# BUDGET BASICS

## PURPOSE

This section provides an overview of the basic budget concepts, definitions of budget terms, and background and reference information pertinent to the 2007 biennium budget and legislative appropriations process.

## TYPES OF LEGISLATIVE APPROPRIATIONS

Article VIII, Section 14, of the Montana Constitution reads:

> "Prohibited Payments: Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof."

Appropriation power lies with the legislature. In 17-7-501, MCA, three types of appropriations fall within the meanings of "appropriation made by law" as used in Article VIII, Section 14, of the Montana Constitution.

Temporary appropriations – Most activities of state government are funded on a temporary basis, usually for two-year periods. Funding, therefore, must be reauthorized by each legislature. The main vehicle for the provision of temporary appropriations is HB 2 (the General Appropriations Act).

Statutory appropriations – Statutory appropriations are made directly in statute, and are automatically made until and unless the law is changed. Statutory appropriations are listed in 17-7-502, MCA.

Budget amendments – Various authorities (most often the Governor) can approve the addition of certain funds (primarily federal) during the interim if certain statutorily-defined conditions are met. General fund appropriations cannot be added without express legislative approval.

In limited cases, authorizations to expend funds can also be made through appropriation or under general laws and contracts. The great majority of state agency operations are funded through temporary appropriations.

## FUND TYPES

Governmental accounting differs from private enterprise accounting in that funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting.

1. Governmental funds consist of the following funds:

    - **General fund** includes all financial resources except those that must be accounted for in another fund. The general fund collects most general taxes levied, including individual and corporate income tax, property tax, and investment income. Revenue from a number of other taxes is also deposited into the general fund.
    - **Special revenue funds** consist primarily of two funds. 1) *State special revenue* is money from state and other sources earmarked for the purpose of defraying particular costs of an agency, program, or function. The largest state special revenue accounts are the Highways State Special Revenue Account (HSSRA), which collects various fuel taxes and is used to support highway-related functions, and the general license account, which collects various hunting and fishing fees and is used to support functions in the Department of Fish, Wildlife and Parks. 2) *Federal special revenue* is revenue from federal sources. Most state agencies receive some federal funds. The two major sources of federal funds are used to support highway-related functions and human services programs such as Medicaid.
    - **Debt service funds** are used to account for the accumulation of resources for the payment of general long-term obligations, including principal and interest. Debt service funds are statutorily appropriated.
    - **Capital projects funds** are financial resources used for the acquisition or construction of major fixed assets. These funds are appropriated through bills that fund capital projects.
    - **Permanent funds** account for financial resources that are legally restricted to the extent that only earnings, but not principle, may be used. Permanent funds used to be called "nonexpendable trusts".

2. Proprietary funds are used for operations that provide goods or services to the public on a user-charge basis (enterprise funds), or to other agencies or programs of state government (internal service funds).

3. Fiduciary funds provide for those assets held by state government in a trustee capacity, or as an agency for individuals, private organizations, other governmental entities, or other funds.

4. University funds are used to support the university system and are classified according to the College and University Business Association (CUBA) structure. The legislature appropriates a portion of the funds used to support the university system as governmental funds, which are then reclassified as university system funds.

With the exception of a small portion of proprietary funds, the legislature does not directly appropriate proprietary, fiduciary, or university funds. The legislature directly appropriates most governmental funds. Debt service funds are usually statutorily appropriated. Capital projects funds are appropriated in the bills that fund the capital projects. The great majority of general fund monies and special revenue funds are appropriated through temporary appropriations bills.

# HB 2

The temporary spending bill through which over 89 percent of general fund is appropriated is HB 2, the General Appropriations Act. The fiscal report on individual agencies contained in Volumes 3 and 4 of the *Legislative Fiscal Division 2007 Biennium Fiscal Report* concentrates on the appropriations made in HB 2.

## INTERNAL SERVICE FUNCTIONS AND RATES

Statute requires that the legislature establish fees and charges for all internal services functions. Statute further restricts programs from increasing those fees and charges during the biennium. While only a small portion of proprietary funds are appropriated in HB 2, all rates approved by the legislature are listed in that bill.

Figure 1 shows all internal services rates reviewed and approved by the legislature. The 2005 legislature transferred capitol grounds maintenance from the Department of Fish, Wildlife, and Parks to the Department of Administration.

Figure 1

Internal Services Functions
2007 Biennium

Agency/Program or Function

**Transportation**
- Motor Pool
- Equipment

**Revenue**
- Customer Service Center

**Administration**
- Administration and Financial Services Division
  - Legal Services
  - Management Services
  - Network Support
  - Warrant Writer
  - Human Resources
- General Services Division
  - Facilities Management (inc. grounds maintenance)
  - Mail Services
  - Print Services
  - Central Stores
  - Statewide Fueling Network
  - State Procurement Card
- Information Technology Services Division
- State Personnel Division
  - Professional Development
  - Payroll Processing
- Risk Management and Tort Defense

**Fish, Wildlife, and Parks**
- Administration and Finance
- Vehicle Account
- Aircraft Per Hour
- Duplicating
- Bindery

**Environmental Quality**
- Central Management

**Natural Resources and Conservation**
- Air Operations

**Commerce**
- Board of Investments
- Director's Office/Management Services

**Justice**
- Agency Legal Services

**Corrections**
- Cook/Chill
- Laundry

**Labor and Industry**
- Centralized Services
- Business Standards

**Office of Public Instruction**
- Indirect Cost Pool

**Montana University System**
- Employee Benefits

## BUDGET TERMS

Budgets must, by statute, be submitted in three tiers to allow legislative scrutiny of all stages of budget development:

The base - defined as the resources for the operation of state government, and used to cover current biennium expenses of an ongoing and non-extraordinary nature. The base and how it is derived are discussed in more detail in the "Base Budget" portion of this narrative.

Present law - defined as that additional level of funding needed to maintain operations and services at the level authorized by the previous legislature. Present law includes but is not limited to legally-mandated workload, caseload, or enrollment changes; changes in funding requirements; inflationary or deflationary adjustments; and elimination of one-time appropriations.

New proposals - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

Changes to the budget are made individually through decision packages, which must be approved by the legislature. Decision packages can either change present law or add new proposals approved for funding.

## BASE BUDGET

The legislature used actual FY 2004 expenditures as recorded on the Statewide Accounting, Budgeting and Human Resource System (SABHRS) as the base for determining a present law budget for the 2007 biennium. Certain items were then excluded in order to create a base that reflects only: 1) the cost of ongoing programs or functions approved by the last legislature; and 2) expenditures authorized by the legislature. The Office of Budget and Program Planning (OBPP) and LFD staff initially reached agreement on virtually all expenditures removed from the base.

Following is an explanation of each type of expenditure category *excluded* from the base:

## *Appropriation Transfers*

Section 17-7-301, MCA, allows the Governor to authorize the transfer of funds appropriated for the second year of the biennium to the first year, if the Governor finds that “due to an unforeseen or an unanticipated emergency” the amount appropriated for the first year of the biennium “will be insufficient for the operation and maintenance of the department.” Since such transfers do not result from legislative action and may be used for meeting one-time costs, these transfers are excluded from the base. However, if the transfer funds an ongoing cost, present law budgets for the next biennium are adjusted accordingly.

## *Budget Amendments*

Budget amendments provide temporary authority allowing agencies to spend unanticipated non-general fund revenue received after the legislature has adjourned. This revenue can to be used to provide additional services. In accordance with 17-7-402, MCA, budget amendment authority terminates at the end of each biennium and can make no “ascertainable present or future significant commitment for increased general fund support.” Expenditures financed through budget amendments are excluded from the base. If an agency wishes to continue an activity financed with a budget amendment in the following biennium, the request must be presented as a new proposal.

## *One-Time Appropriations*

In general, miscellaneous or “cat and dog” appropriations (appropriations made in bills other than the general appropriations act) are considered “one-time” and not continued in the base. The legislature may specify in appropriation acts that an appropriation is not intended to be ongoing and may not be included in the base.

## *Language Appropriations*

In appropriation acts, the legislature may authorize expenditure of funds from a specific source without providing a specific dollar appropriation. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds (that it is required by statute to spend) but is uncertain as to the amount of those funds. In order to be sanctioned by law as an appropriation, the language must, at least, fix a maximum amount that the appropriations may not exceed. Assuming that ongoing expenditures from these sources are one-time only in nature, the expenditures are excluded from the base.

## *Non-Budgeted Expenditures*

Generally Accepted Accounting Principles (GAAP) require agencies to make accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don’t result in the actual expenditure of funds from the state treasury.

## *Statutory Appropriations*

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law rather than through appropriation bills, which are effective for one biennium only. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation.

The statute must then be listed in Section 17-7-502, MCA. Examples of statutory appropriations include personal property reimbursements made to local governments and schools and motor fuel tax revenues distributed to counties.

### *Other Appropriations*

This category includes administrative transfers created by OBPP, continuing appropriations from previous years, internal offset adjustments to appropriations, and miscellaneous appropriations.

