

May 2007 Special Session



General Fund Summary Governor's Proposed Special Session Legislation

HB 2 Narrative 2009 Biennium General Appropriations Act

Presented to the Sixtieth Legislature

Submitted by the
Legislative Fiscal Division

May 10, 2007





GENERAL FUND SUMMARY

INTRODUCTION

The 2007 Legislature ended the 90-day 2007 regular session on April 27 without passing a 2009 biennium budget, necessitating a special session to deal with this constitutional obligation as well as to address tax relief, capital spending projects, and other initiatives that failed to be resolved in the regular session. On May 7, the Governor issued a call of the Sixtieth Legislature to special session beginning on May 10. The Governor limited the call to:

- A general appropriations bill for the operations of state government for the 2009 biennium
- A bill appropriating money for capital projects and information technology capital projects
- Enabling legislation for funding K-12 education
- Tax legislation providing both permanent and one-time tax reductions and rebates, improving tax compliance, and expanding the business equipment property tax exemption
- Property tax exemptions for new investing in renewable energy, new technology energy, and clean coal energy
- Creation of an education trust fund to be funded by revised tax treatment of income and dividends of real estate investment trusts
- A feed bill for operation of the special legislative session

Over the two remaining days prior to the legislative session, the Governor submitted seven bill drafts that would implement the Governor's plan for providing a biennial budget and the other initiatives included in the session call.

The following discussion summarizes the regular session general fund expenditures, general fund available after 2007 regular session legislative action, the Governor's proposals for general fund spending, and the ending fund balance if the executive budget is approved as proposed.

GENERAL FUND – 2007 REGULAR SESSION

The Figure 1 shows the general fund balance at the beginning of the 2007 regular session, the legislative action impacting the general fund, and the balance at the end of the regular session, which becomes the starting point for the special session. As shown in Figure 1, the legislature had \$1.377 billion in general fund available after funding a present law budget, as shown in the "pink" block. As shown in the "yellow" block, the legislature approved funding for fiscal 2007 of \$91.2 million for supplemental appropriations and the cost of the 2007 regular session. The legislature approved cat and dog bills containing \$199 million general fund appropriations ("green" block), the largest being the state employee pay plan and funding to reduce the unfunded liability in state pension funds. Revenue policy bills enacted in the regular session increased general fund by a net \$1.9 million ("blue" block). (Note that bills that would reduce general fund by \$5.7 million passed by the legislature are pending Governor action, and could impact the general fund balance.) After regular session legislation, the general fund budget had been reduced by \$288.3 million, to \$1.088 billion. This balance becomes the amount available for consideration during the May 2007 special session.

Figure 1

General Fund Budget 2009 Biennium		Millions
Projected Balance Before Legislative Action		\$1,376.6
Ending Fund Balance Target		-
Funds Available		\$1,376.6
Appropriations for Current Year - Enacted By Regular Session		
HB0001	Feed bill	(7.9)
HB0003	Agency Supplemental	(78.2)
HB0010	Fire Supplemental	(5.1)
Balance After Current Year		\$1,285.4
Major Appropriation Bills - Enacted By Regular Session		
HB0009	Cultural & Aesthetic Grants	(1.5)
HB0012	County Attorney Salaries	(4.7)
HB0013	Pay Proposal	(58.6)
HB0063	Teacher Retirement	(77.0)
HB0473	Water Adjudication Fee	(25.0)
HB0829	Blackfeet Tribe State Water Compact	(15.0)
----	All Others Not Listed Above	(17.2)
Balance After Appropriation Bills		\$1,086.4
Revenue Policy Bills - Enacted By Regular Session		
HB0003	Supplemental Appropriations	3.6
HB0680	DOR to Collect Out-of-state Debt	2.5
SB0150	Endowment Credit	(3.0)
SB0439	Withholding for Natural Resource Payments	4.0
----	Pending Governor Action	(5.7)
----	All Others Not Listed Above	0.5
Balance After Revenue Bills		\$1,088.3
Revised Executive Budget Proposal		
HB0001	Legislative Feed Bill	(0.3)
HB0002	General Appropriations Act	(617.6)
HB0004	Long-Range Planning (Net)	(191.7)
LC0005	Revenue Enhancements	34.1
LC0005	Property Tax Rebate (Net)	(94.7)
LC0005	Renter's Tax Refund	(12.0)
LC0005	Business Equipment Reduction	(16.7)
LC0005	DOR Administration	(1.5)
Balance After Executive Budget Proposal		\$187.9
Ending Fund Balance		(\$100.0)
Balance After Ending Fund Balance		\$87.9

GENERAL FUND - EXECUTIVE PROPOSED SPECIAL SESSION DISTRIBUTION

The Governor proposes obligation of \$900.4 million general fund in special session legislation, reducing the available funds from \$1.088 billion to a projected ending fund balance of \$187.9 million. As shown in the "tan" block of Figure 1, the Governor proposes expenditures of \$811.1 million for the general operations of state government and capital projects, \$34.1 million in revenue enhancements through tax compliance, and tax reductions of a net \$123.4 million, including the Governor's proposed \$400 one-time-only property tax rebate per homeowner. Other tax relief and education funding for K-12 capital investment and deferred maintenance is contingent upon general fund receipts in excess of the general fund revenue estimates.

