | (\$230.364) | | \$230.364 |

The pre-session estimate of a negative \$230.4 million general fund balance was developed under the constraints of Section 5-12-303, MCA. This statute requires the executive and the Legislative Fiscal Analyst to develop and analyze the biennium budget using base, present law, and new proposals as defined in Section 17-7-102, MCA. In essence, the projected balance of negative \$230.4 million would

have been the balance if the legislature had continued state government operations at the "present" authorized level, including all existing taxation laws.

The second estimate of \$46.2 million is the post-session estimate that incorporates all legislation enacted by the Fifty-eighth Legislature. Figure 3 highlights significant revenue and disbursement actions. The following discussion briefly explains these actions.

SIGNIFICANT REVENUE ACTIONS

The Fifty-eighth Legislature increased the 2005 biennium general fund revenue estimates by \$10.0 million, primarily due to the inclusion of property reappraisal impacts. In addition, the legislature passed tax policy/revenue legislation which significantly increased state general fund revenue (see page 47). For the 2005 biennium, total general fund revenues were increased by \$108.0 million due to enacted legislation. Four bills, (HB 363 old fund transfer, HB 559 vehicle registration fees, SB 294 protested property tax, and SB 407 income tax reduction/sales tax) accounted for about 87 percent of this increased revenue. All other legislation enacted increased general fund revenues by about \$13.8 million for the 2005 biennium.

A more detailed summary of general fund revenues and revenue impacts of enacted legislation is provided in "Volume 2 – Revenue Estimates".

SIGNIFICANT DISBURSEMENT ACTIONS

The Fifty-eighth Legislature decreased general fund present law appropriations by about \$96.8 million. This decrease was primarily due to program reductions in higher education, corrections, and human services. Significant funding shifts also occurred in justice and human services. The largest dollar decreases were in human services, corrections, education, and justice. Military Affairs was the only agency that received a significant general fund present law increase.

The legislature also adopted an employee pay plan for the 2005 biennium. This pay plan increase in HB 13 is \$29.1 million, with \$11.5 million being provided by the state general fund. (See "Pay Plan", on page 114 for additional details.)

As with previous legislative sessions, there are numerous miscellaneous appropriations ("cat and dog" bills) that were discussed throughout the session. The Fifty-eighth Legislature minimized these appropriations and enacted only \$6.4 million of miscellaneous appropriations beyond those for the pay plan. These bills are discussed in more detail in agency narratives of Volumes 3 and 4 of this publication and on page 89 of this Volume.

As shown in Figure 3, total appropriations for statutory and non-budgeted transfers is \$290.9 million, or 11.1 percent of the total general fund budget. Because these authorizations are outside the general legislative appropriations sub-committee process, they do not receive the same level of review as appropriations in HB 2.

CONTINGENCIES

No estimate is included in the projected fund balance for increased expenditures due to emergencies and/or contingencies. These include supplemental budget requests, which historically exceed \$20 million per biennium, fire suppression costs, and other emergencies (such as flooding).

Figure 4 shows the detailed general fund balance sheet. The 2005 biennium ending general fund balance is projected to be \$46.2 million, including all initiatives adopted by the legislature. It should be noted that this projected balance does not include potential revenue from the recently enacted federal tax reform package.

| Figure 4 | | | | | | |
|--|-----------------------|--------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| 2005 Biennium General Fund Balance | | | | | | |
| Based on Action By the 58th Legislature | | | | | | |
| In Millions | | | | | | |
| | Actual Fiscal 2002 | Estimated Fiscal 2003 | Estimated Fiscal 2004 | Estimated Fiscal 2005 | Estimated 2003 Biennium | Estimated 2005 Biennium |
| Beginning Fund Balance | \$172.897 | \$81.316 | \$16.521 | \$25.639 | \$172.897 | \$16.521 |
| Revenues | | | | | | |
| Current Law Revenue | 1,265.713 | 1,195.014 | 1,241.443 | 1,296.456 | 2,460.727 | 2,537.899 |
| Legislation Impacts | | 27.709 | 69.396 | 38.600 | 27.709 | 107.996 |
| Total Funds Available | \$1,438.610 | \$1,304.039 | \$1,327.360 | \$1,360.695 | \$2,661.333 | \$2,662.416 |
| Disbursements | | | | | | |
| General Appropriations | 1,120.576 | 1,058.569 | 1,158.783 | 1,160.978 | 2,179.145 | 2,319.761 |
| Statutory Appropriations | 149.108 | 125.950 | 129.044 | 130.724 | 275.058 | 259.768 |
| Miscellaneous Appropriations | 68.016 | 84.921 | 3.979 | 2.371 | 152.937 | 6.350 |
| Language Appropriations | | | 0.646 | | | 0.646 |
| Non-Budgeted Transfers | 18.768 | 9.044 | 13.363 | 17.802 | 27.812 | 31.165 |
| Continuing Appropriations | 2.611 | 5.415 | | | 8.026 | |
| Supplemental Appropriations | | 15.699 | | | 15.699 | |
| Feed Bill Appropriations | | 8.422 | | 6.699 | 8.422 | 6.699 |
| Anticipated Reversions | (3.176) | (20.502) | (4.094) | (4.097) | (23.678) | (8.191) |
| Total Disbursements | \$1,355.903 | \$1,287.518 | \$1,301.721 | \$1,314.477 | \$2,643.421 | \$2,616.198 |
| Adjustments | (1.391) | | | | (1.391) | |
| Reserved Ending Fund Balance | \$81.316 | \$16.521 | \$25.639 | \$46.218 | \$16.521 | \$46.218 |
| Unreserved Ending Fund Balance | \$81.316 | \$16.521 | \$25.639 | \$46.218 | \$16.521 | \$46.218 |
| Net Operations | (\$90.190) | (\$64.795) | \$9.118 | \$20.579 | (\$154.985) | \$29.697 |



REVENUE SUMMARY

GENERAL FUND REVENUE ESTIMATES

HOUSE JOINT RESOLUTION 2

During November 2002, prior to the convening of the Fifty-eighth Legislature, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2003, 2004 and 2005. This process is in accordance with 5-18-107, MCA, which states that these estimates “constitute the legislature’s current revenue estimates until amended or until final adoption of the estimates by both houses.” The actions taken by the RTIC were incorporated into HJR 2 and were introduced at the beginning of the Fifty-eighth Legislature. During the legislative process, the legislature adopted HJR 2 with some adjustments to the recommendations offered by the RTIC.

Figure 5 shows the total general fund impact of the adopted adjustments by the House and Senate by revenue issue. For the three-year period, fiscal 2003 through 2005, total general fund revenue estimates were decreased by \$5.8 million from the recommendations of the RTIC.

Figure 6 shows the amended current law general fund estimates by revenue source as contained in HJR 2. Actual fiscal 2002 collections are shown, along with projections for fiscal 2003 through 2005.

| Figure 5 | | | | |
|---|--------------------|-----------------|-----------------|--------------------|
| Revenue Estimate Adjustments by 58th Legislature | | | | |
| General Fund In Millions | | | | |
| Revenue Issue | Fiscal 2003 | Fiscal 2004 | Fiscal 2005 | 3-Year Total |
| House Taxation Committee Action | | | | |
| Fiscal 2002 Ending Fund Balance | (1.912) | - | - | (1.912) |
| PPL Protested Property Tax State Impact | (2.091) | (2.129) | (2.167) | (6.387) |
| Property Tax Reappraisal | - | 2.017 | 6.118 | 8.135 |
| Consumer Protection Settlements | 0.300 | - | - | 0.300 |
| Security Fraud Settlements | - | 4.125 | - | 4.125 |
| Merrill Lynch Settlement | 0.500 | - | - | 0.500 |
| Portfolio Fees Based on Class | - | 1.008 | 1.008 | 2.016 |
| Total House Adjustments | (\$3.203) | \$5.021 | \$4.959 | \$6.777 |
| Senate Taxation Committee Action | | | | |
| Individual Income Tax | (6.636) | - | - | (6.636) |
| Corporation Income Tax | (6.467) | - | - | (6.467) |
| TCA Interest Earnings | (3.744) | - | - | (3.744) |
| Property Tax | (0.968) | - | - | (0.968) |
| Oil and Natural Gas Production Tax | 2.360 | - | - | 2.360 |
| Estate Tax | 0.862 | - | - | 0.862 |
| Video Gambling Tax | 0.802 | - | - | 0.802 |
| Vehicle Tax | 1.263 | - | - | 1.263 |
| Total Senate Adjustments | \$ (12.528) | \$ - | \$ - | \$ (12.528) |
| Grand Total Adjustments | \$ (15.731) | \$ 5.021 | \$ 4.959 | \$ (5.751) |

Figure 6
House Joint Resolution 2
General Fund Revenue Estimates
 In Millions

| Source of Revenue | Percent of 2002 | Actual Fiscal 2002 | Estimated Fiscal 2003 | Estimated Fiscal 2004 | Estimated Fiscal 2005 | Estimated Fiscal 02-03 | Estimated Fiscal 04-05 | Cumulative % of Total |
|--------------------------------------|-----------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------|
| 1 Individual Income Tax | 40.89% | \$517.568 | \$520.764 | \$556.874 | \$594.339 | \$1,038.332 | \$1,151.213 | 45.36% |
| 2 Property Tax | 13.38% | 169.339 | 170.218 | 180.067 | 190.371 | 339.557 | 370.438 | 59.96% |
| 3 Corporation Income Tax | 5.39% | 68.173 | 47.347 | 64.782 | 69.223 | 115.520 | 134.005 | 65.24% |
| 4 Vehicle Tax | 5.78% | 73.127 | 74.773 | 74.540 | 75.581 | 147.900 | 150.121 | 71.15% |
| 5 Common School Interest and Income | 3.87% | 48.938 | - | - | - | 48.938 | - | 71.15% |
| 6 Insurance Tax & License Fees | 3.74% | 47.291 | 51.446 | 56.038 | 58.441 | 98.737 | 114.479 | 75.66% |
| 7 Coal Trust Interest | 2.97% | 37.605 | 36.825 | 37.249 | 37.920 | 74.430 | 75.169 | 78.63% |
| 8 US Mineral Royalty | 1.56% | 19.772 | 22.715 | 23.469 | 22.980 | 42.487 | 46.449 | 80.46% |
| 9 All Other Revenue | 3.41% | 43.216 | 26.608 | 23.916 | 19.885 | 69.824 | 43.801 | 82.18% |
| 10 Tobacco Settlement | 1.47% | 18.647 | 19.025 | 3.105 | 3.182 | 37.672 | 6.287 | 82.43% |
| 11 Telecommunications Excise Tax | 1.55% | 19.594 | 20.100 | 20.701 | 21.674 | 39.694 | 42.375 | 84.10% |
| 12 Video Gambling Tax | 3.45% | 43.666 | 45.219 | 44.755 | 45.811 | 88.885 | 90.566 | 87.67% |
| 13 Treasury Cash Account Interest | 0.98% | 12.414 | 7.456 | 14.060 | 17.331 | 19.870 | 31.391 | 88.90% |
| 14 Estate Tax | 1.09% | 13.816 | 11.015 | 7.516 | 4.625 | 24.831 | 12.141 | 89.38% |
| 15 Oil & Natural Gas Production Tax | 1.02% | 12.902 | 18.403 | 14.600 | 14.469 | 31.305 | 29.069 | 90.53% |
| 16 Motor Vehicle Fee | 2.15% | 27.271 | 27.703 | 28.368 | 29.049 | 54.974 | 57.417 | 92.79% |
| 17 Public Institution Reimbursements | 1.13% | 14.283 | 15.541 | 13.939 | 14.046 | 29.824 | 27.985 | 93.89% |
| 18 Lodging Facility Use Tax | 0.00% | - | - | - | - | - | - | 93.89% |
| 19 Coal Severance Tax | 0.67% | 8.469 | 10.221 | 8.384 | 7.857 | 18.690 | 16.241 | 94.53% |
| 20 Liquor Excise & License Tax | 0.75% | 9.514 | 9.854 | 10.239 | 10.624 | 19.368 | 20.863 | 95.35% |
| 21 Cigarette Tax | 0.62% | 7.887 | 7.870 | 7.764 | 7.667 | 15.757 | 15.431 | 95.96% |
| 22 Investment License Fee | 0.39% | 4.992 | 4.567 | 4.613 | 4.659 | 9.559 | 9.272 | 96.33% |
| 23 Lottery Profits | 0.59% | 7.467 | 6.210 | 6.255 | 6.318 | 13.677 | 12.573 | 96.82% |
| 24 Liquor Profits | 0.44% | 5.600 | 5.637 | 5.399 | 5.365 | 11.237 | 10.764 | 97.25% |
| 25 Nursing Facilities Fee | 0.47% | 5.918 | 5.723 | 5.670 | 5.624 | 11.641 | 11.294 | 97.69% |
| 26 Foreign Capital Depository Tax | 0.00% | - | - | - | - | - | - | 97.69% |
| 27 Electrical Energy Tax | 0.33% | 4.197 | 4.329 | 4.408 | 4.483 | 8.526 | 8.891 | 98.04% |
| 28 Metalliferous Mines Tax | 0.26% | 3.329 | 4.842 | 2.967 | 2.753 | 8.171 | 5.720 | 98.27% |
| 29 Highway Patrol Fines | 0.32% | 4.062 | 4.142 | 4.224 | 4.308 | 8.204 | 8.532 | 98.60% |
| 30 Public Contractors Tax | 0.26% | 3.267 | 2.679 | 3.354 | 3.356 | 5.946 | 6.710 | 98.87% |
| 31 Wholesale Energy Tax | 0.23% | 2.906 | 3.373 | 3.432 | 3.492 | 6.279 | 6.924 | 99.14% |
| 32 Tobacco Tax | 0.17% | 2.183 | 2.262 | 2.353 | 2.444 | 4.445 | 4.797 | 99.33% |
| 33 Driver's License Fee | 0.20% | 2.580 | 2.355 | 2.373 | 2.391 | 4.935 | 4.764 | 99.52% |
| 34 Railroad Car Tax | 0.12% | 1.490 | 1.577 | 1.688 | 1.681 | 3.067 | 3.369 | 99.65% |
| 35 Wine Tax | 0.10% | 1.232 | 1.264 | 1.283 | 1.302 | 2.496 | 2.585 | 99.75% |
| 36 Beer Tax | 0.22% | 2.784 | 2.918 | 3.058 | 3.205 | 5.702 | 6.263 | 100.00% |
| 37 Telephone License Tax | 0.02% | 0.212 | 0.033 | - | - | 0.245 | - | 100.00% |
| 38 Long Range Bond Excess | 0.00% | - | - | - | - | - | - | 100.00% |
| Total General Fund | 100.00% | <u>\$1,265.713</u> | <u>\$1,195.014</u> | <u>\$1,241.443</u> | <u>\$1,296.456</u> | <u>\$2,460.727</u> | <u>\$2,537.899</u> | 100.00% |