## ENTITLEMENT AND FORMULA-FUNDED PROGRAMS

Under current state and federal law, certain programs are "entitlement programs," which means that services must be provided if an individual meets the underlying criteria for qualification (i.e., the person is "entitled" to the service). Projected growth or declines in these programs are funded as part of the present law budget, rather than through new proposals. For example, the legislature has established statutory levels of state support for each child enrolled in Montana public schools. Similarly, federal and state laws require that persons eligible for Medicaid receive specified services or grants. The programs treated as entitlement include K-12 BASE aid, Medicaid, and foster care.

## PERSONAL SERVICES "SNAPSHOT"

The personal services budget is based on a "snapshot" of actual salaries for authorized FTE, as they existed in the last pay period of FY 2004. The budget also includes annualization of the pay increases appropriated in FY 2004 and 2005.

Workers' Compensation and Unemployment Insurance rates vary from agency to agency. Each agency has a different rate based upon experience.

## VACANCY SAVINGS

Vacancy savings is the difference between the full-appropriated cost and the actual cost of authorized employee positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than the amounts appropriated.

During the 1997 biennium, the legislature included varying vacancy savings rates among selected agencies, and among programs within agencies, in order to fund the executive pay plan. A contingency fund containing $0.5 million general fund and $1.0 million in other funds was included for this purpose.

During the 1999 biennium, the legislature applied a uniform 3.0 percent vacancy savings rate against all positions in state government, with the exception of those positions in agencies with fewer than 20.00 FTE. The legislature also assumed that any new positions added via new proposals would not be hired at the very beginning of the fiscal year as a result of the need to recruit and to meet other requirements demanding the expenditure of time. Operating under the assumption that such positions would not be filled for the first 3 months of the fiscal year, the legislature applied a 25.0 percent vacancy savings rate in the first year. The legislature also provided $2.3 million general fund and $8.8 million in other funds for the biennium in support of a contingency pool for those agencies that could not meet their vacancy savings targets. A further discussion of the pay plan is included on page 105 of this volume.

For the 2001 biennium, the legislature adopted a vacancy savings rate of 3.0 percent on all personal services except insurance. This rate was not applied to agencies with fewer than 20.00 FTE, elected officials, or to direct care workers within the Department of Corrections. The legislature funded a contingency pool of $0.7 million from the general fund and $1.0 million in other funding for the biennium.

For the 2003 biennium, the legislature established a 4.0 percent vacancy savings rate on all personal services, including insurance, for most agencies and programs. As in the 2001 biennium, agencies with fewer than 20.00 FTE (with the exception of the Board of Crime Control, which, due to a reorganization, was reduced to fewer than 20.00 FTE during the legislative session) as well as university system faculty are exempt. In addition, the legislature adopted lower rates on certain agencies and higher rates on other programs. The legislature also included a contingency fund of $1.3 million general fund and $3.0 million from other funds for the biennium to meet potential costs involved for those executive and judicial agencies that do not meet their vacancy savings targets (later reduced through Governor's reductions and then in special session of the legislature), and a further $0.2 million general fund to assist the Legislative Branch.

In the 2005 biennium, the legislature essentially adopted the same vacancy savings parameters as were established in the 2003 biennium. The contingency was increased to $1.5 million general fund, although the equivalent of a further vacancy savings rate of about 0.5 percent was applied to all agencies to fund an additional employer contribution to build a reserve in the insurance pool.

In the 2007 biennium, the legislature again adopted a 4 percent per year vacancy savings, with exceptions for agencies with fewer than 20.00 FTE, elected officials, two programs in the Montana School for the Deaf and Blind, the highway patrol, the legislative and judicial branches, and university system faculty. A contingency fund of $1.5 million general fund and $3.0 million other funds was again provided to assist agencies that could not meet their vacancy savings targets.

## FIXED COSTS

Agencies are charged fees (called fixed costs) for a variety of services provided by other state agencies. The Executive Budget includes fixed costs for the following services: 1) Department of Administration insurance and bonds, warrant writing fees, payroll service fees, data network fees, SABHRS (Statewide Accounting, Budgeting, and Human Resources System) operating costs, messenger services, rent, and capitol complex grounds maintenance; 2) Legislative Audit Division audit fees; and 3) the statewide cost allocation plan.

Figure 2 shows the total amounts included for fixed costs.

### *Insurance and Bonds*

The Risk Management and Tort Defense (RMTD) Division of the Department of Administration collects premiums from state agencies for: 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and other risk coverage. Costs are allocated to agencies based on actual loss experience and inherent exposure.

Figure 2
Fixed Costs
2007 Biennium (in millions)

| Subcommittee/Agency | Function | Total |
|---|---|---|
| **General Government** | | |
| Administration | Insurance and Bonds | $28.9 |
| | Warrant Writing Fees | 1.6 |
| | Payroll Service Fees | 0.9 |
| | Data Network Services | 21.6 |
| | SABHRS Operating | 12.7 |
| | Messenger Services | 0.3 |
| | Rent - Buildings | 13.5 |
| | Grounds Maintenance | 0.7 |
| Legislative Audit Division | Audit Fees | 3.1 |
| Various | Statewide Cost Allocation | 3.7 |
| Total | | $87.0 |

## Warrant Writing Fees

The Department of Administration provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based upon actual utilization of the various types of financial transactions in the three previous years.

## Payroll Service Fees

The State Payroll program in the Department of Administration prepares and distributes payroll for all state agencies and operates the state payroll, personnel, and position control (PPP) system. Costs of these services are allocated to agencies based on the number of paychecks issued for each agency each year.

## Data Network Services

The Information Services Division (ISD) of the Department of Administration charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe and, via the mainframe, to other agency computers. Costs of this service are allocated to agencies based on the projected number of personal computers connected to the network each year, utilizing the fixed monthly rate per computer to determine the overall agency charge.

## SABHRS Operations Bureau

This unit provides all operational support for the Statewide Accounting, Budget, and Human Resources System (SABHRS). Costs are allocated based upon the number of base year full-time equivalent employees.

## Messenger Service

The Mail and Distribution program in the Department of Administration charges state agencies for inter-agency mail pick-up and delivery services. Costs of these services are allocated to agencies based on the volume of mail generated by, and number of daily deliveries to, each agency.

## Rent

The General Services Division (GSD) of the Department of Administration charges rent to state agencies for costs of maintaining office and warehouse space in buildings GSD manages in the capitol complex (including utility costs, security, janitorial services, mechanical maintenance, and minor maintenance such as painting, lighting, carpeting, etc.). Warehouse costs are allocated to agencies based on the amount of square footage of warehouse space occupied and a fixed rate per square foot.

## Capitol Complex Grounds Maintenance

The Department of Administration charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based on the square footage of office space occupied by each agency. This function was transferred from the Parks Division of the Department of Fish, Wildlife, and Parks in the 2007 biennium.

## Audit Fees

The Legislative Audit Division charges agencies for costs of financial compliance audits. These charges are included in agency budgets as biennial appropriations and allocated according to the estimated number of billable hours for each agency audit.

## *Statewide Cost Allocation Plan*

There are two state cost allocation plan components that are directly billed to agencies. Cost allocations are made to collect funds for the support of those state government operating costs that cannot be easily identified with particular funding sources. Collections are deposited to the general fund to offset a portion of those costs, which would otherwise be supported entirely with general fund. The two components are: 1) SFCAP (the state fund costs allocation plan), and 2) SWCAP (the statewide cost allocation plan). SFCAP is a direct charge to offset costs. SWCAP is based upon a rate negotiated by the Department of Administration each year with the state's federal cognizant agency (Health and Human Services). These rates are now combined into one assessment to agencies. Among the programs for which operating costs are partially recovered through cost allocation plan collections are: 1) Procurement and Printing, State Personnel Division, and Accounting/Management Support in the Department of Administration; 2) a use charge on construction and renovation of certain state buildings; and 3) budget management services in the Office of Budget and Program Planning (OBPP) in the Governor's Office. Costs are allocated to agencies based upon the following: a) Procurement and Printing – depending upon the service, either requisitions processed, total operating costs, or equal allocations; b) State Personnel – the number of FTE authorized and classified, and the number of union covered employees; c) Accounting and Management Support – the number of accounting and cash transactions; and d) OBPP – the number of budget change documents, budget journal entries, executive planning process requests, and funding sources. Construction and renovation of certain state buildings is based on a user charge of 2 percent of the cost.

# TRUST FUNDS

Montana has a number of constitutional and statutory trusts that provide interest income (over $85 million per year) to fund state government operations. While recent legislatures eliminated the principal of the education trust; slowed the flow of revenue into the coal tax trust, parks acquisition trust, and the common school trust; and capped the growth of the resource indemnity tax trust, substantial balances remain totaling $1.3 billion at the end of FY 2004. This chapter provides a summary of legislative action regarding trust funds in the last several biennia, and a summary of each trust fund in the categories of constitutional and statutory trusts.