GOVERNOR'S PROPOSED LEGISLATION

As mentioned previously, the Governor submitted 7 pieces of legislation for consideration in the special session to implement executive proposals. A summary description of each bill is provided below:

Governor's Expenditure Proposals

HB 1 – Legislative Feed Bill

The feed bill provides for the expenses of the special session, and is funded for a six-day session plus an allowance for a potential future special session. The bill provides \$0.3 million for session operations.

HB 2 – General Appropriations Act

The general appropriations act provides for funding of \$3.2 billion general fund for the 2009 biennium operations of state government and education funding, and \$7.8 billion total funds. The bill provides for an increase over the 2007 biennium budget of \$591 million general fund, or an average of 11.3 percent per year. Note that a significant portion of the expenditures are for one-time-only purposes.

HB 2 is discussed in more detail in the "HB 2 Summary" section of this report, beginning on page 7.

SB 2 – School Funding Bill

SB 2 implements school funding policy of the State of Montana for the next two years. The legislation impacts the Office of Commissioner of Higher Education by creating teacher loan repayment assistance and postsecondary scholarship programs and impacts the Office of Public Instruction in its distribution to schools program. The bill does not contain any appropriations. Funding for the bill is included in HB 2, the general appropriations act.

In the K-12 distribution program, the legislation:

- Applies inflation to the basic and per-ANB entitlements
- Implements full-time kindergarten and provides full-time kindergarten startup costs
- Increases the quality educator payment to \$3,036 in FY 2008 and \$3,042 in FY 2009
- Creates a new middle school basic entitlement, with inflation
- Increases the GTB ratio from 175 percent to 193 percent, providing tax relief to local taxpayers
- Adds licensed psychologists/social workers as eligible educators for a quality educator payment
- Creates a one-time-only Indian Education for All payment with a minimum of \$500 per district
- Diverts mineral royalties from state lands to a school facility improvement account

The state general fund cost of these proposals is \$173.5 million for the 2009 biennium as compared to 2006 base spending levels.

The legislation also contains a provision to distribute excess FY 2007 general fund revenues, up to \$30 million, to school districts through a new school units concept. If the general fund revenue at the end of FY 2007 exceeds \$1,762,355,000, the excess up to \$30 million would be appropriated and distributed to schools. Each school unit would receive a pro rata share of the excess. A school unit is defined as 800 ANB for a high school district, 450 ANB for a middle school and 250 ANB for an elementary district. Dividing the number of ANB in a district and rounding up to the nearest tenth of a unit results in the number of units for a district. The general fund money would be distributed in FY 2008 and must be deposited in the districts miscellaneous programs fund. It is to be used for capital investment and deferred maintenance and is one-time only. The money may be retained in the fund for up to 10 years.

Higher education is impacted by the proposed Teacher Loan Repayment Assistance Program and revisions to the Governor's Postsecondary Scholarship Program. Both programs would be

administered by the Board of Regents via the Office of the Commissioner of Higher Education. These programs are briefly described below.

Establish a Teacher Loan Repayment Assistance Program

- Provides repayment of federal educational loans for eligible quality educators employed by a school district, education cooperative, the Montana School for the Deaf and Blind, the Montana Youth Challenge Program, or a state youth correctional facility
- The Board of Public Education would be required to identify specific schools impacted by critical quality educator shortages and specific licensure or endorsement areas impacted by shortages
- Makes loan repayment assistance possible for up to four years, with maximum assistance of \$3,000 each year
- In the event that available funding in any year is less than the total amount for which quality educators qualify, the Board of Regents must give preference to quality educators working in the specific schools that are most impacted by quality educator shortages
- Funding for this program is contained in HB 2 at \$1.05 million general fund contingent on passage and approval of SB 4

Revisions to the Governor’s Postsecondary Scholarship Program

- Simplifies the scholarship program approved by the 2005 Legislature
- Provides \$1,000 or \$2,000 renewable need-based and merit-based scholarships to Montana residents towards the cost of attendance at 2-year and 4-year postsecondary institutions and allocates some scholarships to specific areas of study that promote economic development or addresses critical workforce shortage areas in Montana
- Merit-based and need-based scholarships must be awarded in equal monetary amounts
- A merit-based scholarship must be awarded to at least one graduate of every accredited high school in Montana (including nonpublic high schools)
- A portion of the money for need-based scholarships must be designated for applicants planning to attend 2-year institutions or 2-year programs at 4-year institutions and who plan to focus on areas of study that promote economic development or address critical workforce shortage areas
- Eligible applicants would be Montana residents, meet academic requirements (merit-based), meet needs test (need-based), and would be seeking their first certificate or degree at a postsecondary institution
- Applicant ineligibility factors include award of a Montana university system honor scholarship, failure to meet federal Title IV selective service registration requirements, is in default of a Title IV or state of Montana educational loan, or is currently incarcerated
- HB 2 includes \$4.04 million general fund for the Governor’s Postsecondary Scholarship Program, as compared to \$1.5 million general fund appropriated for the 2007 biennium

HB 4 – Long Range Building and Information Technology Capital Projects

The executive long-range budget recommendation for the 2009 biennium contains several types of projects including major building maintenance, new building construction, land acquisition, highway construction, and major information technology system upgrades at a total cost of \$389 million. This budget is accomplished through the use of \$184.5 million of one-time-only state general fund transfers to various capital project funds. A breakdown of the funding sources is shown below.