REVENUE IMPACTS OF LEGISLATION

Figure 7 shows the revenue impacts of legislation enacted by the Fifty-eighth Legislature. If more than one bill were enacted that impacts a given revenue source, the cumulative impact of the bills is shown for each revenue source.

| Figure 7 | | | | | | |
|--|--------------------------|--------------------------|--------------------------|---------------------------|---------------------------|-----------------------|
| Revenue Legislation Impacts of 58th Legislature | | | | | | |
| Total General Fund | | | | | | |
| In Millions | | | | | | |
| Source of Revenue | Estimated Fiscal 2003 | Estimated Fiscal 2004 | Estimated Fiscal 2005 | Estimated Fiscal 02-03 | Estimated Fiscal 04-05 | Estimated 03,04,05 |
| 1 Individual Income Tax | \$0.000 | \$1.185 | (\$16.277) | \$0.000 | (\$15.092) | (\$15.092) |
| 2 Property Tax | - | (5.756) | (15.475) | - | (21.231) | (21.231) |
| 3 Corporation Income Tax | - | (0.020) | (0.178) | - | (0.198) | (0.198) |
| 4 Vehicle Tax | - | 5.234 | 2.683 | - | 7.917 | 7.917 |
| 5 Common School Interest and Income | - | - | - | - | - | - |
| 6 Insurance Tax & License Fees | - | - | - | - | - | - |
| 7 Coal Trust Interest | - | (0.062) | (0.114) | - | (0.176) | (0.176) |
| 8 US Mineral Royalty | - | - | - | - | - | - |
| 9 All Other Revenue | 18.741 | 12.338 | 8.900 | 18.741 | 21.238 | 39.979 |
| 10 Tobacco Settlement | - | - | - | - | - | - |
| 11 Telecommunications Excise Tax | - | 0.489 | 0.498 | - | 0.987 | 0.987 |
| 12 Video Gambling Tax | - | 0.257 | 0.257 | - | 0.514 | 0.514 |
| 13 Treasury Cash Account Interest | - | - | - | - | - | - |
| 14 Estate Tax | - | - | - | - | - | - |
| 15 Oil & Natural Gas Production Tax | 3.273 | 12.332 | 12.230 | 3.273 | 24.562 | 27.835 |
| 16 Motor Vehicle Fee | - | 3.394 | 5.252 | - | 8.646 | 8.646 |
| 17 Public Institution Reimbursements | 0.310 | 2.818 | 2.947 | 0.310 | 5.765 | 6.075 |
| 18 Lodging Facility Use Tax | 0.710 | 8.807 | 9.084 | 0.710 | 17.891 | 18.601 |
| 19 Coal Severance Tax | - | - | - | - | - | - |
| 20 Liquor Excise & License Tax | - | - | - | - | - | - |
| 21 Cigarette Tax | 4.538 | 27.229 | 26.287 | 4.538 | 53.516 | 58.054 |
| 22 Investment License Fee | - | 0.005 | 0.005 | - | 0.010 | 0.010 |
| 23 Lottery Profits | - | (0.660) | 0.664 | - | 0.004 | 0.004 |
| 24 Liquor Profits | - | 0.001 | - | - | 0.001 | 0.001 |
| 25 Nursing Facilities Fee | - | 0.034 | 0.041 | - | 0.075 | 0.075 |
| 26 Foreign Capital Depository Tax | - | - | - | - | - | - |
| 27 Electrical Energy Tax | - | - | - | - | - | - |
| 28 Metalliferous Mines Tax | - | - | - | - | - | - |
| 29 Highway Patrol Fines | - | 0.473 | 0.473 | - | 0.946 | 0.946 |
| 30 Public Contractors Tax | - | - | - | - | - | - |
| 31 Wholesale Energy Tax | - | - | - | - | - | - |
| 32 Tobacco Tax | 0.137 | 0.821 | 0.834 | 0.137 | 1.655 | 1.792 |
| 33 Driver's License Fee | - | 0.477 | 0.490 | - | 0.967 | 0.967 |
| 34 Railroad Car Tax | - | - | - | - | - | - |
| 35 Wine Tax | - | - | - | - | - | - |
| 36 Beer Tax | - | - | - | - | - | - |
| 37 Telephone License Tax | - | - | - | - | - | - |
| 38 Long Range Bond Excess | - | - | - | - | - | - |
| Total General Fund | <u>\$27.709</u> | <u>\$69.396</u> | <u>\$38.601</u> | <u>\$27.709</u> | <u>\$107.997</u> | <u>\$135.706</u> |

Figure 8 shows the revenue impacts of legislation enacted by the Fifty-eighth Legislature summarized by bill number. For the three-year period, fiscal 2003 through 2005, total general fund revenues were increased by \$135.7 million. Four bills, (HB363 old fund transfer, HB 559 vehicle registration fees, SB 294 protested property tax, and SB 407 income tax reduction/sales tax) accounted for about 87 percent of this increased revenue.

Figure 8
Impact of Enacted Legislation By Bill Number
General Fund and Total Funds

| Bill Number and Short Description | General Fund Impact Fiscal 2003 | General Fund Impact Fiscal 2004 | General Fund Impact Fiscal 2005 | General Fund Impact 03.04.05 | Total Funds Impact 03.04.05 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|-----------------------------------|
| HB0002 General appropriations act | \$0 | (\$1,158,075) | \$174,677 | (\$983,398) | (\$1,098,891) |
| HB0010 CERCLA bonds for Libby reclamation state matching funds | - | - | - | - | - |
| HB0062 Revise apiculture laws | - | (17,730) | (17,730) | (35,460) | 79,182 |
| HB0096 Eliminate advanced telecommunications infrastructure tax credit | - | 300,000 | 300,000 | 600,000 | 600,000 |
| HB0121 Clarify deposit of payment from state hospital and nursing care center | - | 3,180,119 | 3,180,119 | 6,360,238 | 6,360,238 |
| HB0141 Felony for causing high speed pursuit | - | 6,200 | 6,200 | 12,400 | 12,400 |
| HB0159 Separate licensure of food manufacturers from retail establishments | - | 337 | 337 | 674 | 23,175 |
| HB0160 Reauthorize natural resource damage program | - | (21,807) | (44,135) | (65,942) | (65,942) |
| HB0186 Revise motor vehicle dealer licensing | - | 18,331 | 18,331 | 36,662 | 36,662 |
| HB0195 Mandatory penalty provisions for DUI offenders -- for federal funding | - | 271,200 | 352,200 | 623,400 | 623,400 |
| HB0206 Change driver license fee -- distribution | - | 437,740 | 437,740 | 875,480 | 1,646,836 |
| HB0215 Fee for reinstatement of driver's license | - | 309,000 | 619,800 | 928,800 | 928,800 |
| HB0237 Require muffler on motor vehicle with compression brakes | - | 650 | 650 | 1,300 | 1,300 |
| HB0261 Increase municipal finance debt limits -increase vehicle fees to repay loan | - | 51,266 | 52,343 | 103,609 | 4,989,119 |
| HB0280 Authorize use of originally-issued vintage automobile license plates | - | 23,000 | (10,500) | 12,500 | 12,500 |
| HB0363 Remove reserve requirements for old fund | 18,268,000 | 4,300,000 | 3,780,000 | 26,348,000 | 26,348,000 |
| HB0452 Tax credit for developmentally disabled funding | - | 139,800 | 25,200 | 165,000 | 165,000 |
| HB0478 Allow for driver license suspension for failure to comply with sentence | - | 721,240 | 1,175,560 | 1,896,800 | 1,896,800 |
| HB0480 Increase penalty for failure to report motor vehicle accidents | - | 26,400 | 26,400 | 52,800 | 52,800 |
| HB0537 Require study to recalculate annual sustainable yield on forested state lands | - | - | - | - | 591,629 |
| HB0538 Revise laws on motor vehicle titling and registration | - | 25,118 | 50,235 | 75,353 | 138,149 |
| HB0549 Increase scholarship donation for collegiate license plates | - | - | - | - | 455,700 |
| HB0559 Registration decal as evidence of fee payment for vehicles and vessels | - | 6,336,923 | 3,996,451 | 10,333,374 | 10,333,374 |
| HB0564 Create primary sector business workforce training act | - | 122,238 | 525,709 | 647,947 | 647,947 |
| HB0616 Revise endowed philanthropy tax credit | - | 1,379,000 | 563,000 | 1,942,000 | 1,942,000 |
| HB0618 Double driver license reinstatement fee | - | - | - | - | 894,600 |
| HB0677 Justice court jurisdiction over natural streambed and land preservation | - | (1,500) | (1,500) | (3,000) | (3,000) |