## BACKGROUND – RECENT LEGISLATIVE ACTION

### 1999 LEGISLATURE

The Fifty-sixth Legislature in the 1999 session reduced the rate of growth in many of the trusts by passing legislation that redirected incoming revenues. The Fifty-sixth Legislature passed legislation that reduced the FY 2001 ending fund balance for all trusts combined by an estimated $26 million when compared with pre-session estimates. The reduction in revenue growth was the greatest for the Permanent Coal Tax Trust, the Treasure State Endowment, and the Common School Fund. The legislature substantially enhanced the revenue growth into the noxious weed trust and marginally increased revenue into the Resource Indemnity Trust.

### 2001 LEGISLATURE

The Fifty-seventh Legislature in the 2001 session enacted several measures impacting state trust funds.

- HB 444 appropriated to the Department of Justice $990,000 for the 2003 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. This results in a loss of trust interest earning transfers to the general fund.
- HB 610, beginning FY 2004, reduces the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent and increases the amount deposited to the permanent fund from 0 percent to 12.5 percent.
- SB 495 resulted in the sale of the common school trust's mineral production rights and the diversion of future royalties that would have been deposited in the trust. As a result of the sale, the balance of the common school trust increased by $46.4 million, but the trade-off was a substantial reduction in future growth of the trust. For further information and analysis of SB 495, contact the Legislative Fiscal Division for a copy of the two-part report: "SB 495 – Implementation, Impacts and Implications".

- Because the resource indemnity trust reached the constitutionally protected cap of $100 million in FY 2002, any amount in excess of $100 million becomes available for the legislature to appropriate. In HB 2, the legislature appropriated all of the estimated $1.1 million excess in FY 2003, thus reducing the trust balance.

## 2003 LEGISLATURE

The Fifty-eighth Legislature in the 2003 session enacted one measure impacting state trust funds. HB 160 appropriated $650,000 to the Department of Justice for the 2005 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. The resulting loss in transfer of trust interest earnings to the general fund was projected at $21,807 in FY 2004 and $44,135 in FY 2005.

## 2005 LEGISLATURE

The Fifty-ninth Legislature in the 2005 session enacted several measures that affect state trust funds:

- HB 9 – This transfers $3,912,500 from the general fund to the cultural protection trust fund at the beginning of FY 2006, resulting in a larger balance that generates additional earnings of $200,280 in FY 2006 and $211,097 in FY 2007.
- HB 201 - The Department of Justice is appropriated the unexpended amount from the $650,000 of loan proceeds appropriated by the 2003 legislature for the 2005 biennium from the coal severance tax permanent fund. The unexpended amount is estimated to be $440,000. The purpose of the loan and appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund is expected to be $13,706 in FY 2006 and $27,324 in FY 2007.
- HB 249 – Beginning FY 2006, the 25 percent of remaining coal severance tax revenue (after deposits, if any, in the coal tax bond fund and the school bond contingency loan fund) that previously had been deposited in the coal severance tax permanent fund (12.5% of total revenue), is now deposited in the new Big Sky Economic Development fund within the coal trust. On July 1, 2005, $20.0 million of fund balance in the permanent trust fund is transferred to the Big Sky Economic Development fund. Interest earnings from this new fund are statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development projects and to certified regional development corporations. Money not spent for administration must be allocated: 1) 75 percent to local governments for job creation efforts; and 2) 25 percent to certified regional development corporations and economic development organizations. The elimination of all deposits to the permanent fund and the one-time $20.0 million reduction in fund balance result in a loss in transfers of trust interest earnings to the general fund of $1,338,000 in FY 2006 and $1,581,000 in FY 2007. State special revenue increases by the same amounts.
- HB 447 – Money to pay for salary and benefit increases for state employees is appropriated in the legislation. Increases in state special revenue appropriations for the pay plan from the timber sale account administered by the Department of Natural Resources and Conservation decrease the amount of money deposited to the school trust by $2,454 in FY 2006 and $6,424 in FY 2007.

# MAJOR TRUST FUNDS

## OVERVIEW

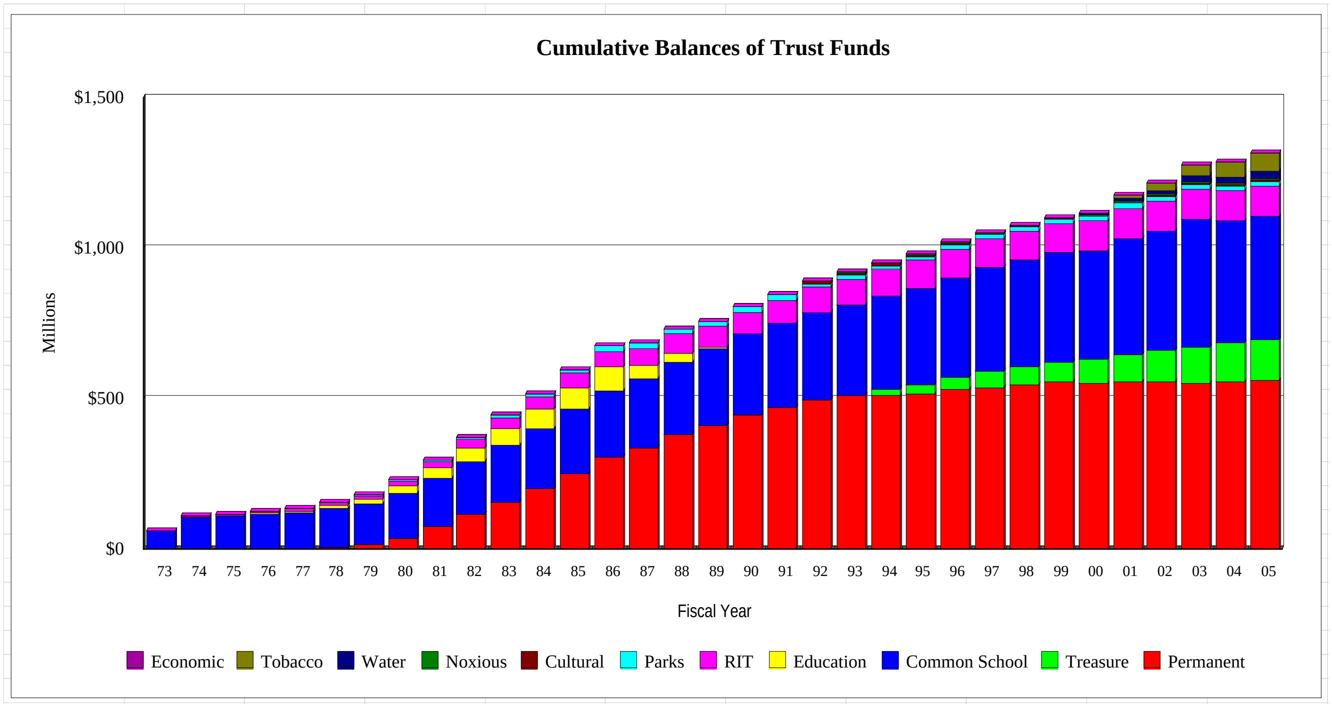
Figures 1 and 2 show the history of the ten major trusts since FY 1973. Forecast amounts are shown for FY 2005, 2006 and 2007, and are based on assumptions contained in the revenue estimating resolution (HJR2). Following is a description of each trust and the income it generates. Also shown are expected interest earnings from each trust in FY 2005, 2006, and 2007.