LRBP Capital Projects Fund	\$136,778,800
LRITP Capital Projects Fund	46,295,470
State Special Revenue	51,947,160
Federal Special Revenue	78,509,978
Other Funds	19,000,000
General Fund	10,676,530
Authorization	<u>46,000,700</u>
Total	<u>\$389,208,638</u>

Included in the 85 capital projects contained in the budget are plans for eight new building construction projects and budgetary increases for another two buildings currently in the planning stage. The Missoula forensic lab building will be purchased for the Department of Justice. The long-range budget provides several college of technology expansion projects, authorized in the 2005 session, with additional funding, enabling completion of the projects. Significant building renovation and upgrades are planned for six buildings, including a complete renovation of Gaines Hall at Montana State University in Bozeman. The budget recommends an appropriation of \$15 million to Department of Fish, Wildlife, and Parks for the acquisition of public land that will provide access to Montana park lands and waterways. The completion of the Highway 93 road construction project is funded at \$26 million. Major information technology projects will be funded through a capital projects account in the 2009 biennium. Projects include upgrades to the state network, numerous systems upgrades at the Department of Public Health and Human Services, and the completion of the case management and courtroom technology systems for the Judicial Branch.

The executive budget recommendation makes progress in reducing the estimated \$200 million backlog of deferred maintenance projects in the state. The deferred maintenance backlog has become a significant concern over the past several biennia. Of the \$137 million of long-range building funds, at least 30 percent, or \$47 million, will be used to reduce the current backlog. The remainder of the funding not associated with new space projects and building purchases will be used for other major building repairs and maintenance.

Governor's Tax Policy Proposals

LC 5 – Tax Policy and Revenue Enhancements

LC 5 is the tax relief and revenue “enhancer” bill. It:

- Allows withholding on pension and annuity income - \$0.3 million general fund revenue increase
- Requires withholding on real estate transactions at 2.5 percent of the sales price or the calculated gain - \$19.4 million general fund revenue increase
- Creates a one-time-only payment of \$400 per residence owned by the occupant - \$94.7 million cost statutorily appropriated from the general fund
- Provides an income tax credit for renters up to 3 percent of gross rent with a maximum of \$120 per credit that terminates December 31, 2008 and would affect state revenue in FY 2008 and FY 2009 - \$12.0 million general fund revenue loss
- Provides a homeowner income tax credit for property taxes paid due the statewide 95 mills on \$20,000 in owner-occupied residential property based on the amount of general fund revenue in excess of \$1.802 million in FY 2007. For every million dollars in revenue in excess of this threshold, the income tax credit increases by one tenth – unknown general fund revenue loss
- Provides an exclusion of the first \$65,000 in market value for class 8 business equipment beginning January 1, 2008. Revenue lost to counties, cities, tax increment financing districts, and the six mill account would be reimbursed through the entitlement share general fund statutory appropriation at a cost of \$13.2 million. School districts would be reimbursed through an increase in the GTB ratio for a general fund revenue reduction of \$3.6 million
- Raises revenue of approximately \$34.1 million general fund through compliance measures that:
 - Prohibit certain tax shelters
 - Provide a system of withholding on pension and annuity income and on real estate transactions
 - Extend the statute of limitations for corporate income tax from 3 years to 5 years
 - Provide for better exchange of information between state agencies to identify taxpayers who are not filing
- Provides for property tax reductions for cellular phone companies that serve rural areas

The legislation contains statutory appropriations for reimbursements to local governments, the university system and tax increment financing district, and for the \$400 homeowner property tax rebate. The reimbursement to schools is in HB 2. The legislation also appropriates \$1.0 million general fund to administer the tax rebate program and \$0.5 million to administer the increase in the class 8 exemption.

HB 3 – Tax Incentives for Energy Development

HB 3 provides several tax incentives for investments in renewable technology and alternative fuels. The legislation:

- Provides property tax incentives for projects such as certain transmission lines, electric generation using clean coal and coal gas, renewable energy manufacturing, and for bio-diesel, biogas, ethanol facilities, and geothermal facilities
- Provides a 50 percent abatement of taxable value for certain energy projects
- Requires all energy projects be approved by the state Department of Environmental Quality in order to qualify for tax incentives
- Adds to class 14 property bio and ethanol production facilities, gasification facilities, natural gas combined cycle facilities, and certain electric transmission lines and geothermal facilities (under current law class 14 contains wind generation facilities and is taxed at 3 percent of market value)
- Creates a new class of property, class 15, for carbon dioxide pipelines, liquid pipelines, carbon sequestration equipment, equipment used in closed loop enhanced oil recovery, and bio products equipment. Class 15 property would be taxed at 3% of market value
- Provides a property tax exemption for land adjacent to transmission lines. Beginning January 1, 2008 land within 600 feet either side of a transmission line would be exempt

The legislation is not expected to affect general fund revenues until FY 2010.

LC 7 – Education Trust Funded by REIT

The legislation creates an education trust account in the state special revenue fund and distributes up to \$15 million of the revenue in the account to schools beginning in FY 2009 through a new school units concept. The revenue in the account would be derived from a new capital gains tax on the sale of property by real estate investment trusts (REIT) and from disallowance of deductions of certain dividends paid by a real estate investment trust.