Figure 4 continued on next page

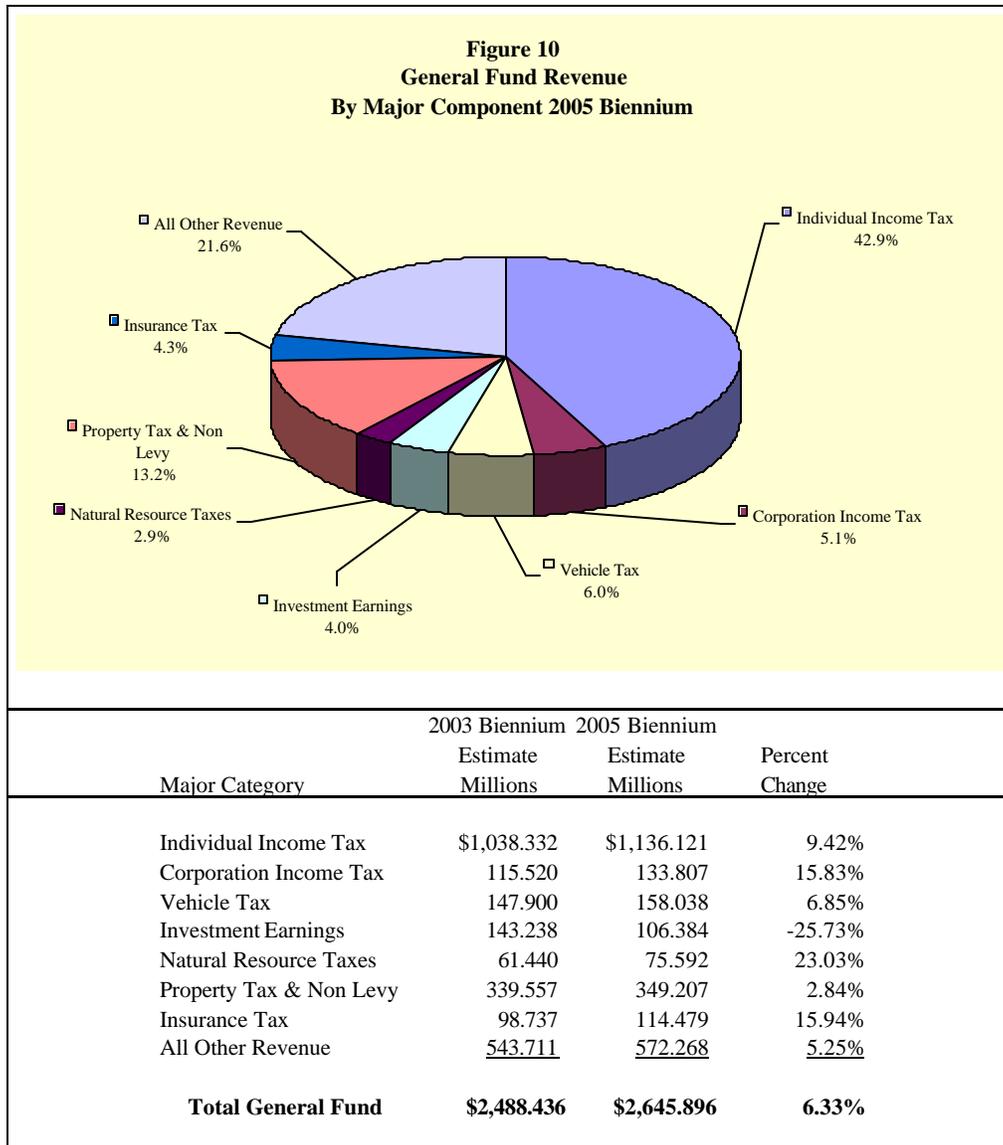
Figure 8 (continued)
Impact of Enacted Legislation By Bill Number
General Fund and Total Funds

| Bill Number and Short Description | General Fund | General Fund | General Fund | General Fund | Total Funds |
|--|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| | Impact Fiscal 2003 | Impact Fiscal 2004 | Impact Fiscal 2005 | Impact 03,04,05 | Impact 03,04,05 |
| HB0689 Revise laws relating to lobbying | - | - | (9,700) | (9,700) | (29,100) |
| HB0705 Increase utilization fee on nursing facility bed days | - | - | - | - | 8,671,517 |
| HB0711 Driver license expiration notification | - | 39,375 | 52,500 | 91,875 | 91,875 |
| HB0721 Revise water's edge election for corporate taxation | - | - | - | - | 375,000 |
| HB0722 Provider tax on intermediate care facilities | 410,687 | 820,429 | 792,011 | 2,023,127 | 3,156,447 |
| HB0727 Close Eastmont Human Services Center | - | (1,054,171) | (909,844) | (1,964,015) | (1,964,015) |
| HB0743 Include mental health nursing care center in bed tax | - | 118,287 | 138,705 | 256,992 | 432,265 |
| HB0748 Simplification of oil and natural gas tax distribution | 3,272,910 | - | - | 3,272,910 | 3,272,910 |
| HB0758 Surcharge fee on video gambling machines and smoking ordinance exemption | - | 256,710 | 256,710 | 513,420 | 513,420 |
| HB0767 Revise motor vehicle and driving record laws | - | 21,628 | 12,023 | 33,651 | 153,967 |
| SB0013 Reduce DUI blood alcohol to .08 for federal highway aid funds | - | 30,000 | 30,000 | 60,000 | 60,000 |
| SB0026 Revise Title Loan Act | - | (32,000) | (32,000) | (64,000) | - |
| SB0035 Revise criminal procedure for developmentally disabled | - | 25,645 | - | 25,645 | 25,645 |
| SB0065 Revise veteran's property tax and vehicle fee benefits | - | (6,585) | (117,677) | (124,262) | (131,201) |
| SB0089 Exempt local governments from uniform unclaimed property act | (34,750) | (139,000) | (139,000) | (312,750) | (312,750) |
| SB0112 Fund search and rescue with certain fees | - | 34,566 | 52,108 | 86,674 | 86,674 |
| SB0118 License plates -- delay new issue, change costs, generic specialty plates | - | 607,443 | 961,742 | 1,569,185 | 1,569,185 |
| SB0121 Revise taxation of pass-through entities | - | 50,000 | 200,000 | 250,000 | 250,000 |
| SB0128 State special revenue account for criminal history record dissemination | - | (182,776) | (182,776) | (365,552) | - |
| SB0130 Revise laws on recreational use of trust land | - | - | - | - | 691,177 |
| SB0131 Board of Investments purchase of loans from local development organizations | - | (40,000) | (70,000) | (110,000) | (110,000) |
| SB0138 Revise tax laws on alternative energy and energy conservation | - | 169,661 | 313,781 | 483,442 | 510,442 |
| SB0144 Revise securities laws | - | 6,000 | 6,000 | 12,000 | 12,000 |
| SB0159 Tax exemption for certain RR property leased to nonprofit organization | - | (1,073) | (1,073) | (2,146) | (2,282) |
| SB0271 Eliminate POINTS system -- UI tax not under replacement system | - | (196,650) | (1,703,350) | (1,900,000) | - |
| SB0294 Revise interest rate applied to refund of protested property taxes | - | 8,359,523 | 2,660,278 | 11,019,801 | 11,711,710 |
| SB0336 Implement recommendations of state parks future committee | - | 1,092,349 | 2,087,182 | 3,179,531 | 3,179,531 |
| SB0362 Revise penalties for minor in possession law violations | - | 19,250 | 19,250 | 38,500 | 38,500 |
| SB0387 Conform retail telecommunication excise tax to federal mobile sourcing act | - | 189,000 | 198,000 | 387,000 | 387,000 |
| SB0401 Revise membership and duties concerning veterans affairs | - | 433,075 | 731,396 | 1,164,471 | 2,281,588 |
| SB0407 Income tax reduction with revenue from limited sales tax | 5,792,382 | 40,583,521 | 24,155,429 | 70,531,332 | 75,138,431 |
| SB0408 Adjustment to state income tax for certain health care professionals | - | (37,500) | (37,500) | (75,000) | (75,000) |
| SB0409 Development plan for otter creek tracts | - | - | - | - | (300,000) |
| SB0415 Revise law on golf course beer and wine licenses | - | 500 | 400 | 900 | 900 |
| SB0460 Revise definitions applicable to metal mines license tax | - | - | - | - | - |
| SB0461 Mitigate effects of cyclical reappraisal | - | (1,924,461) | (6,079,208) | (8,003,669) | (8,506,360) |
| SB0464 Revise health and safety laws regarding food establishments | - | 4,050 | 3,750 | 7,800 | 7,800 |
| SB0493 Revise motor vehicle computer system law to implement appropriations bill | - | 3,700,000 | - | 3,700,000 | 3,700,000 |
| Total Impact of Legislation Listed Above | \$27,709,229 | \$69,396,246 | \$38,600,224 | \$135,705,699 | \$162,499,054 |

Figure 9 shows the revised general fund revenue estimates by source which is the sum of HJR 2 estimates and the impacts of all enacted legislation. These revised estimates are used in this volume to determine the overall financial condition of the general fund for the 2003 and 2005 biennia.

| Source of Revenue | Percent of 2002 | Actual Fiscal 2002 | Estimated Fiscal 2003 | Estimated Fiscal 2004 | Estimated Fiscal 2005 | Estimated Fiscal 02-03 | Estimated Fiscal 04-05 | Cumulative % of Total |
|--------------------------------------|-----------------|--------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|
| 1 Individual Income Tax | 40.89% | \$517.568 | \$520.764 | \$558.059 | \$578.062 | \$1,038.332 | \$1,136.121 | 42.94% |
| 2 Property Tax | 13.38% | 169.339 | 170.218 | 174.311 | 174.896 | 339.557 | 349.207 | 56.14% |
| 3 Corporation Income Tax | 5.39% | 68.173 | 47.347 | 64.762 | 69.045 | 115.520 | 133.807 | 61.19% |
| 4 Vehicle Tax | 5.78% | 73.127 | 74.773 | 79.774 | 78.264 | 147.900 | 158.038 | 67.17% |
| 5 Common School Interest and Income | 3.87% | 48.938 | - | - | - | 48.938 | - | 67.17% |
| 6 Insurance Tax & License Fees | 3.74% | 47.291 | 51.446 | 56.038 | 58.441 | 98.737 | 114.479 | 71.49% |
| 7 Coal Trust Interest | 2.97% | 37.605 | 36.825 | 37.187 | 37.806 | 74.430 | 74.993 | 74.33% |
| 8 US Mineral Royalty | 1.56% | 19.772 | 22.715 | 23.469 | 22.980 | 42.487 | 46.449 | 76.08% |
| 9 All Other Revenue | 3.41% | 43.216 | 45.349 | 36.254 | 28.785 | 88.565 | 65.039 | 78.54% |
| 10 Tobacco Settlement | 1.47% | 18.647 | 19.025 | 3.105 | 3.182 | 37.672 | 6.287 | 78.78% |
| 11 Telecommunications Excise Tax | 1.55% | 19.594 | 20.100 | 21.190 | 22.172 | 39.694 | 43.362 | 80.42% |
| 12 Video Gambling Tax | 3.45% | 43.666 | 45.219 | 45.012 | 46.068 | 88.885 | 91.080 | 83.86% |
| 13 Treasury Cash Account Interest | 0.98% | 12.414 | 7.456 | 14.060 | 17.331 | 19.870 | 31.391 | 85.05% |
| 14 Estate Tax | 1.09% | 13.816 | 11.015 | 7.516 | 4.625 | 24.831 | 12.141 | 85.51% |
| 15 Oil & Natural Gas Production Tax | 1.02% | 12.902 | 21.676 | 26.932 | 26.699 | 34.578 | 53.631 | 87.53% |
| 16 Motor Vehicle Fee | 2.15% | 27.271 | 27.703 | 31.762 | 34.301 | 54.974 | 66.063 | 90.03% |
| 17 Public Institution Reimbursements | 1.13% | 14.283 | 15.851 | 16.757 | 16.993 | 30.134 | 33.750 | 91.31% |
| 18 Lodging Facility Use Tax | 0.00% | - | 0.710 | 8.807 | 9.084 | 0.710 | 17.891 | 91.98% |
| 19 Coal Severance Tax | 0.67% | 8.469 | 10.221 | 8.384 | 7.857 | 18.690 | 16.241 | 92.60% |
| 20 Liquor Excise & License Tax | 0.75% | 9.514 | 9.854 | 10.239 | 10.624 | 19.368 | 20.863 | 93.38% |
| 21 Cigarette Tax | 0.62% | 7.887 | 12.408 | 34.993 | 33.954 | 20.295 | 68.947 | 95.99% |
| 22 Investment License Fee | 0.39% | 4.992 | 4.567 | 4.618 | 4.664 | 9.559 | 9.282 | 96.34% |
| 23 Lottery Profits | 0.59% | 7.467 | 6.210 | 5.595 | 6.982 | 13.677 | 12.577 | 96.82% |
| 24 Liquor Profits | 0.44% | 5.600 | 5.637 | 5.400 | 5.365 | 11.237 | 10.765 | 97.22% |
| 25 Nursing Facilities Fee | 0.47% | 5.918 | 5.723 | 5.704 | 5.665 | 11.641 | 11.369 | 97.65% |
| 26 Foreign Capital Depository Tax | 0.00% | - | - | - | - | - | - | 97.65% |
| 27 Electrical Energy Tax | 0.33% | 4.197 | 4.329 | 4.408 | 4.483 | 8.526 | 8.891 | 97.99% |
| 28 Metalliferous Mines Tax | 0.26% | 3.329 | 4.842 | 2.967 | 2.753 | 8.171 | 5.720 | 98.20% |
| 29 Highway Patrol Fines | 0.32% | 4.062 | 4.142 | 4.697 | 4.781 | 8.204 | 9.478 | 98.56% |
| 30 Public Contractors Tax | 0.26% | 3.267 | 2.679 | 3.354 | 3.356 | 5.946 | 6.710 | 98.82% |
| 31 Wholesale Energy Tax | 0.23% | 2.906 | 3.373 | 3.432 | 3.492 | 6.279 | 6.924 | 99.08% |
| 32 Tobacco Tax | 0.17% | 2.183 | 2.399 | 3.174 | 3.278 | 4.582 | 6.452 | 99.32% |
| 33 Driver's License Fee | 0.20% | 2.580 | 2.355 | 2.850 | 2.881 | 4.935 | 5.731 | 99.54% |
| 34 Railroad Car Tax | 0.12% | 1.490 | 1.577 | 1.688 | 1.681 | 3.067 | 3.369 | 99.67% |
| 35 Wine Tax | 0.10% | 1.232 | 1.264 | 1.283 | 1.302 | 2.496 | 2.585 | 99.76% |
| 36 Beer Tax | 0.22% | 2.784 | 2.918 | 3.058 | 3.205 | 5.702 | 6.263 | 100.00% |
| 37 Telephone License Tax | 0.02% | 0.212 | 0.033 | - | - | 0.245 | - | 100.00% |
| 38 Long Range Bond Excess | <u>0.00%</u> | - | - | - | - | - | - | <u>100.00%</u> |
| Total General Fund | 100.00% | <u>\$1,265.713</u> | <u>\$1,222.723</u> | <u>\$1,310.839</u> | <u>\$1,335.057</u> | <u>\$2,488.436</u> | <u>\$2,645.896</u> | 100.00% |

Figure 10 shows the revenue contribution to the general fund by the most significant revenue components. During the 2005 biennium, over 67 percent of total general fund revenue comes from income, property, and vehicle taxes, while about 4 percent is generated from investment earnings. Natural resource taxes are estimated to produce about 3 percent of total general fund revenue during the 2005 biennium. The information shown in Figure 6 illustrates the significant dependence the state has on income, property, and vehicle taxes to fund general government operations. In addition, Figure 6 shows the general fund will receive an estimated \$106 million in the 2005 biennium from investment earnings. Although these revenues are due to the investment by the state of taxpayer dollars, they can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or do a combination of both.