Figure 1

Selected Trust Fund Balances
Including Projected Investment Earnings

| | Fiscal Year | Permanent Coal Tax Trust Fund | Treasure St Endowment Trust Fund | Common School Trust Fund | Education Trust Fund | Resource Indemnity Trust Fund | Parks Acquisition Trust Fund | Cultural Protection Trust Fund | Noxious Weed Trust Fund | Regional Water Trust Fund | Tobacco Trust Fund | Economic Development Trust Fund | Total Trust Funds |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 73 | 0 | 0 | $64,223,773 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | $64,223,773 |
| A | 74 | 0 | 0 | 108,998,870 | 0 | $1,141,385 | 0 | 0 | 0 | 0 | 0 | 0 | 110,140,255 |
| A | 75 | 0 | 0 | 113,064,188 | 0 | 3,287,456 | 0 | 0 | 0 | 0 | 0 | 0 | 116,351,644 |
| A | 76 | 0 | 0 | 117,849,628 | $2,227,793 | 5,552,291 | $278,725 | 0 | 0 | 0 | 0 | 0 | 125,908,437 |
| A | 77 | 0 | 0 | 123,281,528 | 6,039,530 | 8,232,247 | 758,308 | 0 | 0 | 0 | 0 | 0 | 138,311,613 |
| A | 78 | $6,268,262 | 0 | 129,949,247 | 8,983,763 | 10,646,851 | 1,174,356 | 0 | 0 | 0 | 0 | 0 | 157,022,479 |
| A | 79 | 16,940,538 | 0 | 137,716,735 | 12,339,549 | 12,574,209 | 1,475,732 | 0 | 0 | 0 | 0 | 0 | 181,046,763 |
| A | 80 | 39,964,765 | 0 | 147,527,943 | 23,905,146 | 16,204,531 | 3,565,371 | 0 | 0 | 0 | 0 | 0 | 231,167,756 |
| A | 81 | 75,187,459 | 0 | 163,163,556 | 33,624,170 | 21,165,464 | 5,325,746 | 0 | 0 | 0 | 0 | 0 | 298,466,395 |
| A | 82 | 118,336,314 | 0 | 176,467,865 | 44,338,477 | 28,328,946 | 7,480,418 | 0 | 0 | 0 | 0 | 0 | 374,952,020 |
| A | 83 | 158,358,806 | 0 | 189,390,417 | 52,665,410 | 36,181,889 | 9,481,542 | 0 | 0 | 0 | 0 | 0 | 446,078,064 |
| A | 84 | 202,936,358 | 0 | 201,319,109 | 60,925,268 | 42,986,128 | 11,565,460 | 0 | 0 | 0 | 0 | 0 | 519,732,323 |
| A | 85 | 252,420,524 | 0 | 214,764,544 | 70,500,922 | 47,396,179 | 13,859,181 | 0 | 0 | 0 | 0 | 0 | 598,941,350 |
| A | 86 | 309,384,250 | 0 | 217,677,906 | 79,761,708 | 53,039,675 | 16,222,131 | 0 | $443,184 | 0 | 0 | 0 | 676,528,854 |
| A | 87 | 339,883,180 | 0 | 227,687,073 | 44,091,429 | 56,861,627 | 16,613,608 | 0 | 824,550 | 0 | 0 | 0 | 685,961,467 |
| A | 88 | 381,180,287 | 0 | 239,553,633 | 33,671,110 | 61,750,961 | 16,581,042 | 0 | 1,070,972 | 0 | 0 | 0 | 733,808,005 |
| A | 89 | 411,838,993 | 0 | 254,128,428 | 8,651,477 | 66,665,000 | 16,608,706 | 0 | 1,320,720 | 0 | 0 | 0 | 759,213,324 |
| A | 90 | 446,511,416 | 0 | 268,496,362 | 0 | 72,811,618 | 17,936,701 | 0 | 1,688,370 | 0 | 0 | 0 | 807,444,467 |
| A | 91 | 470,322,655 | 0 | 280,326,496 | 0 | 77,324,921 | 18,882,548 | 0 | 2,121,973 | 0 | 0 | 0 | 848,978,593 |
| A | 92 | 496,465,569 | 0 | 291,753,603 | 0 | 82,489,898 | 12,588,366 | $7,051,506 | 2,584,254 | 0 | 0 | 0 | 892,933,196 |
| A | 93 | 511,474,640 | 0 | 300,782,863 | 0 | 86,890,369 | 12,538,119 | 6,863,579 | 2,534,844 | 0 | 0 | 0 | 921,084,414 |
| A | 94 | 511,754,471 | $20,520,830 | 310,735,129 | 0 | 89,316,268 | 12,538,119 | 7,025,290 | 2,518,875 | 0 | 0 | 0 | 954,408,982 |
| A | 95 | 515,470,287 | 31,793,125 | 321,265,835 | 0 | 91,614,674 | 12,538,119 | 7,296,373 | 2,544,390 | 0 | 0 | 0 | 982,522,803 |
| A | 96 | 530,144,251 | 42,262,548 | 331,630,225 | 0 | 93,152,864 | 12,998,633 | 7,518,157 | 2,502,197 | 0 | 0 | 0 | 1,020,208,875 |
| A | 97 | 538,223,210 | 52,210,048 | 347,298,490 | 0 | 94,584,643 | 13,483,000 | 3,846,000 | 2,527,953 | 0 | 0 | 0 | 1,052,173,344 |
| A | 98 | 545,789,038 | 61,800,580 | 355,329,490 | 0 | 95,582,249 | 14,005,728 | 3,852,201 | 2,537,621 | 0 | 0 | 0 | 1,078,896,907 |
| A | 99 | 555,204,609 | 68,334,808 | 365,188,709 | 0 | 94,991,658 | 14,399,076 | 3,852,202 | 2,471,388 | 0 | 0 | 0 | 1,104,442,450 |
| A | 00 | 553,031,020 | 81,347,120 | 359,661,156 | 0 | 96,404,163 | 14,834,592 | 4,050,384 | 3,635,000 | $3,441,977 | 0 | 0 | 1,116,405,412 |
| A | 01 | 557,477,352 | 92,182,012 | 384,741,584 | 0 | 100,373,547 | 15,376,300 | 4,257,671 | 4,760,000 | 7,389,930 | $10,819,202 | 0 | 1,177,377,598 |
| A | 02 | 555,718,038 | 105,383,384 | 394,132,998 | 0 | 102,065,653 | 15,777,802 | 4,454,360 | 4,760,000 | 11,914,241 | 23,203,088 | 0 | 1,217,409,564 |
| A | 03 | 553,406,844 | 120,337,392 | 424,415,537 | 0 | 100,000,965 | 15,777,996 | 4,454,456 | 5,073,619 | 16,902,479 | 35,830,328 | 0 | 1,276,199,616 |
| A | 04 | 557,754,322 | 128,083,371 | 405,618,690 | 0 | 100,002,390 | 16,289,556 | 4,653,188 | 4,864,635 | 21,078,919 | 46,788,330 | 0 | 1,285,133,401 |
| **Fund Balance Forecast** | | | | | | | | | | | | | |
| F | 05 | 561,735,000 | 136,391,000 | 408,946,000 | 0 | 100,254,844 | 16,712,000 | 4,862,000 | 4,864,635 | 25,233,000 | 57,513,000 | 0 | 1,316,511,479 |
| F | 06 | 541,735,000 | 144,292,000 | 410,613,000 | 0 | 100,254,844 | 17,113,000 | 8,474,000 | 4,864,635 | 29,183,000 | 66,278,000 | 23,950,000 | 1,346,757,479 |
| F | 07 | 541,735,000 | 152,013,000 | 412,280,000 | 0 | 100,254,844 | 17,523,000 | 8,677,000 | 4,864,635 | 33,044,000 | 75,055,000 | 27,984,000 | 1,373,430,479 |
| **Investment Earnings Forecast** | | | | | | | | | | | | | |
| F | 05 | 33,892,000 | 8,337,000 | 24,929,000 | 0 | 6,898,000 | 1,080,000 | 315,000 | 253,118 | 1,348,000 | 2,841,000 | 0 | 79,893,118 |
| F | 06 | 32,211,000 | 8,578,000 | 24,077,000 | 0 | 6,626,000 | 1,061,000 | 515,000 | 253,118 | 1,553,000 | 3,301,000 | 1,352,000 | 79,527,118 |
| F | 07 | 32,290,000 | 9,071,000 | 24,178,000 | 0 | 6,627,000 | 1,086,000 | 539,000 | 253,118 | 1,797,000 | 3,820,000 | 1,608,000 | 81,269,118 |

Figure 2




Various restrictions, either constitutional or statutory, prohibit or restrict the expenditure of all or a portion of trust fund balances. For example, the Constitution prohibits expenditure of money in the resource indemnity tax trust until the balance reaches $100 million. Since the balance of this trust is at this limit, any additional trust balance can be spent. Figure 3 shows the 9 trust funds, their fiscal 2004 balances, and the restrictions for spending the balances.

Figure 3
Selected Trust Funds
Balances and Restrictions

| Type of Restriction/Trust Fund | Fiscal 2004 Balance | Restrictions |
|---|---|---|
| Statutory | | |
| Parks Acquisition Trust | $16,289,556 | None |
| Cultural Trust | 4,653,188 | None |
| Subtotal | $20,942,744 | |
| Constitutional | | |
| Permanent Coal Severance Tax Trust | $557,754,322 | Inviolate, except by 3/4 vote of each house |
| Common School Trust | 405,618,690 | Inviolate, guaranteed by state against loss or diversion |
| Treasure State Endowment Trust | 128,083,371 | Inviolate except by 3/4 vote of each house |
| Resource Indemnity Tax Trust | 100,002,390 | Inviolate, $100 million guaranteed by state against loss or diversion |
| Tobacco Settlement Trust | 46,788,330 | Inviolate, except by 2/3 vote of each house |
| TSE Regional Water System Trust | 21,078,919 | Inviolate, except by 3/4 vote of each house |
| Noxious Weed Management | 4,864,635 | $10 million inviolate, except by 3/4 vote of each house * |
| Subtotal | $1,264,190,657 | |
| Total | $1,285,133,401 | |

* If the statutory noxious weed management trust is designated by the legislature to be the constitutional trust.

# CONSTITUTIONAL TRUSTS

## *Permanent Coal Tax Trust*

Article IX, Section 5 of the Montana Constitution requires that at least 50 percent of all coal severance tax revenue be deposited in a permanent coal tax trust fund, and that the principal of the trust "shall forever remain inviolate unless appropriated by a vote of three-fourths of the members of each house of the legislature." By statute, interest earned on this trust that is not earmarked for other programs is distributed 100 percent to the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent coal tax trust fund is an important general fund revenue source. During the period of FY 1981 through FY 2004, $821.9 million in interest from this trust was deposited in the combined general fund/school equalization account (SEA). In FY 2004, permanent coal tax trust fund interest provided 2.5 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25 percent of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 legislatures gave authority to the Montana Science and Technology Alliance (MSTA) for the use of $12.5 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 legislature authorized MSTA to invest an additional $11.0 million from the in-state investment program.