The money that is distributed, up to \$15 million, to school districts would be distributed as a school unit payment. Each school unit would receive a pro rata share of the excess. A school unit is defined as 800 ANB for a high school district, 450 ANB for a middle school and 250 ANB for an elementary district. Dividing the number of ANB in a district and rounding up to the nearest tenth of a unit results in the number of units for a district. The payments to school districts would flow into the district general fund and would be contained in the Base and Maximum budgets of the district general fund.

The legislation also contains a credit against corporate income taxes for 100 percent of the fair market value of real property as defined in 77-1-202(3) that is contributed to the state. The credit may be carried-over for three succeeding years. The additional revenue generated from the bill is expected to be approximately \$3.0 million general fund per year, with that amount distributed to schools in the following fiscal year.



HB 2 SUMMARY

INTRODUCTION

House Bill 2 (HB 2) is the May 2007 Special Session introduced general appropriations bill for the operations of state government for the 2009 biennium, and includes most agency appropriations, with the exception of:

- Statutory appropriations, (e.g., State Fund, debt service, local government distributions)
- Other appropriations bills (cat-and-dog bills)
- Transfers

An index and cross-walk of agencies to narrative page number and bill page number is at the end of this document.

LFD COMMENT

This narrative is a much abbreviated version of what the Legislature normally receives in support of the numbers in the biennial budget bill, due to the less than 72 hour notice of the session call, and the submission of the executive budget less than 36 hours before the session. This narrative makes comparisons to the budget bills that did not pass in regular session, and assumes a continuation of the budget process from the regular session, for the purpose of explaining the bill. Staff regrets the lack of detail in this analysis, and will do all we can to assist and provide added information as the session proceeds.

STATE BUDGET SUMMARY

The color graphics included in Figures 1 through 6 provide a summarization of HB 2 as introduced. The pie charts summarize HB 2 by general program area (agency/function) and by fund type. The bar graphs show the amount of increase in the 2009 biennium budget over the 2007 biennium. Funding for the 2009 biennium in the graphs is as contained in HB 2 only, and does not include other initiatives such as pay proposals and other cat-and-dog appropriation bills. It is further important to note that the bar graph comparisons are on a biennium-to-biennium basis, which is the appropriate (statutorily required) method for comparing increases from biennium to biennium, rather than the method used for budget development (base year only). Thus, the bar graphs should be used for comparison purposes only, and will not tie to the amount of increases reflected in the remainder of this narrative, where increases are measured from the base. As shown in the graphs:

HB 2 appropriations for the 2009 biennium as introduced total:

- \$3.209 billion general fund (page 2)
- \$7.853 billion total funds (page 3)

HB 2 provides for biennial changes of:

- \$591.5 million general fund increase, or 22.6 percent (11.3 percent average per year) (page 3)
- \$986.7 million total funds increase, or 14.3 percent (7.1 percent average per year) (page 4)

INCREASE BY GENERAL PROGRAM AREA

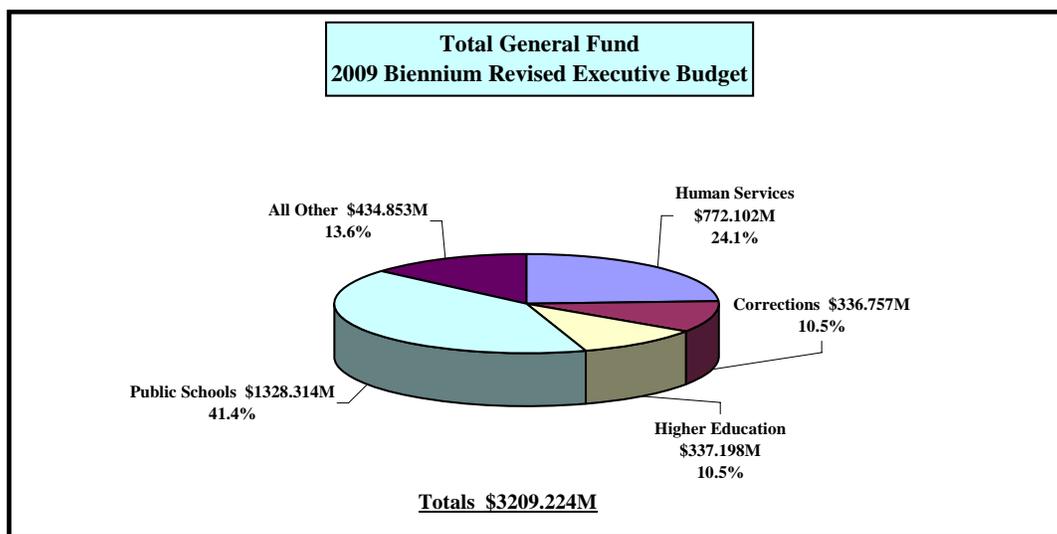
Figure 1 shows the amount and percent of the general fund for major categories:

Budget share:

K-12 and higher education	51.9%
Human services	24.1%
Corrections	10.5%

Together, these categories comprise 86.5 percent of the total HB 2 general fund budget.