Total general fund revenues for the 2005 biennium are projected to increase 6.3 percent over the 2003 biennium projections. The comparative change by major revenue category is shown at the bottom of Figure 10. Included in this increase is \$108.0 million of additional revenue in the 2005 biennium due to the enactment of the legislation shown in Figure 8.

NON-GENERAL FUND REVENUE ESTIMATES

Figure 11 shows estimates for selected non-general fund revenue for fiscal years 2003, 2004, and 2005 adopted in HJR 2. These estimates were adopted because of their importance in the budgeting process.

Figure 11
House Joint Resolution 2 Plus Legislation Impacts
Non-General Fund Revenue Estimates
In Millions

| Source of Revenue | Percent of Total | Actual Fiscal 2002 | Estimated Fiscal 2003 | Estimated Fiscal 2004 | Estimated Fiscal 2005 | Estimated Fiscal 02-03 | Estimated Fiscal 04-05 | Cumulative % of Total |
|--|------------------|--------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|
| 1 Diesel Tax | 17.83% | \$58.261 | \$59.180 | \$60.041 | \$60.903 | \$117.441 | \$120.944 | 18.15% |
| 2 Federal Forest Receipts | 4.12% | 13.475 | 13.583 | 13.775 | 13.976 | 27.058 | 27.751 | 22.32% |
| 3 Gasoline Tax | 40.32% | 131.731 | 132.446 | 133.185 | 133.918 | 264.177 | 267.103 | 62.40% |
| 4 GVW and Other Fees | 8.35% | 27.266 | 27.037 | 26.729 | 26.377 | 54.303 | 53.106 | 70.37% |
| 5 Lodging Facility Use Tax | 3.64% | 11.901 | 12.441 | 13.005 | 13.595 | 24.342 | 26.600 | 74.37% |
| 6 Resource Indemnity Tax | 0.67% | 2.201 | 1.080 | 1.055 | 1.062 | 3.281 | 2.117 | 74.68% |
| 7 Arts Trust Interest | 0.09% | 0.305 | 0.314 | 0.322 | 0.337 | 0.619 | 0.659 | 74.78% |
| 8 Capital Land Grant Interest and Income | 0.34% | 1.101 | 0.827 | 0.831 | 0.631 | 1.928 | 1.462 | 75.00% |
| 9 Deaf & Blind Interest and Income | 0.09% | 0.284 | 0.292 | 0.297 | 0.302 | 0.576 | 0.599 | 75.09% |
| 10 Parks Trust Interest | 0.34% | 1.106 | 1.114 | 1.127 | 1.153 | 2.220 | 2.280 | 75.43% |
| 11 Pine Hills Interest and Income | 0.11% | 0.355 | 0.348 | 0.361 | 0.370 | 0.703 | 0.731 | 75.54% |
| 12 RIT Trust Interest | 2.24% | 7.321 | 7.376 | 7.377 | 7.379 | 14.697 | 14.756 | 77.76% |
| 13 TSE Trust Interest | 2.08% | 6.805 | 7.201 | 7.871 | 8.472 | 14.006 | 16.343 | 80.21% |
| 14 Property Tax: 6 Mill | 3.61% | 11.806 | 11.627 | 11.588 | 11.280 | 23.433 | 22.868 | 83.64% |
| 15 Property Tax: 9 Mill | 0.09% | 0.286 | - | - | - | 0.286 | 0.000 | 83.64% |
| 16 Tobacco Trust Interest | 0.30% | 0.968 | 1.741 | 2.464 | 3.253 | 2.709 | 5.717 | 84.50% |
| 17 Regional Water Trust Interest | 0.20% | 0.643 | 1.151 | 1.404 | 1.670 | 1.794 | 3.074 | 84.96% |
| 18 Common School Interest and Income | <u>15.57%</u> | <u>50.875</u> | <u>51.175</u> | <u>49.767</u> | <u>50.433</u> | <u>102.050</u> | <u>100.200</u> | <u>100.00%</u> |
| Total Non-General Fund | 100.00% | \$326.689 | \$328.933 | \$331.199 | \$335.111 | \$655.622 | \$666.310 | 100.00% |

SUMMARY

A complete summary of each general fund and selected non-general fund revenue source can be found in "Volume 2 - Revenue Estimates". Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, distribution mechanisms, and other useful information. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue. It should be noted that the revenue projection table and graph are based on HJR 2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption tables reflect only assumptions pertinent to the HJR 2 revenue estimates and have not been updated for the impacts of enacted legislation.

SUMMARY OF TAX POLICY AND INITIATIVES

The major tax policy achievements of the Fifty-eighth Legislature were: 1) reform the state income tax; 2) mitigate the impacts of the January 1, 2003 reappraisal; 3) increase cigarette and accommodation taxes; 4) institute a new rental car tax; 5) simplify the collection of oil and gas production taxes; and 6) provide for lifetime vehicle licenses for selected vehicles. In addition, there were many revenue bills, some diverting revenue from non-general fund sources, others altering existing law, and others creating new programs. This summary provides discussion of these changes and the major revenue legislation.

Figure 12 shows the major legislation enacted implementing the legislature's tax policy and changing general fund revenue. The ensuing narrative provides a description of each bill, categorized by major tax policy bills and major revenue bills.

| Bill Number and Short Description | General Fund Impact Fiscal 2003 | General Fund Impact Fiscal 2004 | General Fund Impact Fiscal 2005 | General Fund Impact 03,04,05 | Total Funds Impact 03,04,05 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|-----------------------------------|
| HB0121 Clarify deposit of payment from state hospital and nursing care center | \$0 | \$3,180,119 | \$3,180,119 | \$6,360,238 | \$6,360,238 |
| HB0363 Remove reserve requirements for old fund | 18,268,000 | 4,300,000 | 3,780,000 | 26,348,000 | 26,348,000 |
| HB0559 Registration decal as evidence of fee payment for vehicles and vessels | - | 6,336,923 | 3,996,451 | 10,333,374 | 10,333,374 |
| HB0616 Revise endowed philanthropy tax credit | - | 1,379,000 | 563,000 | 1,942,000 | 1,942,000 |
| HB0722 Provider tax on intermediate care facilities | 410,687 | 820,429 | 792,011 | 2,023,127 | 3,156,447 |
| HB0748 Simplification of oil and natural gas tax distribution | 3,272,910 | - | - | 3,272,910 | 3,272,910 |
| SB0118 License plates -- delay new issue, change costs, generic specialty plates | - | 607,443 | 961,742 | 1,569,185 | 1,569,185 |
| SB0294 Revise interest rate applied to refund of protested property taxes | - | 8,359,523 | 2,660,278 | 11,019,801 | 11,711,710 |
| SB0336 Implement recommendations of state parks future committee | - | 1,092,349 | 2,087,182 | 3,179,531 | 3,179,531 |
| SB0401 Revise membership and duties concerning veterans affairs | - | 433,075 | 731,396 | 1,164,471 | 2,281,588 |
| SB0407 Income tax reduction with revenue from limited sales tax | 5,792,382 | 40,583,521 | 24,155,429 | 70,531,332 | 75,138,431 |
| SB0461 Mitigate effects of cyclical reappraisal | - | (1,924,461) | (6,079,208) | (8,003,669) | (8,506,360) |
| SB0493 Revise motor vehicle computer system law to implement appropriations bill | - | 3,700,000 | - | 3,700,000 | 3,700,000 |
| All Other Legislation Enacted | (34,750) | 528,325 | 1,771,824 | 2,265,399 | 22,012,000 |
| Total Impact of Legislation Listed Above | \$27,709,229 | \$69,396,246 | \$38,600,224 | \$135,705,699 | \$162,499,054 |

MAJOR TAX POLICY BILLS

HB 559 increases vehicle fee revenues and vehicle tax revenues. The legislation eliminates the annual registration of watercrafts, snowmobiles, motorcycles, quadricycles, off-highway vehicles, travel trailers, and trailers and replaces it with a one-time permanent registration fee. It also increases the registration fee on light vehicles (less than 2,850 pounds) from \$13.75 to \$17.00 and for light vehicles over 2,850 pounds, trucks, and busses from \$18.75 to \$24.00, beginning January 1, 2005. A one-time registration fee is also required for permanent registration of trailers. This latter fee is expected to generate \$234,213 in fiscal 2004 and \$186,762 in fiscal 2005, which is deposited to the general fund for transfer to the Highway Patrol Retirement fund. Effective January 1, 2004, the legislation reduces the number of registration decals to one month and one year expirations for motor vehicles and allows one registration decal for boats and snowmobiles. The increase in the general fund motor vehicle fee revenue is expected to be \$1,102,554 in fiscal 2004 and \$1,313,530 in fiscal 2005.

HB 559 also increases vehicle tax revenues. The legislation eliminates the fee in lieu of tax for watercraft, snowmobiles, and trailers and replaces it with a one-time flat fee. Fees are based on an initial rate for fiscal 2004 and increase in fiscal 2005. The newly adopted fee schedule is shown in

Figure 13. The increase in general fund vehicle tax revenue is \$5,234,369 in fiscal 2004 and \$2,682,921 in fiscal 2005. The legislation is effective January 1, 2004.

| Vehicle Type | FY 2004 | FY 2005 |
|--|---------|---------|
| Watercraft under 16 feet | \$25.00 | \$50.00 |
| Watercraft 16 to 19 feet | 55.00 | 110.00 |
| Watercraft 19 feet or greater | 140.00 | 280.00 |
| Snowmobiles, off-highway vehicles, motorcycles, quadricycles | 20.00 | 40.00 |
| Trailer, pole trailer, semitrailer less than 6,000 pounds | 25.00 | 50.00 |
| Trailer, pole trailer, semitrailer greater than 6,000 pounds | 65.00 | 110.00 |

HB 748 – Distribution of the revenue from the oil and natural gas production tax to local governments and the state is changed, resulting in a recharacterization of a portion of the revenue from non-levy general fund property tax revenue to oil and natural gas production tax revenue and causing a one-time acceleration of revenue in fiscal 2003. Under prior law, a portion of the local government share of oil and natural gas revenue was returned to the state general fund as 95 mill and 6 mill non levy revenue. With the passage of House Bill 748, beginning tax year 2003, the distribution to each county is based on a statutory percentage of production in the taxing entity and the state 95 mill and 6 mill share is captured upfront. The state receives an increase in general fund oil and natural gas production tax revenue of \$12,331,776 in fiscal 2004 and \$12,230,315 in fiscal 2005, but loses non-levy revenue in the same amounts. Because the law is effective on passage and approval and applies to oil and natural gas production beginning January 1, 2003, there is a one-time increase in general fund oil and natural gas production tax revenue in fiscal 2003 of \$3,272,910. Of the portion of oil and natural gas production tax revenue remaining after distribution to the counties, the following state percentage distributions apply:

- Fiscal 2003
 - \$400,000 to the coal bed methane protection account
 - the remainder to the general fund
- Fiscal 2004 through Fiscal 2011 (as a result of coordination between HB748 and HB 584)
 - 1.23 percent to the coal bed methane protection account
 - 2.95 percent to the reclamation and development grants account
 - 2.95 percent to the orphan share account
 - 2.65 percent to the 6 mill account for the university system
 - all remaining funds to the general fund.