The payback of principal from MSTA loans returns to the trust. Before July 1, 1993, the interest from MSTA loans was distributed in the same manner as other interest earned on the permanent coal tax trust fund. HB 394, enacted by the 1993 legislature, created a special revenue account into which all interest earned from MSTA loans is deposited and from which MSTA expenses will be paid, with the balance returning to the trust.

The 1991 legislature also appropriated $3.3 million from the permanent coal tax trust fund for the Micro business Development Act. These funds provided capital to micro business development corporations that provide loans and technical assistance to qualified small businesses. Interest earnings and loan repayments were retained by the program to finance administrative costs and future loans.

During the January 1992 special session, the legislature authorized the creation of a school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provided up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as all other interest earned on the permanent coal tax trust fund. The provisions of this legislation expired on January 1, 1993. HB 667, passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid was the school equalization account (SEA). The contingency fund will continue to exist until calendar 2012 when the bonds will be retired. At the end of FY 2003, all schools districts with loans backed by the state had refinanced their debt and the state no longer secures the bonds issued by the Department of Administration. In FY 2003, all reserves in the contingency fund were distributed to the treasure state endowment fund and the treasure state endowment regional water fund.

In the June 1992 election, voters approved a referendum to create the treasure state endowment fund (TSEF) within the permanent coal tax trust fund. The fund received a $10.0 million grant from the trust principal in FY 1994 and will receive half the funds deposited in the trust during FY 1995 through FY 2013. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation, and authorized by the legislature.

During the November 1993 special session, the legislature authorized SB 4 that required the cash balance in the coal tax bond fund as of July 1, 1993 be deposited in the permanent coal tax trust fund. The total amount transferred was $31.1 million. SB 4 also changed the distribution mechanism by requiring the 50 percent coal severance tax revenue allocation be deposited in the TSEF and the permanent coal tax trust fund on an equal basis. Prior to SB 4, coal severance tax revenue earned on production taking place beginning July 1, 1993, was to have been deposited in TSEF. In the following fiscal year, one-half of the previous year's inflow was to have been deposited in the permanent coal tax trust fund, and the TSEF was to retain the rest. Without SB 4, the permanent coal tax trust fund would not have received any coal severance tax revenue during FY 1994.

The 1993 legislature passed HB 401, which authorized a loan to the Department of Environmental Quality (DEQ) from the permanent coal tax trust fund for technical, litigation, and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.6 million for the 1995 biennium and $5.2 million to repay principal and interest to the general fund for litigation costs incurred in the

1993 biennium. As of December 1994, $6.3 million had been withdrawn from the permanent coal tax trust to pay for litigation expenses. Since then, the case has been settled and money returned to the permanent trust (see the write-up of HB 110 enacted by the 1997 legislature).

## 1995 Legislative Action

HB 305 authorized a loan to the Department of Justice from the permanent coal tax trust for the purpose of conducting the litigation and natural resource claims against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.4 million for the 1997 biennium. The bill also extended loans made for the same purpose during the 1995 biennium.

HB 354 expanded appropriations for the Micro business Financing Act, which provides loans to businesses employing less than ten employees and generating less than $500,000 in gross revenue annually. The expansion of this program doubled the previous appropriation to $3.25 million of investable coal tax trust funds made available to the Micro business Finance Program in the Department of Commerce. Beginning July 1, 1995, HB 354 also increased maximum loan amounts per individual loan from $20,000 to $35,000. The program provides financing for working capital assets and fixed asset acquisition, with more flexible repayment terms than those offered by commercial institutions. Payback of interest and principal of the loan amounts are used for administrative purposes and for financing new micro business loans.

SB 38 authorized the Job Investment Act under which the Department of Commerce may loan a portion of the permanent coal tax trust to businesses to create and retain jobs in Montana. A loan to a qualified business may not exceed $500,000, and the department is to report annually to the Revenue and Taxation Committee. The legislation also reduced the amount of permanent coal tax trust funds that the Board of Investments allows the Montana Board of Science and Technology Development to invest in seed capital loans and mezzanine loans from $15.5 million to $12.5 million. The bill also increased the amount of permanent coal tax trust funds available for research and development projects from $8.1 million to $11.1 million. In the past, these funds were used primarily as loans to the University System. Under SB 38, these funds were granted to the University System for research and development projects.

SB 83 abolished the distribution of coal trust interest to the SEA. Under previous law, 15 percent of coal trust interest earnings were deposited in the SEA and 85 percent in the general fund. As a result of SB 83, 100 percent of coal trust interest earnings are deposited in the general fund in FY 1996 and beyond.

## 1997 Legislative Action

HB 110 appropriated to the Department of Justice $2.5 million in state special revenue to be used for continuing litigation expenses associated with the Atlantic Richfield case. The appropriation was for expenses incurred during the 1999 biennium, and, upon settlement of the case, the amount used plus interest was to be returned to the general fund. The case was settled in June of 1998 for $215 million. On June 24, 1998, $15 million was deposited into Short-Term Investment Pool (STIP) for payment to the permanent trust and the general fund. In the middle of October 1998, $12.2 million was transferred to the permanent trust, including $9.8 million in principal and $2.4 million in interest. In the middle of November 1998, $1.9 million was transferred to the general fund. This transfer consisted of principal ($1.4 million) and interest ($0.5 million), and constituted repayment of general fund loans going back to FY 1983 when the case began.

The legislature amended the allocation of coal severance taxes under 15-35-108, MCA. In HB 14, the 1997 legislature authorized the issuance of general obligation bonds to fund the purchase of Virginia City and Nevada City properties. In HB 5, the legislature allocated 1.3 percent of coal severance tax revenue to pay the debt service on the bonds, which have a term of ten years. Coal tax revenue will be distributed to the Long-Range Building Program (LRBP) debt service account for FY 1998 through 2007. This allocation diverts coal severance tax revenue that would otherwise be deposited in the general fund. Based on revenue estimates in HJR 2, this change in allocation resulted in a loss to the general fund of $0.5 million in FY 1998 and 1999. Once the ten-year period has expired, the 1.3 percent allocation will revert to the general fund.

HB 5 also eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic (C&A) trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of Virginia City and Nevada City. This appropriation resulted in a loss of trust interest revenue that otherwise would have been used to fund C&A projects during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. Based on revenue estimates in HJR 2, this part of HB 5 resulted in a loss to the general fund of $91,736 and $93,195 for FY 1998 and 1999, respectively. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

HB 578 abolished the Montana Board of Science and Technology beginning July 1, 1999. The amount of money committed for research and development ($11.1 million) and for seed capital loans ($12.5 million) was disbursed until July 1, 1999. Any money under these caps that had not been committed, except for $915,000, was returned to the coal tax trust. The board continued to provide seed capital loans of up to $700,000 to existing seed capital companies until July 1, 1999 or until an amount of $915,000 was reached. However, up to $75,000 could have been used for administrative expenses. Beginning April 1, 1997, the proceeds from seed capital loans must be deposited in the coal tax trust. However, during FY 1998, $250,000 of seed capital income, as well as $150,000 of job investment loan income, was used to fund the judges' retirement system. Also beginning April 1, 1997, and ending July 1, 1999, up to $2.0 million in income and interest from research and development loans at Montana public universities was authorized to be granted to research and development (R&D) projects at the universities. After July 1, 1999, all repayment proceeds from both seed capital loans and R&D loans in excess of $4.4 million must be deposited in the coal severance tax permanent fund.

## 1999 Legislative Action

Beginning July 1, 1999, HB 260 imposed a new coal license tax on the contract sales price of coal and reduced the coal severance tax liability for coal producers by allowing a credit against the coal severance tax in the amount of 101.5 percent of the coal license tax liability. Thus, coal producers would realize a reduction of 1.5 percent in the tax liability on coal production. The total reduction in coal severance tax collections was estimated at $20.7 million in FY 2000 and $19.6 million in FY 2001. The new coal license tax was estimated to generate $20.4 million in FY 2000 and $19.3 million in FY 2001. The legislation, in combination with HB 69 and SB 220, provided a new distribution of coal severance taxes and specified a distribution for the new coal license tax. Under the new distribution, none of the coal severance revenue would have been distributed to the permanent trust. Instead, 37.5 percent of the reduced coal severance tax revenue stream would have been deposited in the treasure state endowment trust fund, and 12.5 percent would have been deposited in a new TSEF regional water system account (SB220). The remaining distribution of the coal severance tax would be deposited as under previous law, except that the amount (1.3 percent) to long range building program debt service would have been directly deposited in the general fund as per HB 69. Coal severance tax revenue deposited in the permanent fund would be reduced by $8.3 million in FY 2000 and by $7.9 million in FY 2001. None of the new coal license tax would have been allocated to the permanent fund. Coal severance tax revenue deposited in the TSEF would have been reduced by $3.6 million in FY 2000 and $3.4 million in FY 2001. The revenue diversions in the each trust, as well as some of the revenue from the new coal license tax, would have been deposited into spendable accounts used for ongoing projects and payments associated with infrastructure loans and grants, agricultural seed capital, and research and commercialization loans and grants.