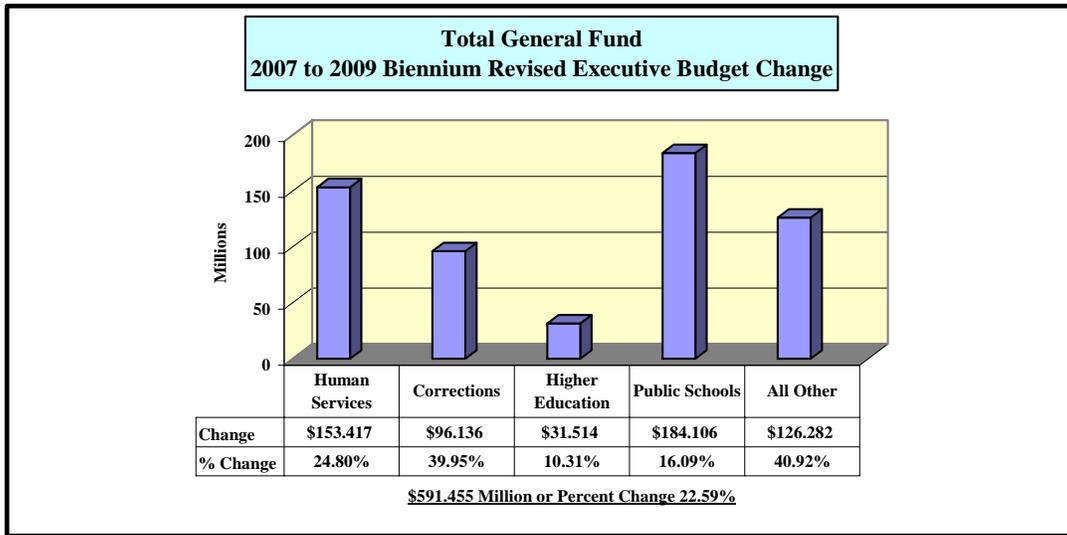
Figure 1



As illustrated in Figure 2, the general fund budget net increase of \$591.5 million is due to the following:

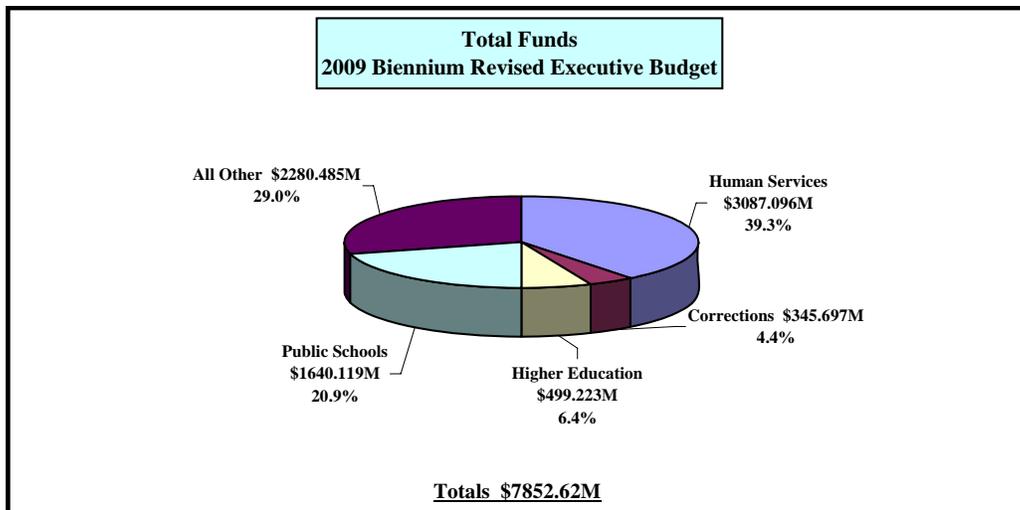
- Human services increases (\$153.4 million) due primarily to changes in the state matching rate for Medicaid, and caseload and services increases (most notably in Medicaid), as well as direct care worker wage and provider rate increases
- Corrections increases (\$96.1 million) are primarily due to use of a 4.5 percent population growth rate for FY 2008 and 6.3 percent in FY 2009 in treatment, secure care, and community services, with meth treatment centers funded to operate at 80 percent of capacity, as well as provider rate increases for secure care and the exemption of 24/7 direct care institutions from vacancy savings
- Higher education increases (\$31.5 million) due to a higher general fund percentage funding to cap tuition costs (College Affordability Program), enrollment increases, additional student assistance, increased state share funding for community colleges, and several other initiatives
- Public schools increases (\$184.1 million) primarily due to annualization of 2005 special session initiatives, statutory inflation adjustments, full-day kindergarten and start-up costs, increases in the quality educator payment, and increases in the GTB ratio for property tax relief (doesn't result in new funds for education)
- All other increases \$126.3 million, primarily due to \$30.1 million in increases (44 percent) for the Department of Revenue for workload and tax compliance issues, annualization of the costs and increased caseload of public defender services from establishment of the Office of the Public Defender (\$21.1 million) in the 2007 biennium, expanded economic development programs, increased funding for wildland fire suppression and equipment, other natural resource agency initiatives, meth grants and other initiatives in the Dept. of Justice, and statewide adjustments