Under prior law, the orphan share account and associated funding sources sunset at the end of fiscal 2005. House Bill 748 in conjunction with House Bill 584 continues the allocation of oil and gas tax revenue to the orphan share account.

SB 336 – The legislation assesses a new \$4.00 registration fee for each light passenger car or truck less than 8,001 GVW, unless the registrant certifies the intent not to use state parks and fishing access sites. If paid, the optional fee replaces the state parks access day use fee for Montana residents. Revenue from the fee is deposited in the general fund for transfer to the Department of Fish, Wildlife and Parks' state special revenue account to supplement operations at state parks, fishing access sites, and the state owned facilities at Virginia and Nevada Cities. The fee is annual and is effective January 1, 2004. General fund motor vehicle fee revenue increases \$1,092,349 in fiscal 2004 and \$2,087,182 in fiscal 2005.

SB 407 – This legislation: 1) enacted two new taxes, the accommodation and rental car sales taxes; 2) increased taxes on cigarettes and other tobacco products; and 3) reduced individual income taxes. As shown in Figure 14, revenue from the new and increased taxes is a declining source of general fund revenue, producing over \$3.0 million less in the 2007 biennium than in the 2005 biennium. The decline in individual income tax revenue increases between the two biennia, resulting in \$76.2 million less revenue in the 2007 biennium than in the 2005 biennium. Beginning in the 2007 biennium, the combined tax revenue impacts of the legislation result in an increasing loss of general fund revenue.

Figure 14
Senate Bill 407
General Fund Tax Revenue Impacts

| Revenue Source | Fiscal 2003 | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|----------------------------|-------------|--------------|----------------|----------------|----------------|----------------|
| New/Increased Taxes | | | | | | |
| Cigarette Tax | \$4,538,222 | \$27,229,332 | \$26,286,838 | \$25,000,000 | \$24,000,000 | \$23,000,000 |
| Accommodation Sales Tax | 710,000 | 8,807,000 | 9,084,000 | 9,370,000 | 9,664,000 | 9,968,000 |
| Rental Car Sales Tax | 0 | 2,180,000 | 2,248,000 | 2,318,000 | 2,389,000 | 2,463,000 |
| Tobacco Tax | 136,762 | 820,574 | 833,532 | 846,695 | 860,065 | 873,647 |
| Sub-total | \$5,384,984 | \$39,036,906 | \$38,452,370 | \$37,534,695 | \$36,913,065 | \$36,304,647 |
| Tax Reductions | | | | | | |
| Individual Income Tax | \$0 | \$0 | (\$15,752,000) | (\$38,946,000) | (\$52,975,000) | (\$55,624,000) |
| Total | \$5,384,984 | \$39,036,906 | \$22,700,370 | (\$1,411,305) | (\$16,061,935) | (\$19,319,353) |
| Biennial Total | \$5,384,984 | | \$61,737,276 | | (\$17,473,240) | |

Details of each of the tax revenue impacts are provided below.

Effective January 1, 2005, the individual income tax system is revised by: 1) creating a new seven-tier rate table ranging from 1 percent to 6.9 percent; 2) limiting federal deductibility to \$5,000 (\$10,000 if married and filing jointly); 3) creating a new income tax credit equal to 1 percent of net capital gains income (2 percent beginning tax year 2007); and 4) eliminating the reporting of federal tax refunds as income for taxpayers who had their federal taxes paid deduction at the new cap in the previous year. For tax year 2005, the new tax rate table will be as shown in Figure 15.

Figure 15
Tax Year 2005 Rate Table

| Income Brackets | | Tax Rate |
|-----------------|------------|----------|
| \$0 | \$2,300 | 1.0% |
| 2,301 | 4,100 | 2.0% |
| 4,101 | 6,200 | 3.0% |
| 6,201 | 8,400 | 4.0% |
| 8,401 | 10,800 | 5.0% |
| 10,801 | 13,900 | 6.0% |
| 13,901 | and higher | 6.9% |

All standard deduction amounts and personal exemption amounts remain as they are under current law. The new income brackets will be adjusted for inflation beginning tax year 2006. Tax liability reductions in calendar year income are expected to be \$29.6 million in 2005 and \$38.9 million in 2006 for reductions in fiscal year income tax collections of \$15,752,000 in fiscal 2005 and \$38,946,000 in fiscal 2006.

SB 407 imposes a three percent accommodation sales tax (this is in addition to the existing 4 percent lodging tax), beginning June 1, 2003, on gross receipts earned by hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, and bed and breakfast facilities. Exempt are facilities: 1) for health care; 2) owned by non-profit corporations for use by people under 18-years of age for camping; 3) whose average daily charge is less than 60 percent of the amount the state of Montana reimburses for lodging (currently \$35, 60 percent of which is \$21); 4) rented for 30 days or more; or 5) until October 1, 2003, which have entered into contracts prior to April 30, 2003. Sales to the U.S. government are also exempt from the sales tax.

The vendor must pay the tax due by the last day of the month following a calendar quarter. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter. All revenue from the tax is deposited in the general fund. Projections by the Department of Revenue indicate that five percent of the taxes owed will not be paid. The remaining amount, net of the vendor allowance, is estimated to be \$710,000 in fiscal 2003, \$8,807,000 in fiscal 2004, and \$9,084,000 in fiscal 2005.

Beginning May 1, 2003, SB 407 increases the tax on cigarettes by \$0.52 to \$0.70 per 20-cigarette package, a 289 percent increase from the previous \$0.18 tax. Along with increasing the cigarette tax, the legislation reduced the discount rate that wholesalers receive keeping the wholesalers at their previous level of compensation. The changes to the tax are estimated to generate total additional revenues of \$4,901,385 in fiscal 2003, \$29,408,311 in fiscal 2004, and \$28,351,795 in fiscal 2005. The distribution of cigarette taxes to the Department of Public Health and Human Services for the state veterans' nursing home was changed from 11.11 percent to the greater of 8.3 percent or \$2.0 million. Any money in this account in excess of \$2.0 million at the end of a fiscal year is transferred to the general fund. The changes are expected to increase the revenue to the department by \$357,031 in fiscal 2003, \$2,142,187 in fiscal 2004, and \$2,058,233 in fiscal 2005. Further changes in the distribution include: 1) a decrease in the long-range building program allocation from 15.85 percent to 4.3 percent, increasing the revenue \$6,132 in fiscal 2003, \$36,792 in fiscal 2004, and \$6,724 in fiscal 2005; and 2) a change in the general fund allocation from 73.04 percent to whatever remains after the previous allocations, adding \$4,538,222, \$27,229,332, and \$26,286,828 to the general fund for fiscal years 2003, 2004, and 2005 respectively.

Beginning May 1, 2003, SB 407 increases the tax on all tobacco products other than cigarettes from 12.5 percent to 25.0 percent of the wholesale price. Furthermore, the tax on moist snuff increases from the equivalent of \$0.28 an ounce to \$0.35 an ounce. The changes to the tax are estimated to increase general fund revenue \$136,762 in fiscal 2003, \$820,574 in fiscal 2004, and \$833,532 in fiscal 2005

Beginning July 1, 2003, SB 407 imposes a new four percent sales tax on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. A rental vehicle is one that is used by a person other than the owner by arrangement and for consideration. Included are light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax. The vendor must pay the tax due by the last day of the month following a calendar quarter. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter. All revenue from the tax is deposited in the general fund. Projections by the Department of Revenue indicate that five percent of the taxes owed will not be paid. The remaining amounts, net of the vendor allowance, are estimated to be \$2,180,000 in fiscal 2004 and \$2,248,000 in fiscal 2005.

SB 461 – Under prior law, beginning January 1, 2003, class 3 property (agricultural land), class 4 property (residential and commercial), and class 10 property (timberland) were reappraised. The preliminary average percentage increases in appraised value statewide were: 1) class 3 agricultural – 15.3 percent; 2) class 4 residential – 20.2 percent; 3) class 4 commercial – 18.5 percent; 4) class 4 timberland – zero percent. The new appraised value of these properties will be phased-in over the next six years, unless the property dropped in value, in which case the new appraised value will be

recognized immediately. The tax rates and exemption percentages would have remained constant. In the absence of any changes, reappraisal would have raised state revenue by \$2.017 million in fiscal 2004 and \$6.118 million in fiscal 2005.

Figure 16
SB 461 Tax Rates and Exemption Percentages for Class 4 Residential and

| Fiscal Year | Tax Rate | Class 4 | Class 3 | Class 4 |
|------------------|----------|-----------------------|--------------------------------|----------------------|
| | | Residential Exemption | Multi Family Housing Exemption | Commercial Exemption |
| 2003 (prior law) | 3.46% | 31.0% | 31.0% | 13.0% |
| 2004 | 3.40% | 31.0% | 31.0% | 13.0% |
| 2005 | 3.30% | 31.4% | 31.4% | 13.3% |
| 2006 | 3.22% | 32.0% | 32.0% | 13.8% |
| 2007 | 3.14% | 32.6% | 32.6% | 14.2% |
| 2008 | 3.07% | 33.2% | 33.2% | 14.6% |

With the passage of SB 461, beginning January 1, 2003, the impacts of reappraisal are mitigated by: 1) phasing down the tax rate for class 3 and class 4 property from 3.46 percent to 3.01 percent over a six-year period; 2) phasing up the homestead and comstead exemptions for class 4 residential and commercial property over a six-year period; and 3) allowing

an additional tax rate reduction for residential dwellings with extraordinary increases in value due to reappraisal. Figure 16 shows the new tax rates and the new homestead and comstead exemption amounts for properties without extraordinary increases in value. Figure 17 shows the changes in taxable value in class 3 agricultural land, class 4 residential property, class 4 multi-family commercial property, and class 4 other commercial property. Also shown are reductions in general fund revenue for the 95 mills and 1.5 mills and reductions in 6 mill state special revenue.

Figure 17
Change in Taxable Value & Revenue Due to SB461

| Property | Taxable Value Change | |
|---------------------------|----------------------|---------------------|
| | Fiscal 2004 | Fiscal 2005 |
| Ag Land - Class 3 | (\$2,616,045) | (\$6,909,737) |
| Residential - Class 4 | (14,648,298) | (43,374,147) |
| Multi-Family - Class 4 | (577,268) | (1,739,013) |
| Commercial - Class 4 | <u>(2,303,485)</u> | <u>(11,613,740)</u> |
| Total Change | (\$20,145,096) | (\$63,636,637) |
| Revenue Change | | |
| Mills | Fiscal 2004 | Fiscal 2005 |
| Revenue Loss to 95 Mills | (\$1,913,784) | (\$6,045,481) |
| Revenue Loss to 1.5 Mills | (\$10,677) | (\$33,727) |
| Revenue Loss to 6 mills | (\$120,871) | (\$381,820) |

The legislation also contains provisions for special tax rates for certain qualifying property whose owners meet certain income test levels, have increases in taxable value exceeding certain threshold levels, and whose property taxes have increased by at least \$250. Figure 18 shows the tax rate factors used to calculate the new tax rates for various income levels, taxable value change thresholds, and tax increases.

Figure 18
Tax Rate Factors for Properties with Extraordinary Value
Increases Due to Reappraisal

| | Household Income Levels | | |
|--------------------------------|-------------------------|---------------------|---------------------|
| | \$0 - 25,000 | \$25,001 - \$50,000 | \$50,000 - \$75,000 |
| Taxable Value Change Threshold | > 24% | > 30% | > 36% |
| Property Tax Change Threshold | > \$250 | > \$250 | > \$250 |
| Fiscal Year | 2004 | 2005 | 2006 |
| | 3.598% | 3.759% | 3.932% |
| | 3.633% | 4.038% | 4.109% |
| | 3.668% | 4.251% | 4.289% |
| | 3.898% | 4.467% | 4.485% |
| | 4.143% | 4.702% | |
| | 4.392% | | |
| | 4.646% | | |
| | 4.919% | | |

Tax Rate Factors yield the tax rates for each property by multiplying the tax rate factor by the appraised value before reappraisal then dividing by the phased-in appraised value in the fiscal year. Property qualifying not to exceed 5 acres; income is total household income except social security income paid directly to a nursing home.

Taxable value change is measured as the new phased-in appraised value times 66% times 3.01% less tax year 2002 appraised value times 69% times 3.46%. This difference is divided by the product of the tax year 2002 appraised value and 69% times 3.46%.

MAJOR REVENUE BILLS

HB 121 – The legislation changes the institutional revenue collection process, depositing collections from the Montana State Hospital and Montana Mental Health Nursing Care Center directly into the general fund rather than the federal special revenue account. As a result, the federal special revenue decreases by \$3,180,119 in fiscal years 2004 and 2005 and the general fund increases by like amounts.