However, on January 20, 2000, the Montana Supreme Court found that HB 260 violated Article IX, Section 5, of the Montana Constitution and enjoined enforcement of the new coal producer’s license tax. This rendered most of the legislation and appropriations meaningless. The decision did not affect the establishment of the research and commercialization expendable trust. Coordination with SB 220 also was not affected, allowing the establishment of the treasure state endowment regional water system trust and the distribution of coal severance tax to the trust, and the TSEF remain intact.

HB 69 eliminated the distribution of coal severance tax revenue to the long range building debt service account that was used to pay bonds issued for the purchase of Virginia City and Nevada City properties. Beginning July 1, 1999, the revenue is deposited in the general fund and the bond service payments are made by the general fund.

Beginning July 1, 1999, SB 220 created a new treasure state endowment regional water system fund into which is deposited 25 percent of one-half of all coal severance receipts. The other 75 percent of one-half of coal severance receipts flows into TSEF.

## 2001 Legislative Action

The Fifty-seventh Legislature in the 2001 session enacted HB 444 that appropriated $990,000 for the 2003 biennium to the Department of Justice as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation, and to pursue Montana’s remaining natural resource damage claims, and any appeals against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund was an estimated $17,573 in FY 2002 and $52,718 in FY 2003. Any reimbursements received had to be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

Beginning FY 2004, HB 610 reduced the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent, and increased the amount of total collections deposited to the permanent fund from 0 percent to 12.5 percent. These changes resulted in greater interest earnings for the general fund and lower interest earnings for Treasure State Endowment Program beginning FY 2004.

In conjunction with HB 41, SB 495 changes the portion of school funding provided by the common school trust. The main points of the legislation are:

- o Interest and income from the common school trust are deposited to a sub fund of the general fund called the guarantee account

- The Department of Natural Resources and Conservation was authorized to purchase the mineral production rights from the common school trust
- A loan of up to $75 million from the coal severance trust permanent fund was authorized to purchase the mineral production rights and deposited in the common school trust (the actual transaction was $46.4 million)
- Any mineral royalties from the purchased rights are deposited to the guarantee account
- After principal and interest payments on the loan used to purchase the mineral production rights are paid, the remaining money in the guarantee account is available for distribution to school districts
- Upon electorate approval of a constitutional amendment (contained in SB 493), the public school trust may be invested in private corporate capital stock (the electorate did not approve this measure)

Although it was estimated that the cost of the mineral production rights would be $37.4 million, the actual amount loaned from the coal severance permanent fund was $46.4 million. It is estimated that the loss of interest earnings that would have been deposited to the general fund is $3.2 million in each year of the 2005 biennium. The legislation required a three-quarters vote of each house of the legislature.

Coal tax revenue flowing into the permanent coal tax trust fund is also used to secure state bonds issued to finance water resource development projects and activities.

Coal tax revenue is first deposited into the school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provides up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. The contingency fund has provided backing for $24.6 million in school bonds for 16 schools. The average balance in the contingency fund has been slightly more than $2.0 million. At the end of FY 2003, all schools districts with loans backed by the state had refinance their debt and the state no longer secures the bonds issued by the Department of Administration. In FY 2003, all reserves in the contingency fund were distributed to the treasure state endowment fund and the treasure state endowment regional water fund.

In the August 2002 special legislative session, the legislature passed HB 4 and HB 7. Combined, these bills changed the guarantee account from a sub fund in the general fund to a state special revenue fund and statutorily appropriated the money for schools.

## 2003 Legislative Action

HB 160 appropriated $650,000 to the Department of Justice for the 2005 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation and to pursue Montana’s remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund was projected at $21,807 in FY 2004 and $44,135 in FY 2005. Any reimbursements received must be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

### 2005 Legislative Action

HB 201 appropriated the unexpended amount of the $650,000 loan proceeds (estimated to be $440,000) from the coal severance tax permanent fund appropriated by the 2003 legislature to the Department of Justice. The purpose of the loan and appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund is expected to be $13,706 in FY 2006 and $27,324 in FY 2007.

House Bill 249 – Beginning FY 2006, the 25 percent of remaining coal severance tax revenue (after deposits, if any, in the coal tax bond fund and the school bond contingency loan fund) that previously had been deposited in the coal severance tax permanent fund (12.5% of total revenue), is now deposited in the new Big Sky Economic Development fund within the coal trust. On July 1, 2005, $20.0 million of fund balance in the permanent trust fund is transferred to the Big Sky Economic Development fund. Interest earnings from this new fund are statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development projects and to certified regional development corporations. Money not spent for administration must be used: 1) 75 percent to local governments for job creation efforts; and 2) 25 percent to certified regional development corporations and economic development organizations. The elimination of all deposits to the permanent fund and the one-time $20.0 million reduction in fund balance result in a loss in transfers of trust interest earnings to the general fund of $1,338,000 in FY 2006 and $1,581,000 in FY 2007. State special revenue increases by the same amounts.

## *Common School Trust*

Article X, Sections 2 and 3 of the Montana Constitution require that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust. In addition, 95 percent of all rents, royalties, and other income received from leasing of school lands is to be used for public schools with the remaining 5 percent invested in the trust.

During the January 1992 special session, the legislature passed HB 3, which provided that 95 percent of the revenue from state timber sales (approximately $4.9 million) be deposited in the SEA during the 1993 biennium, with the remaining 5 percent deposited in the trust.

The 1993 legislature passed HB 652, which continued the practice of diverting 95 percent of timber revenue to the SEA during the 1995 biennium. The loss in revenue to the common school trust during the 1995 biennium was approximately $9.1 million. HB 667, also passed during the 1993 legislative session, continued this practice indefinitely. The loss of revenue to the common school trust during the 1997 biennium was approximately $9.7 million.

### 1995 Legislative Action

HB 50 made permanent certain provisions regarding the sale of timber on state lands. HB 50 was expected to result in additional sales of timber during the 1997 biennium. However, additional costs associated with the sale of timber were also expected to be incurred. These costs were deducted from timber sale revenues.

HB 201, passed by the 1995 legislature, required the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet, contingent on a study to determine the appropriate level of annual sustainable yield. HB 201 capped the amount of timber sale revenue deposited in the general fund (formerly the school equalization account, which was abolished in SB 83) from the common school trust at an average annual sale value of 18 million board feet. Any excess timber sale revenue from the common school trust was to be deposited in the general fund, but "earmarked" for deposit in the school districts' newly established technology acquisition fund, to buy technological equipment and provide technical training for school district personnel.

HB 201 also affected timber sale revenue because it diverted timber sale revenue before it was deposited in the general fund to pay for costs associated with increasing timber sales. The total revenue effect was estimated to be a loss of $1.1 million to the general fund during the 1997 biennium.

HB 274, passed by the 1995 legislature, granted the Department of State Lands broader discretion to expedite sales of state timber in emergency situations and limited access situations. Effective in FY 1996, as a result of the natural resources reorganization bill (SB 234), the forestry function was transferred from the Department of State Lands to the Department of Natural Resources and Conservation.

SB 83 de-earmarked all interest from the common school trust and income earned on common school lands. Henceforth, these revenues flow into the general fund.

## 1997 Legislative Action

The 1997 legislature passed legislation that impacted the flow of timber revenue into the common school trust by appropriating timber revenue for use by the DNRC to enhance timber sales during the 1999 biennium. The amounts appropriated, $1.2 million and $1.3 million in respective years of the biennium, were diverted from the revenue stream before the allocation of 5 percent of revenue to the trust.

HB 2 appropriated anticipated timber sale revenue in excess of that associated with 18 million board feet for deposition in schools' technology acquisition funds. The purpose of the fund is to allow each district to buy technological equipment and provide technical training for school district personnel. The amounts appropriated were $1.5 million in FY 1998 and $2.8 million in FY 1999, or the amount of "excess" revenue in each year, whichever is less.

## 1999 Legislative Action

SB 48 made significant changes in funding the Trust Land Management Division in the Department of Natural Resources and Conservation. The legislation diverted a portion of the following money (previously deposited into the corpus of the land trust funds) from certain land trusts administered by the department: 1) mineral royalties; 2) the proceeds or income from the sale of easements and timber (except timber from public school lands); and 3) 5 percent of the interest and income previously credited annually to the public school fund. The money was diverted to a state special revenue account to pay costs of administering state trust lands. The legislation provided limitations on the amount of diverted revenue and the amount of the appropriations: 1) the diverted revenue was limited to 1-1/8 percent of the book value balance in each of the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the previous fiscal year revenue deposited into the capitol building land grant trust fund; and 2) appropriations of the money were limited to 1-1/8 percent of the book value balance in the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the revenue deposited in the capitol building land grant trust fund in the last completed fiscal year prior to the new biennium. In HB 2, the legislature replaced $7.1 million of general fund appropriations with state special revenue provided by this legislation. Therefore, deposits to land trusts (primarily the Common School Trust) were reduced by $7.1 million over the biennium, approximately $3.5 million per year.