Figure 2



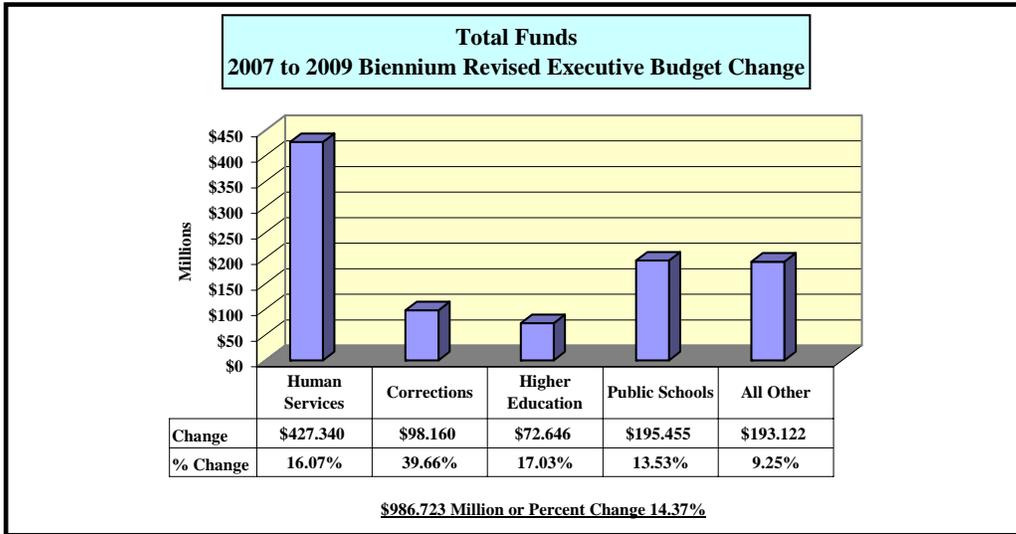
As shown in Figure 3 (Total Funds), the “All Other” and “Human Services” categories comprise a significantly larger share of the pie as compared to the general fund pie chart. This is because a large share of funding for human services, highway construction, and Fish, Wildlife and Parks is from non-general fund sources (state and federal special).

Figure 3



The significant increases in total funds shown in Figure 4 reflect additional state special and federal funding for human services programs as well as for K-12 and higher education and for environmental functions. These increases are described in more detail in the next section.

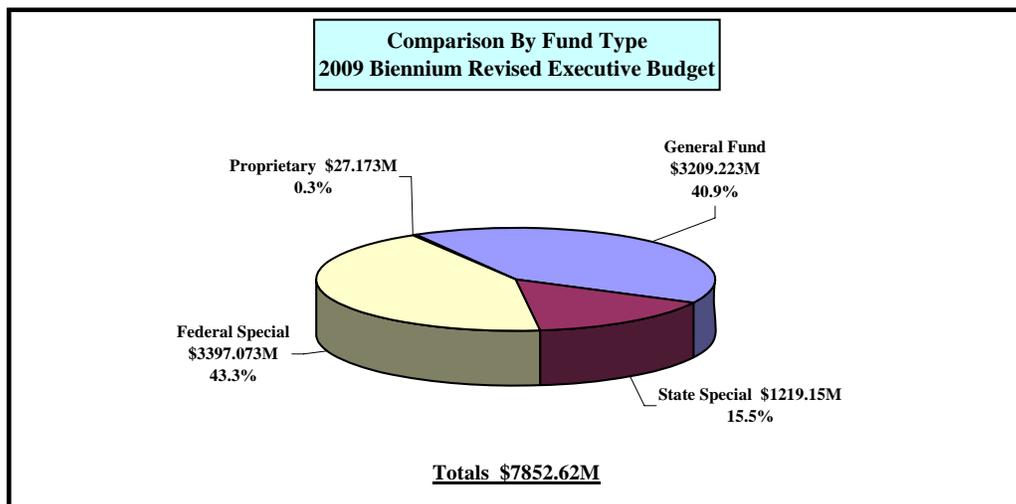
Figure 4



FUNDING SUMMARY

Figure 5 shows how HB 2 is funded. General fund provides 40.9 percent and federal funds provide 43.3 percent of total HB 2 funds.

Figure 5



* Does not include capital project funds.

Figure 6 on the following page shows the following increases in funding:

Federal funds increase \$273.8 million, or 8.8 percent (this is 27.7 percent of the total HB 2 increase).

- Human services accounts for \$198.6 million (73 percent) of the total federal funds increase, including increased caseloads, provider rates and services in a number of programs, most particularly in Medicaid, increased food stamp benefits, and expansion of enrollment of children in CHIP
- Other major increases are due to expansion of the guaranteed student loan program, K-12 for special education and at-risk students, economic and community development, and federal highway funding

State special revenue funds increase \$121.8 million, or 11.1 percent. This is the net effect of \$178.1 million in increases, and \$56.3 million in reductions.