HB 363 – The following amounts of money in the State Compensation Mutual Insurance “old fund” (for claims for injuries resulting from accidents before July 1, 1990) are to be transferred to the general fund: 1) prior to June 30, 2003 - \$9,178,000; 2) prior to June 30, 2004 - \$4,300,000; 3) prior to June 30, 2005 - \$3,780,000; and 4) on the date the legislation is passed and approved – all of the 10 percent of funds that was required to be reserved, estimated to be \$9,090,000. A total of \$26,348,000 is transferred. If money in the account is not adequate to pay claims, the amount necessary to pay the claims must be transferred to the fund from the general fund.

HB 616 – In the August 2002 special session, SB 15: 1) reduced the planned gift parameters from 40 percent of the gift amount to 30 percent for planned gifts and 13.3 percent for outright gifts; 2) changed the maximum gift amount to \$6,600 from \$10,000 for the period of August 2002 though June 30, 2003; and 3) increased the planned gift credit amount to 50 percent for planned gifts (26.7 percent for outright gifts) up to a maximum of \$13,400 for the period between July 1, 2003 and April 30, 2004. Beginning July 1, 2003, these changes are repealed and the planned gift credit is reestablished at 40 percent for planned gifts (20 percent for outright gifts) up to a maximum of \$10,000. The expected increase in income tax revenues is \$1,379,000 in fiscal 2004 and \$563,000 in fiscal 2005.

HB 722 – A new utilization fee is imposed on resident bed days of intermediate care facilities for the mentally retarded. The fee is five percent of a facility’s quarterly revenue divided by the quarterly bed days. The fee revenue is allocated 70 percent to a new state special revenue prevention and stabilization account (for use by the Department of Public Health and Human Services to provide health

and human services) and 30 percent to the general fund. After including fiscal changes due to the passage of House Bill 727 (closure of the Eastmont Human Service Center), the general fund revenue from the new fee is estimated to be \$100,204 in fiscal 2003, \$212,631 in fiscal 2004, and \$213,668 in fiscal 2005. The legislation is effective on passage and approval.

SB 118 –The legislation generally revises the laws governing license plates and increases the fees on license plates. Effective January 1, 2004, the fee for each new set of number plates increases from \$2.00 to \$5.00 and the initial application and manufacturing fee increases from \$2.50 to \$5.00. Revenue from the fees is deposited to the general fund. Effective January 1, 2004, the administrative fee for generic specialty license plates increases from \$10.00 to \$15.00 with \$5.00 deposited to the county general fund (an increase of \$3.00) and \$10.00 deposited to the state general fund (an increase of \$2.00). The initial sponsor fee on specialty plates is also increased from \$1,200 to \$4,000 the revenue from which is used to reimburse the Department of Correction's initial costs of producing the plates for the sponsor. General fund motor vehicle fee revenue increases by \$607,443 in fiscal 2004 and \$961,742 in fiscal 2003.

SB 294 – Under prior law, payments of protested property taxes were deposited into a protest fund and were not available for use by the state or other jurisdictions. Beginning with taxes paid under protest on centrally assessed property after October 31, 2000, the state share is required to be remitted to the state treasurer for deposit in the general fund, or in the case of the 6 mill portion, to the 6 mill state special revenue account. Revenue from the 95 mill property tax increases \$8,359,523 in fiscal 2004 and \$2,660,278 in fiscal 2005. Revenue from the 6 mill property tax increases \$524,876 in fiscal 2004 and \$167,033. The increases in fiscal 2004 are the result of payments associated with protests in tax years 2000 through 2003. The legislation is effective on passage and approval.

SB 401 – Certain veteran vehicle registration fees are revised and a new state special revenue account is established. A new \$0.50 registration fee is assessed annually on all vehicle types except off-highway vehicles, trailers and semi trailers registered in other jurisdictions and through a proportional registration agreement, and vehicles bearing ex-prisoner of war license plates. Revenue from the fee is deposited to the general fund for transfer to the new state veterans' services state special revenue account to be used for the construction, maintenance, operation, and administration of state veterans' cemeteries. The legislation also allows the Board of Veterans' Affairs to sponsor a generic patriotic license plate, with the \$15 surcharge deposited to the new account. The surcharge and any donations to the new account or cemetery program may be taken as a deduction on the Montana personal income tax. General fund motor vehicle fee revenue increases \$433,075 in fiscal 2004 and \$731,396 in fiscal 2005.

SB 493 – Use of money in the motor vehicle information technology system account was amended to include transfers to the general fund. In the 2005 biennium, a transfer of up to \$3,700,000 to the general fund is authorized, the timing and amount of which are to be determined by the director of the Office of Budget and Program Planning. Excess revenue in the account is anticipated from three sources:

- The motor vehicle information technology system account was established in House Bill 577 enacted by the 2001 legislature. This legislation doubled the fee for filing motor vehicle liens from \$4 to \$8 with the \$4 increase earmarked to pay debt service on the loan from the Board of Investments financing the motor vehicle information technology system. Revenues from the fee increase are expected to exceed debt service payments in fiscal 2003 resulting in a large fund balance.

- Passage of HB 261 by the 2003 legislature will also contribute to excess money in the motor vehicle information technology system account in the 2005 biennium. This legislation provides for a \$5.00 increase in the certificate of ownership fees for watercraft, snowmobiles, off-highway vehicles, and all other vehicles and a \$7.00 increase in the duplicate certificate of ownership fee (of which \$2.00 of the increase is deposited to the general fund as “Motor Vehicle” revenue). It also levies a new \$10.00 fee for the issuance of a new certificate of title following the release of a lien. The increased revenue is deposited in the account to pay debt service on the \$18.0 million increase in the loan from the Board of Investments. The increased revenues from this legislation are expected to exceed debt service costs by \$3,890,544 in the 2005 biennium.
- HB 538, passed by the 2003 legislature, increases the lien-filing fees for boats, snowmobiles, and off-highway vehicles. The increased revenues of \$20,932 in fiscal 2004 and \$41,864 in fiscal 2005 are deposited to the motor vehicle information technology system account.

The legislation terminates June 30, 2005.

All other Bills – Many other bills affected revenues in minor ways during the 2005 biennium.



APPROPRIATIONS SUMMARY

INTRODUCTION

This chapter summarizes the major legislative appropriations for ongoing costs of operating state government. HB 2 (the general appropriations act) is the primary vehicle used by the legislature to provide these appropriations. HB 13, the pay plan bill, is also included in the totals presented. In the 2005 biennium, total general fund appropriated through these sources is \$2.3 billion, while total funds are \$6.3 billion.

While HB 2 is the primary vehicle used, the legislature also appropriates funds through statute (statutory appropriations) and other legislation. Other legislation (excluding HB 13 and including the feed bill) appropriates \$13.7 million general fund in the 2005 biennium, while statutory appropriations are estimated at \$259.8 million general fund. Consequently, this section discusses almost 90.0 percent of total general fund spending. For a further discussion of other appropriations legislation, see page 89 of this volume. For a discussion of statutory appropriations, see page 92.

APPROPRIATIONS HIGHLIGHTS

| Major Budget Highlights 2005 Biennium Legislative Budget |
|---|
| <ul style="list-style-type: none">○ General fund increases \$54.9 million, or less than 2.5 percent○ Fiscal 2003 district court assumption and the 2005 biennium pay plan account for over half of this increase○ Major other increases are concentrated in corrections and human services, primarily due to population and caseload increases○ Reductions due to enrollment declines and funding switches offset schedule increases in K-12○ Budget includes a number of increases and decreases in the rest of state government○ 2005 biennium general fund is about \$94.8 million below estimated present law (\$104.9 million if the pay plan is excluded)<ul style="list-style-type: none">○ Specific service reductions - \$13.4 million○ Unduplicated fee changes and funding switches - \$48.7 million○ Unspecified reductions - \$48.6 million |

| Major Budget Highlights | |
|---|---|
| 2005 Biennium Legislative Budget | |
| o | Total funds increase \$581.1 million, or 10.2 percent |
| o | Federal funds increase \$316.2 million due to increased grants (mainly human services and K-12, transportation-related expenditures, and Medicaid caseload) |
| o | State special revenue shows the largest growth due to Highway 93 and environmental bonding, use of highways funds in Department of Justice, and other miscellaneous factors |
| o | Legislature essentially tried to maintain state funding to match or maintain maintenance of effort for all federal funds |
| o | FTE increase by 20.24 due primarily to increased federal funds |
| o | Federal funds continue to become a larger part of the total state budget |

Figure 19 compares the 2005 biennium, by general fund and total funds, to the 2003 biennium. Following the table is a brief discussion highlighting the major points. Following this summary are discussions of major legislative actions by fund type and program area (education, human services, and corrections).

| Figure 19 Biennium to Biennium Comparison HB 2 and HB 13 2005 Biennium | | | | | | | |
|---|-------------------------|-------------------------|----------------------|-------------------|----------------------|-----------------------------|-----------------------------|
| Component | 2003 Biennium | 2005 Biennium | Difference | Percent Change | Percent of Change | 2003 Percent of Total | 2005 Percent of Total |
| General Fund | \$ 2,264,895,677 | \$ 2,319,761,232 | \$ 54,865,555 | 2.4% | 9.4% | 39.7% | 36.9% |
| State Special | 759,607,822 | 970,049,057 | 210,441,235 | 27.7% | 36.2% | 13.3% | 15.4% |
| Federal | 2,653,290,123 | 2,969,446,635 | 316,156,512 | 11.9% | 54.4% | 46.5% | 47.3% |
| Other | 25,682,972 | 25,283,554 | (399,418) | -1.6% | -0.1% | 0.5% | 0.4% |
| Total | \$ 5,703,476,594 | \$ 6,284,540,478 | \$581,063,884 | 10.2% | | | |
| General Fund | | | | | | | |
| K-12 Education | \$ 1,030,557,997 | \$ 1,028,982,215 | \$ (1,575,782) | -0.2% | -2.9% | 45.5% | 44.4% |
| Higher Education | 272,998,574 | 278,514,996 | 5,516,422 | 2.0% | 10.1% | 12.1% | 12.0% |
| Corrections | 195,203,921 | 210,666,618 | 15,462,697 | 7.9% | 28.2% | 8.6% | 9.1% |
| Human Services | 525,526,015 | 536,970,199 | 11,444,184 | 2.2% | 20.9% | 23.2% | 23.1% |
| All Other | 240,609,170 | 264,627,204 | 24,018,034 | 10.0% | 43.8% | 10.6% | 11.4% |
| Total | \$ 2,264,895,677 | \$ 2,319,761,232 | \$ 54,865,555 | 2.4% | | | |
| Total Funds | | | | | | | |
| K-12 Education | \$ 1,245,990,969 | \$ 1,309,170,714 | \$ 63,179,745 | 5.1% | 10.9% | 21.8% | 20.8% |
| Higher Education | 391,955,729 | 392,033,361 | 77,632 | 0.0% | 0.0% | 6.9% | 6.2% |
| Corrections | 201,349,134 | 217,246,566 | 15,897,432 | 7.9% | 2.7% | 3.5% | 3.5% |
| Human Services | 1,973,357,203 | 2,259,722,889 | 286,365,686 | 14.5% | 49.3% | 34.6% | 36.0% |
| All Other | 1,890,823,559 | 2,106,366,948 | 215,543,389 | 11.4% | 37.1% | 33.2% | 33.5% |
| Total | \$ 5,703,476,594 | \$ 6,284,540,478 | \$581,063,884 | 10.2% | | | |

GENERAL FUND

- General fund shows one of the smallest increases in many biennia - \$54.9 million, or less than 2.5 percent
 - Without district court assumption, which was undertaken in fiscal 2003, and the state employee pay plan, the increase would be less than half this amount - \$25.9 million and 1.1 percent
- Major increases are concentrated in human services and corrections due to population and caseload increases
 - K-12 Education decreases \$1.6 million (0.2 percent) due to enrollment reductions and funding switches, which offset schedule increases of 1.1 percent in fiscal 2004 and 2.07 percent in fiscal 2005
 - Corrections shows a \$15.5 million (7.9 percent) increase due to population increases, as this section of the budget continues to become a larger share of the overall budget
 - Human services increases \$11.4 million (2.2 percent), due primarily to caseload increases. A number of reductions implemented in fiscal 2003 to avoid a supplemental are maintained, while significant refinancing and fund switch efforts result in a reduction in general fund without a corresponding loss in service, including creation of a prevention and stabilization fund that supports some services proposed for elimination by the executive
 - Higher education is maintained at the 2003 biennium level, adjusted for special session and other reductions. Present law adjustments were generally not funded and the budget does not take into account anticipated enrollment increases. The Board of Regents has given tentative approval for tuition increases
- Sixteen agencies have less general fund in the 2005 biennium than in the 2003 biennium, with significantly varying impacts and consequences