### 2001 Legislative Action

Although SB 495 potentially could have increase the balance of the common school trust by $75 million due to the sale of its mineral production rights, the increase depended on the amount of rights purchased by DNRC and the sale price. The actual purchase price of the mineral production rights was $46.4 million and this amount was deposited to the trust. Since future royalties from any sold mineral production rights are no longer deposited in the common school trust, the future growth of the trust is substantially curtailed by an estimated $95 million over 30 years. For further information and analysis of SB 495, contact the Legislative Fiscal Division for a copy of the two-part report: “SB 495 – Implementation, Impacts and Implications”.

### 2005 Legislative Action

Under existing law, a portion of income from the sale of common school trust timber is diverted for used by the Department of Natural Resources and Conservation for administrative purposes and a portion is for use by the Office of Public Instruction for school technology. Five percent of the remainder is deposited in the school trust. If the legislature appropriates more of this income for administrative purposes, the amount deposited to the school trust is reduced. HB 447 (the state employee’s pay plan) appropriated money from this source for increases in pay and benefits, thus reducing the amount deposited to the trust by $2,454 in FY 2006 and $6,424 in FY 2007.

## *Resource Indemnity Trust*

Article IX, Section 2 of the Montana Constitution and Title 35, Chapter 38, MCA, require that certain resource extraction taxes be placed in a trust. The principal of the resource indemnity trust "shall forever remain inviolate in an amount of one hundred million dollars ($100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches $100 million, any additional tax revenue may be appropriated.

During the July 1992 special session, the legislature imposed a one-year surtax on resource indemnity tax liabilities and allocated collections from the surtax to the general fund. During the 1993 legislative session, the legislature passed HB 608 that decreased the amount of resource indemnity and groundwater assessment (RIGWA) tax proceeds deposited in the trust during the 1995 biennium from 85.9 percent per year to 55.9 percent, or approximately $5.0 million. The bill further reduced the amount of RIGWA tax revenue deposited in the trust to 45.9 percent beginning July 1, 1995. During the 1995 session, the legislature replaced a portion of RIGWA tax proceeds with oil and gas tax proceeds due to a bill to simplify oil and gas taxes (SB 412). Also, the legislature diverted for other purposes the metal mines license tax proceeds that previously were deposited to the trust.

### 1997 Legislative Action

SB 377 reduced the growth rate in the ending fund balance of the RIT trust by diverting $200,000 per year from RIGWA tax inflows and 8.5 percent from metalliferous mines license tax revenue to a newly created orphan share account. The reduction of inflow into the trust in each year of the biennium as a result of these diversions was $674,000 and $743,000. The orphan share account is used to: 1) fund remedial actions on the portion of hazardous waste sites for which there is no responsible party; and 2) pay for DEQ transaction costs associated with defending the orphan share proportions.

### 1999 Legislative Action

SB 49 and SB 492 increased the allocation of the RIGWA tax and the RIT share of the oil and gas production tax to the RIT. The ending fund balance at the end of the 2001 biennium was estimated to increase by $162,000 as a result of the legislation. The legislation also eliminated the allocation of RIGWA tax revenue to the RIT beginning July 1 of the first year following the date that the governor by executive order certified to the secretary of state that the RIT balance has reached $100 million.

### 2001 Legislative Action

The RIT balance reached the $100 million amount in FY 2002 and the balance was certified by the governor. Therefore, no additional revenue is deposited in the trust beginning FY 2003. The revenue estimates showed that there would be an estimated $101.1 million in the trust balance by the end of FY 2003. Since any additional tax deposits over the $100 million may be appropriated by the legislature, the 2001 legislature enacted the following legislation that uses all of the excess revenue: 1) SB 326 authorized the transfer of $500,000 to the noxious weed state special revenue account for distribution to counties (the money is appropriated in HB 2); 2) HB 2 transferred and appropriated $540,000 to purchase securities for water treatment at the former Zortman and Landusky mines; and 3) HB 2 transferred and appropriated $120,000 for the Clark Fork River task force (established in HB 397).

## *Tobacco Settlement Trust*

Montana receives revenue as a settling party to master settlement agreement with four original tobacco companies (subsequently, this became three) and 43 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two in FY 2000 with an additional one per year in FY 2001, 2002, and 2003); 3) on-going annual payments; and 4) strategic contribution payments (from FY 2008 through 2017). The master settlement agreement places no restrictions on how states are to spend the money. Contrary to popular belief, the payments will be received in perpetuity.

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The three most important are the adjustments for inflation, volume of cigarettes shipped nationally, and loss of market shares for participating manufacturers. The amount of Montana’s annual share will increase by a minimum amount of 3 percent or more if inflation is greater than 3 percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. If it is verified that participating manufacturers have lost market shares due to disadvantages caused by the settlement, distributions will decrease.

### 2000 Constitutional Amendment

Due to passage of Montana Constitutional Amendment 35 in November 2000, the legislature is required to dedicate not less than 40 percent of the tobacco settlement money to a permanent trust fund. The remainder of the money is deposited into the general fund. Since the legislature did not pass legislation establishing the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Interest earnings from the trust fund are to be distributed: 1) 90 percent for appropriation by the legislature for tobacco related disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and 2) 10 percent to the trust. Money in the trust fund can be spent if approved by two-thirds of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money used to fund tobacco disease prevention programs that existed on December 31, 1999.

### 2001 Legislative Action

The 2001 legislature enacted SB 129 that established a Montana tobacco settlement non-expendable trust fund to implement Article XII, Section 4, of the Montana Constitution. The legislation also provided criteria to govern the purposes for which the interest, income, and principal of the trust may be appropriated. It did not establish a statutory percentage of the tobacco settlement dedicated for deposit in the trust fund.

### 2002 Initiative

Due to passage of Initiative 146 by the electorate in November 2002, beginning in FY 2004, 32 percent of the total tobacco settlement money funds tobacco prevention programs and 17 percent funds the Children’s Health Insurance Program. The remaining 11 percent of the total settlement money is deposited to the general fund.

### 2003 Legislative Action

The 2003 legislature enacted SB 485 that changed Initiative 146 by increasing the programs that can be funded by tobacco settlement money, but only through FY 2005. With the changes, the 32 percent allocation can be used for human services programs and the 17 percent allocation can be used to match federal Medicaid money. The legislation also transferred $5,831,360 in FY 2004 and $6,057,600 in FY 2005 from the account receiving the 32 percent allocation to a newly created prevention and stabilization state special revenue account. Money in this account is used by the Department of Public Health and Human Services to finance, administer, and provide health and human services.

## *Noxious Weed Management Trust*

During the period FY 1986 through 1992, at least one-half of the collections from a 1 percent surcharge on the retail sale of herbicides were deposited in the noxious weed management trust fund. The remaining collections were spent for weed control grants. The interest earned on the trust is retained in the trust. After the principal of the trust reached $2.5 million in FY 1992, all herbicide surcharge collections and the interest earned on the trust became available for weed control grants.

### 1995 Legislative Action

SB 321, passed by the 1995 Legislature, increased the amount of the gasoline tax revenue allocated to the snowmobile account from 23/64 of one percent to 15/28 of one percent. Beginning in FY 1996, one percent of the amount deposited in the snowmobile account is deposited in the Montana noxious weed control trust administered by the Department of Agriculture.

### 1999 Legislative Action

For the 2001 biennium, SB 164 transferred $1.1 million per year to the noxious weed trust from the highway non-restricted account in 15-70-125, MCA. As a result, the ending fund balance in the trust will almost double by June 30, 2002.

### 2001 Legislative Action

The August 2002 special legislative session reduced the transfer to the noxious weed state special revenue account for counties to $300,000.

### 2004 Constitutional Amendment

The electorate in the November 2004 election approved an amendment to the Montana Constitution (C-40) creating a noxious weed management trust fund. Ten million dollars of the principal of the fund is to remain forever inviolate unless appropriated by three-fourths of each house of the legislature. Appropriations of the principal over $10 million and the interest and income can only be used to fund the noxious weed management program, as provided by law.

### 2005 Legislative Action

The 2005 legislature enacted HB 266 to codified statutory changes needed to implement the constitutional amendment passed in 2004.

# STATUTORY TRUSTS

## *Education Trust*

From FY 1976 through FY 1986, a portion of the revenue from the coal severance tax was allocated to an education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period of FY 1987 through FY 1990. Since FY 1990, the education trust has not received revenue from any source and its balance is zero.