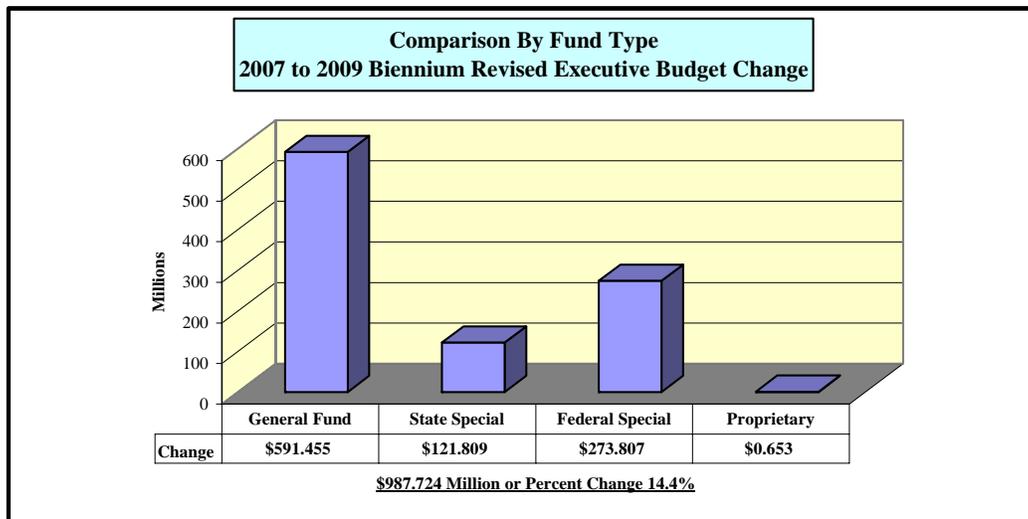
Increases include:

- Increased use of I-149 (tobacco settlement) funds for a variety of human services functions, including Big Sky Rx, CHIP expansion, provider rate increases, and direct care worker wage increases, and annualization of costs associated with the Insure Montana Program (State Auditor’s Office)
- Six mill levy increases for the Montana University System
- Information technology expenses and highway patrol wages in the Department of Justice
- Natural resource initiatives, including fire protection activities and equipment purchases

Decreases to state special revenue are predominantly due to efforts to stabilize the highways special revenue account, including reductions in the highways construction and maintenance programs.

General fund increases \$591.5 million, or 22.6 percent, as described in the previous section.

Figure 6



*Does not include capital project funds, \$1.01 million

HB 2 – COMPARISON TO REGULAR SESSION BUDGET BILLS

The Governor's special session budget proposal, HB 2 as introduced, is lower than the regular session budget bills (Senate 3rd reading copy) by a net \$37.1 million general fund before K-12 tax policy adjustments, and a net \$11.6 million lower after the tax policy adjustments. Figure 7 shows the differences by agency. A more detailed summary of the differences for general fund and other funds is provided in the agency narratives in the next section of this document. The more significant general fund adjustments are listed below.

Reductions:

- \$11.9 million reduction in DPHHS, primarily related to reductions in provider and direct care worker wage increases, elimination of Healthcare for Healthcare workers, and reductions in mental health services expansions
- Over \$9.9 million in reductions due to elimination of contingency appropriations for bills that died in regular session or for other reasons
- \$4.0 million reduction in up-front support for annual wildfire suppression (may result in supplemental)
- \$1.8 million net reductions in Dept. of Revenue related to tax compliance and other initiatives
- \$3.5 million reduction in Office of Public Defender for anticipated caseload increase
- \$1.8 million reduction in Dept. Justice for various initiatives, including the Meth Watch program
- \$5.7 million reduction in Corrections related to lowered prison population projections, funding meth beds at 80 percent of capacity, and lower provider rate increases

Increases:

- \$3.6 million to Commerce for manufactured home revolving loan fund & energy infrastructure program
- \$25.2 million to K-12 education for tax policy adjustments (GTB Ratio, Class 8 property tax reduction)

Figure 7
Executive 2009 Biennium Special Session Budget Proposal
Differences from Regular Session Budget Bills (Senate 3rd Reading)
General Fund - By Section/Agency

Section A - General Government	
Legislative Branch	(\$200,000)
Judiciary	(1,076,884)
Governor's Office	312,306
Comm. Political Practices	0
State Auditor's Office	0
Transportation	0
Revenue	(1,807,450)
Administration	(725,000)
MT Consensus Council	0
Office of Public Defender	(3,015,000)
Section B - Health/Human Services	
DPHHS	(11,926,286)
Section C - Natural Resources	
Fish, Wildlife, Parks	0
Environmental Quality	(65,350)
Livestock	(282,572)
DNRC	(4,825,964)
Agriculture	(972,307)
Commerce	3,660,000
Section D - Corrections/Public Safety	
Board of Crime Control	0
Justice	(6,620,331)
Corrections	(7,286,471)
Labor and Industry	0
Military Affairs	(20,000)
Section E - Education/Cultural Ed	
Commissioner of Higher Education	399,600
School for Deaf and Blind	(229,557)
MT Arts Council	(161,416)
MT State Library	0
MT Historical Society	(120,000)
Office of Public Instruction (Other than tax policy adjustments)	(2,167,701)
Net Reduction in General Fund before K-12 Tax Policy Adjustments	(\$37,130,383)
Office of Public Instruction - Tax Policy Adjustments (GTB Ratio, Class 8 Prop. Tax)	25,522,391
Net Reduction in General Fund Appropriations	<u>(\$11,607,992)</u>

BUDGET BILLS – SENATE FLOOR ACTION

Figure 8 provides a summary of general fund amendments adopted on the Senate Floor in regular session, which increased general fund appropriations \$10.9 million. Over two-thirds of the increase was the addition of appropriations contingent on passage of other bills, to implement those bills (fiscal note impact).