GENERAL FUND PRESENT LAW

- The 2005 biennium appropriation is about \$94.8 million below estimated present law
- Major actions to maintain the budget below present law include
 - Specific service reductions of \$13.4 million, including the Citizen's Review Board, Community Technical Assistance Program, property tax services, arts education, and Medicaid eligibility (page 100)
 - Unduplicated fee increases and fund switches of \$48.7 million, including the use of \$8.7 million of highways state special revenue in the Department of Justice, tobacco settlement and refinancing in the Department of Public Health and Human Services, and increased court fees for the Law Enforcement Academy (page 98)
 - Unspecified reductions of \$48.6 million (page 101)

TOTAL FUNDS

- Total funds increase \$581.1 million, or 10.2 percent
- Federal funds account for \$316.2 million, or 54.4 percent of the increase. Federal funds increase by 11.9 percent compared to the 2005 biennium
 - Accounting changes add about \$5.0 million through two offsetting adjustments in DPHHS and the Department of Commerce
 - Human services increases about \$164.0 million due to increases for caseloads and new and expanded federal grants (net of the accounting change)

- Transportation increases \$46.3 million for Increased construction, airport rehabilitation, and planning
- Grants to K-12 education for “No Child Left Behind” and other grants add \$65.1 million
- A number of other increases across state government were made
- The legislature generally attempted to maintain state spending at sufficient levels to meet all match or maintenance of effort requirements of federal grants, although not all programs utilizing federal funds were maintained (page 96)
- State special revenue increases by \$210.4 million, or 27.7 percent
 - Transportation increases by \$112.0 million, including \$78.7 million for highway 93 bonding
 - Human services increase by \$26.0 million, or 44.1 percent, due primarily to establishment by the voters of tobacco settlement accounts as a result of I-146 and creation of the prevention and stabilization fund
- Because both fund types increase at a higher rate than general fund, both assume larger shares of the total budget in the 2005 biennium

FTE

- FTE increase by 20.24 from fiscal 2003 to fiscal 2005
- The increase is the net result of a number of increases due primarily to increased federal activity, and a number of reductions
- Primary reductions are in human services due to downsizing of the Montana Mental Health Nursing Care Center in Lewistown and closure of the Eastern Montana Human Services Center (Eastmont) in Glendive

FUND SOURCE

- Federal funds continue to become a greater share of the total budget, going from 46.5 percent in the 2003 biennium to 47.3 percent in the 2005 biennium
- State special revenue, due primarily to establishment of new accounts highways construction bonding, increases by 27.7 percent and is now 15.4 percent of the budget.
- General fund, due to the low rate of growth compared to other sources, falls from 39.7 percent in the 2003 biennium to 36.9 percent in the 2005 biennium

APPROPRIATIONS BY PROGRAM AREA

| Major Policy Highlights 2005 Biennium |
|--|
| <ul style="list-style-type: none"> ○ K-12 Education decreases \$1.5 million general fund and increases \$63.2 million total funds <ul style="list-style-type: none"> ○ Schedule increases of 1.1 percent in fiscal 2004 and 2.07 percent in fiscal 2005 were funded ○ Starting in the 2007 biennium, Base Aid schedules will have a built-in inflation factor ○ Retirement costs of federally funded employees will now be funded with federal funds ○ Federal funds are significantly increased, including for “No Child Left Behind” ○ Enrollment continues to decline |

Major Policy Highlights

2005 Biennium

- **Higher education** is maintained at the 2003 biennium level, adjusted for fiscal 2003 reductions
 - The legislature generally did not fund present law adjustments or make any adjustments or enrollment increases
 - The Board of Regents approved an average increase in tuition rates of about 11 percent if calculated prior to the fiscal 2003 tuition surcharge and about 3.5 percent if including the surcharge, to address unfunded costs increases
- **Human services** increase \$11.4 million general fund and \$286.4 million total funds
 - Caseload increases and new and expanded federal grants, including homeland security, primarily cause the expenditure growth
 - Medicaid provider rates, services, and eligibility are reduced, and prescription drug coverage is expanded
 - Eastmont Human Services Center will be closed as an institution for the developmentally disabled and transferred to corrections; the Montana Mental Health Nursing Care Center is downsized
 - A number of reductions initiated in fiscal 2003 are continued, including various Medicaid and mental health reductions and elimination of expansions
 - A portion of the tobacco settlement funds were diverted to other uses in this biennium only
 - Childcare is funded at the level necessary to match all available federal funds, and will decline from fiscal 2004 to fiscal 2005
 - It is anticipated that monthly TANF cash assistance payments will be reduced in the fall due to increased caseloads and lack of federal funding
 - Significant refinancing efforts reduce general fund and increase federal funds and state special revenue
- **Corrections** shows a large increase but some measures will likely be necessary to either divert or reduce the length of stay of a number of inmates to stay within the appropriation
- **Transportation** is funded to match all anticipated federal funds (about \$325.0 million)
 - The highways state special revenue account is structurally imbalanced
 - Because no open container law was passed, certain federal funds must be used for safety related activities
- **Other** policy issues
 - District court assumption is funded at the level proposed by the executive, and includes authority to use up to \$1.8 million of carryover from the 2003 biennium
 - Over \$8.7 million of highways-related expenditures in the Department of Justice are funded with highways state special revenue
 - The POINTS system is abandoned, and funding is provided in the Department of Labor and Industry to reassume unemployment insurance data processing
 - Training grants for economic development are enhanced, and statutory appropriations are continued past the 2005 biennium

A state employee pay plan was passed to provide additional funds to maintain costs of insurance, with a small salary increase in the last six

Figure 20 shows changes in general fund and total funds, by area of government. As shown, “all other” shows the greatest general fund dollar increase. District court assumption did not take place until fiscal 2003, and the 2003 biennium consequently shows only one year of costs. Of the \$24.0 million increase, annualization of those costs adds almost \$19.0 million.

Within total funds, human services and “all other” show the largest increases due to increased caseloads and grants, refinancing activity, highways construction and highways and environmental bonding, and other federal grants.

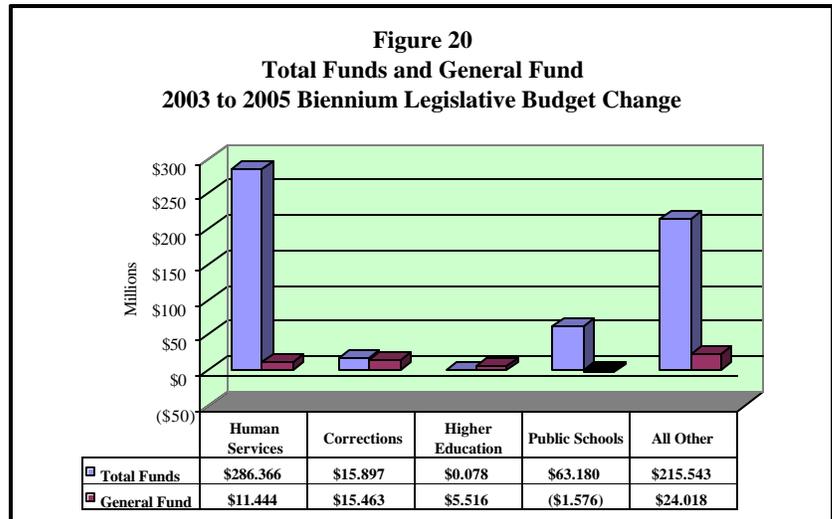


Figure 21 shows total appropriations and increases between biennia.

Figure 21
Biennium to Biennium Comparison
HB 2 and HB 13
2005 Biennium

| Component | 2003 | 2005 | Difference | Percent Change | Percent of Change | 2003 | 2005 |
|-----------------------------|------------------------|-------------------------|-----------------------|----------------|-------------------|------------------|------------------|
| | Biennium | Biennium | | | | Percent of Total | Percent of Total |
| --- General Fund --- | | | | | | | |
| K-12 Education | \$ 1,030,557,997 | \$ 1,028,982,215 | \$ (1,575,782) | -0.2% | -2.9% | 45.5% | 44.4% |
| Higher Education | 272,998,574 | 278,514,996 | 5,516,422 | 2.0% | 10.1% | 12.1% | 12.0% |
| Corrections | 195,203,921 | 210,666,618 | 15,462,697 | 7.9% | 28.2% | 8.6% | 9.1% |
| Human Services | 525,526,015 | 536,970,199 | 11,444,184 | 2.2% | 20.9% | 23.2% | 23.1% |
| All Other | 240,609,170 | 264,627,204 | 24,018,034 | 10.0% | 43.8% | 10.6% | 11.4% |
| Total | <u>\$2,264,895,677</u> | <u>\$ 2,319,761,232</u> | <u>\$ 54,865,555</u> | <u>2.4%</u> | | | |
| --- Total Funds --- | | | | | | | |
| K-12 Education | \$ 1,245,990,969 | \$ 1,309,170,714 | \$ 63,179,745 | 5.1% | 10.9% | 21.8% | 20.8% |
| Higher Education | 391,955,729 | 392,033,361 | 77,632 | 0.0% | 0.0% | 6.9% | 6.2% |
| Corrections | 201,349,134 | 217,246,566 | 15,897,432 | 7.9% | 2.7% | 3.5% | 3.5% |
| Human Services | 1,973,357,203 | 2,259,722,889 | 286,365,686 | 14.5% | 49.3% | 34.6% | 36.0% |
| All Other | 1,890,823,559 | 2,106,366,948 | 215,543,389 | 11.4% | 37.1% | 33.2% | 33.5% |
| Total | <u>\$5,703,476,594</u> | <u>\$ 6,284,540,478</u> | <u>\$ 581,063,884</u> | <u>10.2%</u> | | | |

The following highlights major causes for changes in the appropriations of K-12 education, higher education, human services, and transportation between the 2003 and 2005 biennia.

K-12 EDUCATION

Total general fund appropriations for OPI for the 2005 biennium are \$1.5 million below expected general fund spending in the 2003 biennium. In fiscal 2002, spending was adjusted by removing common school interest and income because this revenue, beginning in fiscal 2003, was removed from the general funds and used to pay for Base aid from the guarantee account.

The biennial reduction of \$1.5 million includes the impact of:

- Enrollment declines
- Other present law increases
- SB 424, which raised district entitlements by 1.1 percent in fiscal 2004 and 2.07 percent in fiscal 2005
- A reduction in the amount the state pays for teacher retirements in fiscal 2005
- A reduction in the amount of HB 124 block grants to schools

Fiscal 2003 also contained a transfer of \$2.0 million from the general fund to the Flex fund that was not appropriated in the 2005 biennium.

Total appropriations for all funds for OPI for the 2005 biennium are \$63.2 million above expected spending in the 2003 biennium. Of this amount \$65.1 million is an increase in federal funds, due primarily to increases for Title 1 (programs for low income students), special education and the “No Child Left Behind” Act.

HIGHER EDUCATION

The statewide summary tables and charts in this volume include only the state general fund and funds consisting of millage, Resource Indemnity Trust (RIT) funds, motorcycle endorsement and registration fees, and federal funds in the budget of the Office of the Commissioner of Higher Education (OCHE), which are appropriated in HB 2. The tables and charts do not include tuition, which is private revenue not appropriated by the legislature, or interest or agency federal funds, which are university funds the legislature appropriated in HB 2 language.

The legislature approved a general fund budget totaling \$274.5 million for the 2005 biennium, before pay plan. This is a \$1.5 million (0.6 percent), increase from the 2003 biennium. Pay plan funding added another \$4.0 million general fund, yielding a biennial increase of 2.0 percent.

The 2005 biennium budget:

- Continues most of the general fund reductions approved by the August 2002 Special Session
- Reallocates state funds from the Educational Units to restore funding for Baker Grants in the Student Assistance Program that had been reduced in the August 2002 Special Session and adds additional general fund -- \$0.5 million
- Restores state funding to the fiscal 2002 base level for the Montana Extension Service, Bureau of Mines, Forestry and Conservation Experiment Station, and Fire Services Training School -- \$0.2 million
- Increases state funds for the Dental Hygiene program in Great Falls - \$0.2 million
- Provides new funding for the Rocky Mountain Agile Virtual Enterprise project in Butte - \$0.3 million
- Partially restores the August 2002 Special Session general fund reduction for the community colleges -- \$0.9 million

The legislature appropriated \$87.2 million in federal special revenue for the programs administered in the OCHE for the 2005 biennium, a \$6.1 million reduction from the 2003 biennium. Federal special revenue is reduced primarily due to reduced federal education grants anticipated for the 2005 biennium and revised federal authority needed in the Guaranteed Student Loan Program.