## *Parks Acquisition Trust/Cultural Protection Trust*

During most of the years since 1979, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980s, the flow of revenue into this account was diverted to the general fund. However, the principal began to increase again in FY 1990. Prior to FY 1992, two-thirds of the interest from this trust was statutorily allocated for acquisition and operation of state parks, and one-third was allocated for protection of works of art in the state capitol, and other cultural and aesthetics projects.

The 1991 legislature split the principal of this trust into two separate trusts, a parks acquisition trust and an arts protection trust. During the 1993 biennium, the coal tax revenue that would have flowed into the parks acquisition trust (1.267 percent) was spent for maintenance of parks and historic sites, along with the interest from the trust. HB 687, passed during the 1993 legislative session, continued this practice for the 1995 biennium, allocating $1.6 million from the trust to current operations. In the 1997 biennium, the coal tax revenue allocation was again deposited in the trust. SB 27, passed by the 1995 legislature, increased the allocation to the parks acquisition trust from 1.267 percent to 1.270 percent.

In FY 1992, 0.633 percent of coal severance tax revenues were deposited in the arts protection trust, with the trust interest continuing to be used for protection of works of art and for cultural and aesthetics projects. During the January 1992 special session, the legislature diverted a portion of the revenue that would have flowed into the arts protection trust in FY 1993 to fund the operations of the Montana Arts Council. Beginning in FY 1994, these revenues were again deposited in the trust. SB 27, passed by the 1995 legislature, decreased the allocation to the arts trust from 0.633 percent to 0.63 percent.

### 1997 Legislative Action

The 1997 legislature amended the allocation of coal severance taxes under 15-35-108, MCA. HB 5 eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of the Virginia City and Nevada City properties. This appropriation resulted in a loss of trust interest revenue that otherwise would be used to fund C&A projects in the state during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account, and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

### 1999 Legislative Action

HB 260, HB 69, and SB 220 reduced coal severance tax revenue and replaced it with coal license tax revenue. The aim of the legislation was to hold the revenue flow into the arts and parks trusts as under current law. However, the arts and parks trusts lost around $25,000 over the biennium.

The January 20, 2000 decision of the Montana Supreme Court that found HB 260 violated Article IX, Section 5, of the Montana Constitution rendered the above changes meaningless.

### 2001 Legislative Action

In the August 2002 special legislative session, for FY 2003, the legislature temporarily diverted the parks acquisition trust, 1.27 percent allocation and the cultural trust, 0.63 percent allocation to the general fund. Beginning in FY 2004, the allocations resume.

### 2005 Legislative Action

HB 9 transfers $3,412,500 from the general fund to the cultural trust. The transfer of funds replaced dollars spent from the trust in the 1997 purchase of Virginia and Nevada Cities. The legislation directs that the transfer take place at the beginning of FY 2006 so that new interest will be earned throughout the entire 2007 biennium. Revenues from the cultural trust increase $200,280 in FY 2006 and $211,097 in FY 2007.

# Glossary

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

**Appropriations** – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

> *Biennial* – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.
>
> *Budget amendment* – See “Budget Amendment” below.
>
> *Continuing* – An appropriation that continues beyond one biennium.
>
> *Language* – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.
>
> *Line Item* – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.
>
> *One-time* – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.
>
> *Restricted* – An appropriation designated for a specific purpose or function.
>
> *Statutory* – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.
>
> *Temporary* - An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

**Appropriation Transfers** (also see ”Supplemental Appropriation”) – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

**Approving Authority** – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- the Governor or his/her designated representative for executive branch agencies
- the Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- the Speaker of the House of Representatives for the House;
- the President of the Senate for the Senate

- o the appropriate standing legislative committees or designated representative for the legislative branch divisions; and
- o the Board of Regents of Higher Education or their designated representative for the university system.

1)

**Average Daily Population** (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

**Average Number Belonging** (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

**Base** – The level of funding authorized by the previous legislature.

**Base Budget** – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

**Benefits** – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

**Biennial Appropriation** – An appropriation that can be expended in either or both years of the biennium.

**Biennium** – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

**Budget Amendments** – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

**Cat and Dog Appropriations** – One-time appropriations made in bills other than the general appropriations act.

**Debt Service** – The payment on outstanding bonds.

**Decision Package** – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

**Earmarked Revenue** – Funds from a specific source that can be spent only for designated activities.

**Enterprise Funds** – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

**Federal Special Revenue** – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

**Fiduciary Funds** – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

**Fiscal Note** - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

**Fiscal Year (FY) aka State Fiscal Year (SFY)** – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

**Fixed Costs** – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

**FTE** – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

**Fund** – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

**General Fund** – Accounts for all governmental financial resources except those that must be accounted for in another fund.

**General Fund Reversions** – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

**Grants** – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

**HB 2** –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

**Indirect Cost** – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

**Interim** – The time between regular legislative sessions.

**Internal Service Funds** – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

**IRIS** - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

**Local Assistance** – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

**MBARS** – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

**Mill** – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

**New Proposals** – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

**Non-budgeted Expenditures** – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

**Operating Expenses** – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

**Other Funds** – Capital projects and fiduciary funds.

> *Capital projects fund* – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
>
> *Fiduciary funds* – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

**Pay Plan** – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

**Personal Services** –Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

**Personal Services Snapshot** – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

**Present Law** – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

**Present Law Adjustments** – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

**Program** – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

**Proprietary Funds** – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

*Enterprise funds* – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.

*Internal service funds*- Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

**Reporting Levels** – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

**SABHRS** – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

**State Special Revenue** – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

**Supplemental Appropriation** – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

**Vacancy Savings** – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

# Acronyms

Acronyms are used to denote agencies, programs, and common terms. The following list includes some of the most common.

AES – Agricultural Experiment Station(s)
ADP – Average Daily Population (institutions)
ANB – Average Number Belonging (K-12 education)
ARM – Administrative Rules of Montana
BASE Aid – Base Amount for School Equity Aid
BPE - Board of Public Education
C&A – Cultural and Aesthetic (Trust)
CC - Community Colleges
CES - Cooperative Extension Service
CHE - Commissioner of Higher Education
CHIP – Children's Health Insurance Program (also SCHIP)
CIO – Chief Information Officer
COPP - Commissioner of Political Practices
COT - College of Technology, followed by campus designation
CPI – Consumer Price Index
DEQ – Department of Environmental Quality
DMA – Department of Military Affairs
DNRC – Department of Natural Resources and Conservation
DOA – Department of Administration
DOA – Department of Agriculture
DOC –Department of Commerce (see Corrections)
DOC – Department of Corrections (see Commerce)
DOJ – Department of Justice
DOLI – Department of Labor and Industry
DOR – Department of Revenue
DP – Decision Package
DPHHS – Department of Public Health and Human Services
FCES - Forestry and Conservation Experiment Station
FMAP – Federal Medical Assistance Participation rate (Medicaid)
FSR – Federal Special Revenue
FSTS - Fire Services Training School
FTE – Full-Time Equivalent
FWP – Department of Fish, Wildlife, and Parks
FFY – Federal Fiscal Year
FY – Fiscal Year
FYE - Fiscal Year End
GAAP – Generally Accepted Accounting Principles
GF – General Fund
GSL – Guaranteed Student Loan
GTB – Guaranteed Tax Base
HAC – House Appropriations Committee
HSRA – Highways Special Revenue Account
I&I – Interest and Income

IRIS – Integrated Revenue Information System
IT – Information Technology
ITSD - Information Technology Services Division
LAD - Legislative Audit Division
LEPO - Legislative Environmental Policy Office
LFA – Legislative Fiscal Analyst
LFC – Legislative Finance Committee
LFD - Legislative Fiscal Division
LRBP - Long Range Building Program
LRP – Long Range Planning
LSD - Legislative Services Division
MAC - Montana Arts Council
MBARS – Montana Budgeting, Analysis, and Reporting System
MBCC – Montana Board of Crime Control
MBMG – Montana Bureau of Mines and Geology
MCA – Montana Code Annotated
MCHA – Montana Comprehensive Health Association
MDT – Montana Department of Transportation
MHP - Montana Highway Patrol
MHS - Montana Historical Society
MSDB – Montana School for the Deaf and Blind
MSF – Montana State Fund
MSL - Montana State Library
MSU - Montana State University, followed by campus designation i.e. MSU – Bozeman
MUS - Montana University System
NP – New Proposal
OBPP - Office of Budget and Program Planning
OCHE – Office of the Commissioner of Higher Education
OPI - Office of Public Instruction
PERS - Public Employees Retirement System
PL – Present Law
POINTS – Process Oriented Integrated Tax System
PSC - Public Service Commission
RIGWA – Resource Indemnity and Groundwater Assessment Tax
RIT – Resource Indemnity Trust
SABHRS – Statewide Accounting, Budgeting, and Human Resources System
SAO - State Auditor's Office
SF&C –Senate Finance and Claims Committee
SOS - Secretary of State
SSR - State Special Revenue
TANF - Temporary Assistance for Needy Families
TEA – 21 – Transportation Equity Act for the 21st Century
TRS – Teachers' Retirement System
TSEP - Treasure State Endowment Program
UM - University of Montana, followed by campus designation i.e. UM – Missoula