Human Services

General fund increases \$11.4 million (2.2 percent), while total funds increase \$286.4 million. Primary factors in the increase include the following:

- Medicaid caseload increases totaling \$80.0 million total funds; \$13.0 million general fund
- A change in the distribution of food stamp benefits and caseload increases that adds \$85 million federal funds
- Medicaid intergovernmental transfer increases for nursing home, hospitals, and mental health services of \$25.0 million total funds; \$7.0 million state special revenue
- Expansion of Medicaid prescription drug coverage costing \$7.5 million total funds; \$2.0 million state special revenue
- Approval of a Medicaid mental health access payment totaling \$7.5 million total funds; \$2.0 million general fund
- Federal categorical grant increases of \$30.0 million, including \$20.0 million for bioterrorism funding
- Refinancing efforts that decrease general fund \$13.8 million and increase federal funding by \$23.0 million for DPHHS and by \$27.0 million for schools

The legislature made several reductions that partially offset the increases, including:

- Reductions in Mental Health Services Plan total \$16.0 million general fund; partially offset by Medicaid access payment noted above and \$6.5 million in SB 485
- Reductions in general fund totaling about \$6.7 million are offset by appropriations in SB 485 MIAMI (\$1.1 million) and others
- Unspecified reductions were made including:
 - \$1.0 million biennial general fund reduction in the Operations and Technology Division
 - \$2.5 million biennial general fund reduction in funding for personal services (statewide reduction)

CORRECTIONS

The Department of Corrections general fund (which supplies almost 97 percent of total funding) increases \$15.5 million, or 7.9 percent, from the 2003 to the 2005 biennium. While the legislature did not specifically fund a number of decision packages, it did provide an unspecified increase and allowed the department to allocate the funds among programs.

The Executive Budget, which essentially mirrors the legislative budget in total funds, had provided \$14.7 million to fund community corrections and adult secure facilities, and \$8.4 million for Annualization of the WATCh DUI unit and the Montana Women's Prison.

The average daily population of adult offenders in community corrections and secure facilities is projected to grow approximately 3.5 percent each year of the 2005 biennium, or an increase of 948 adult offenders from fiscal 2002 to fiscal 2005. Total adult offenders in secure care are anticipated to increase by 216 in the same time period. The department will likely have to implement population reduction measures in the 2005 biennium to remain within the projections and the appropriation. While early release was the primary vehicle used in the 2003 biennium to reduce populations, the department does not foresee this vehicle as a continued option to further reduce populations, and will rely more on the WATCh DUI program, the Missoula Assessment and Sanction Center, and programs utilizing the Eastmont facility in Glendive (which will be transferred to the department in fiscal 2004).

TRANSPORTATION

The budget for the Department of Transportation increases \$158.3 million, or 15.9 percent, from the 2003 to the 2005 biennium. Key factors for this increase include:

- An increase of \$4.5 million federal special revenue to begin integration of department computerized financial and management systems
- An increase of \$78.7 million state special revenue to expend bond proceeds to accelerate reconstruction and safety improvements on US Highway 93 from Evaro Hill to Polson
- Reductions totaling \$3.5 million to offset alternative pay plan salary raises given over and above the legislative pay plan
- One-time funding increases of \$11.5 million for federal earmark projects
- One-time funding increases of \$3.6 million for airport runway rehabilitations at the West Yellowstone and Lincoln airports
- Present law adjustments totaling \$137.5 million for contractor payments in support of the tentative construction plan the federal government is currently in the process of re-authorizing funding. The budget assumes an estimate of \$325 million federal construction funds

APPROPRIATIONS BY FUND TYPE

This category compares appropriations made by the legislature by fund type: 1) general fund; 2) state special revenue; 3) federal; and 4) other.

Figure 22 shows a breakdown of HB 2 and HB 13, by source of funding. As shown, federal funds constitute the largest share of total funding.

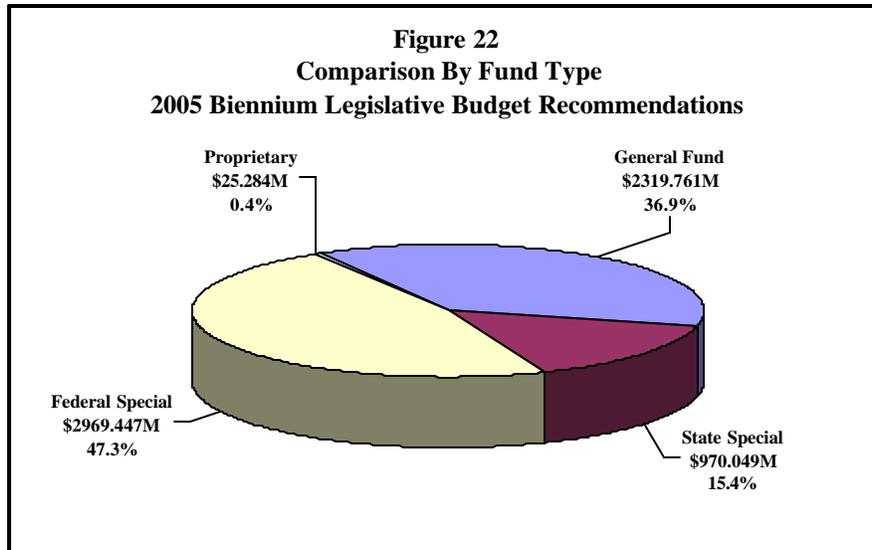
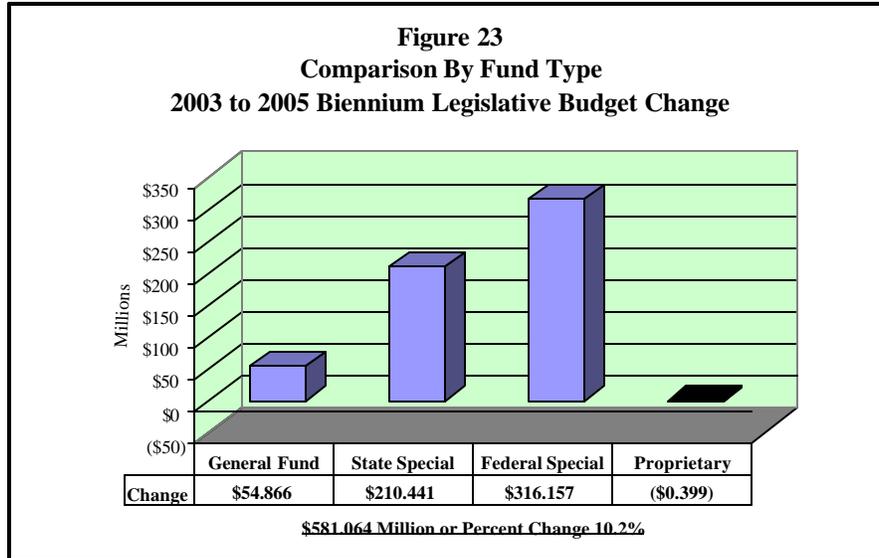
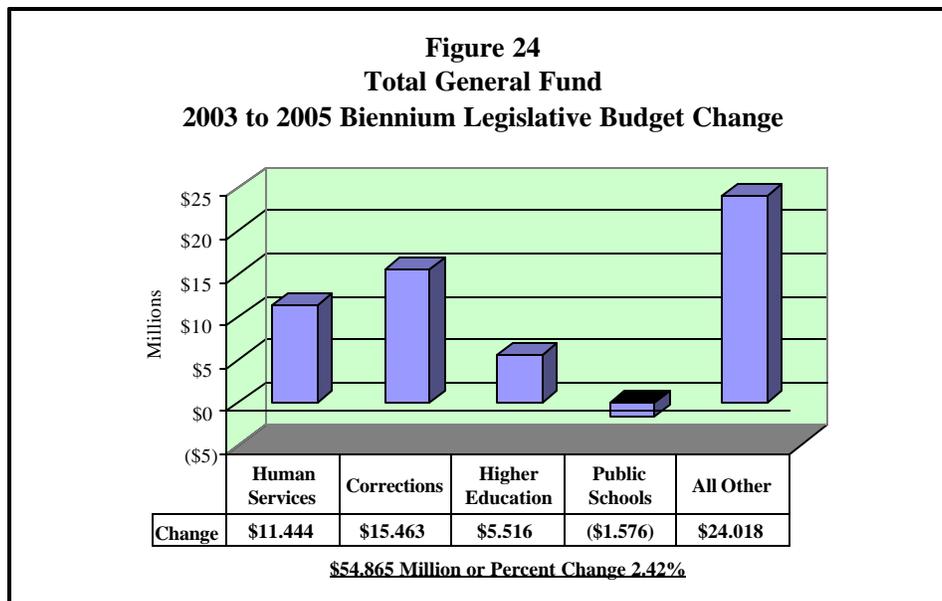


Figure 23 shows what percent of total funds growth from the 2003 to the 2005 biennia are attributable to each fund type. As shown, federal funds increase \$316.2 million, while state special revenue increases by \$210.4 million. Because both funding sources grow at a faster rate than general fund, that fund type continues to constitute a smaller proportion of total state funding, while federal funds continue to become an ever larger and more important source of support for state programs.



GENERAL FUND

General fund increases by \$54.9 million, or 2.4 percent. This low rate is the result of both funding switches and present law reductions. Figure 24 the allocation of the additional funds by area of government.



Two components make up over half of this increase: 1) district court funding, for which 2003 biennium costs reflect only one year due to the timing of assumption, adds almost \$19.0 million (within the "All Other" category); and 2) the state pay plan, which adds over \$10.0 million (without contingency funding). If these two factors are removed, general fund increases only \$25.9 million, or 1.1 percent. Of this remaining increase, human services and corrections consume \$23.5 million, or almost 91.0 percent.

The funding priorities of the legislature in HB 2, as measured by provision of increased or maintenance funding, include the following.

- Funding of Medicaid caseload increases, coupled with reductions in Medicaid eligibility and other services
- Public funding of corrections population increases, although the department will likely have to engage in some population reduction measures
- Funding of district courts at a level that essentially assumes no large swings in variable costs
- Provision of a state pay plan that attempts to keep state employees whole compared to the cost of insurance coverage, although dependent coverage increases were not funded, along with a small salary increase in the second half of fiscal 2005 to help defray some of those increased costs
- Provision of a Base aid increase, while adjusting the appropriation for all anticipated enrollment declines

Sixteen agencies (page 74) received less general fund in the 2005 biennium than the 2003 biennium through a combination of reductions and funding switches.

STATE SPECIAL REVENUE

State special revenue increases by \$210.4 million, or 27.7 percent. Of this total increase, the Department of Transportation and the Department of Public Health and Human Services (DPHHS) are 65.6 percent. Major increases are due to the following:

- Increased transportation funding, primarily to match all anticipated federal funds and to bond for improvements to Highway 93 (\$112.0 million)
- Use of tobacco settlement proceeds, per 146, for a number of programs, other refinancing, and creation of the prevention and stabilization fund in DPHHS (\$26.0 million)
- Use of highways state special revenue in the Department of Justice for prisoner per diem and a portion of the Motor Vehicle Division, and creation of a new state special revenue account to fund the Law Enforcement Academy (\$10.9 million)
- Provision of appropriation authority for workforce training grants in the Governor's Office (\$10.0 million)

FEDERAL REVENUE

Federal revenue shows the largest total dollar increase, \$316.2 million.

If accounting changes are excluded in DPHHS and the Department of Commerce, the remaining increase is about \$311.0 million, of which almost 89 percent of the total increase is in three agencies: 1) DPHHS; 2) the Department of Transportation (within the "All Other" category); and 3) the Office of Public Instruction (K-12 education). If the impact of the significant reduction in the Department of Commerce were offset, the three agencies would total about 70 percent of the increase.

- While DPHHS shows an increase of \$249.0 million, or 17.9 percent, about \$85 million of this total is due to an accounting change. The remaining increase is due primarily to Medicaid

caseload increases (\$85.0 million), refinancing (\$50.0 million), and the provision of new and/or expanded federal grants, including homeland security (\$30.0 million)

- The Office of Public Instruction (OPI) will receive significantly expanded federal grants, primarily for “No Child Left Behind” (\$65.1 million)
- The Department of Transportation has been funded for all anticipated federal construction grants, as well as airport renovation and planning (\$46.3 million)
- The Departments of Fish, Wildlife, and Parks and Environmental Quality each increase about \$10.1 million due primarily to additional grants.

OTHER FUNDS

Other funds consist of appropriated proprietary funds and capital project funds. Other funds decrease \$0.4 million, or 1.6 percent, primarily due to the elimination of a debt service expense in the Montana State Lottery.