Figure 8	
Senate Committee of the Whole Action - Budget Bills	
General Fund - By Bill/Section/Agency	
Section A - Legislative Branch - HB 818	
Legislative Branch - Performance Management Training (OTO)	\$18,900
Section A - Judicial Branch - HB 819	
None	
Section A (Gen Govt.) - Executive Branch - HB 820	
Comm. Political Practices - Contingencies: Impl. HB 462 (const. a/c's), SB 253 (campaign adv.)	30,700
Revenue - Contingencies: Implement SB 439, HB 680 (nonresidents withholding/collection)	935,181
Revenue - General reductions in Business/Income Tax Div., Property Assessment Div.	(200,000)
Revenue - Correct math error, SFC "Free Electronic Filing" amendment	132,126
Administration - Contingencies: Implement HB 27 - Wireless Enhanced 9-1-1 System	161,669
Office of the Public Defender - Contingencies: Implement SB 104, 163, 547, HB 629	448,200
Office of the Public Defender - Correct amendment error, put agency at exec level	(150,000)
Section B (Health/Human Services) - Executive Branch - HB 820	
DPHHS - Contingency: Implement SB 504 - Youth and Kinship foster homes support	282,326
DPHHS - Contingency: Implement SB 498 - Universal Health Care System Planning	464,913
DPHHS - Contingency: Implement HB 198 - CHIP dental care benefits	200,000
DPHHS - Shift gen. fund for direct care to I-149 funds, use \$300,00 for children's system of care	---
Section C (Natural Resources) - Executive Branch - HB 820	
Environmental Quality - Contingency: HB 555 - Recycling/Electronic Waste Disposal Educ.	33,000
Environmental Quality - Contingency: Implement SB 445 - Expand Alternative Energy Program	65,350
Livestock - Livestock Loss Reduction and Mitigation (wolves)	30,000
DNRC - Remove contingency on HB 66 for \$10 million wildfire suppression funding	---
DNRC - HB 444 - Clark Fork River Basin Task Force (OTO)	90,000
DNRC - Contingency: Implement HB 39 - Ground Water Assessments	1,230,924
DNRC - Contingency: Implement SB 248 - US Forest Service Water Compact	98,318
DNRC - Hungry Horse Dam Water Leasing Study (Void if HB 443 passes)	260,000
Section D (Corrections/Public Safety) - Executive Branch - HB 820	
Board of Crime Control - Contingency: SB 273 - move peace officers council to Justice	(39,930)
Justice - Increase funding for Meth Watch Program (total \$2 million) - OTO	1,000,000
Justice - Contingency: SB 273 - Revise peace officers standards and training council	167,789
Justice - Contingency: HB 273/HB 840 - Revise motor vehicle registration/license plate laws	423,170
Justice - Contingency: HB 781 - HPD - Revise racial profiling law, data gathering	161,750
Justice - Reduce fund increase for personal svcs. "progression to market" - crim. Investigators	(242,297)
Corrections - Contingencies: SB 547 (Sex Offender Treatment Hours), SB 146 (Youth Transp.)	1,857,157
Corrections - Pine Hills/Riverside facilities, for education per educator component, Indian Ed.	45,607
Military Affairs - Contingency: SB 235 - Site selection committee for S/W MT Vet's Home	20,000
Military Affairs - Challenge Program, for education per educator component, Indian Ed. for All	30,390
Section E (Higher Education/Cultural Ed.) - Executive Branch - HB 820	
Board of Public Education - Contingency: Implement SB 62, Advisory Council Reimbursement	6,075
MT School for the Deaf and Blind - for education per educator component, Indian Ed. For All	73,002
MT State Library - Fund switch, reduce RIT state special, increase gen. fund, NRIS	280,000
MT State Library - GIS Portal - to correct amendment error	(27,000)
MT Historical Society - General increase to support programs	200,000
Comm. of Higher Education - Additional funding, Agricultural Experiment Stations (OTO)	500,000
Comm. of Higher Education - Reduce state share, Community Colleges, from 53% to 48.5/49.5%	(1,398,149)
Section E (K-12 Education) - OPI - HB 809	
Public Instruction - Adjust Base Aid, higher costs for F/D kindergarten, middle school basic ent.	2,865,543
Public Instruction - Contingencies: Implement SB 75 (Base Aid), HB 515 (Distance Learning)	859,483
Net Increase in General Fund Appropriations	\$ 10,914,197

BUDGET BILLS – SENATE FINANCE AND CLAIMS ACTION - INTRODUCTION

Senate Finance and Claims Committee (SFC) took initial action in regular session (after restructuring eight budget bills into four) to replace the appropriations in the budget bills with the joint appropriations subcommittees final recommendations. This action increased general fund over the House final action by \$124.6 million. SFC then added net increases in general fund appropriations over the subcommittee level of \$164.8 million. The total increase in general fund by SFC over the House action was \$289.4 million. The total funds increase was \$523.6 million. These amendments are explained further on the following pages (9 through 11).

Preliminary Action – Joint Appropriations Subcommittees Level

Senate Finance and Claims Committee initially restructured the budget bills, by first combining eight budget bills into four, and then amending joint appropriations subcommittees final recommendations into the four bills as a complete replacement of the appropriations in the bills. The initial action also removed statutory language from the bills and placed them in two separate companion bills to the budget bills. The total impact of this action increased general fund by \$124.6 million and total funds by \$326.4 million from the House 3rd reading version of the bills. Figure 9 shows the general fund adjustments by agency.

Figure 9	
Senate Finance and Claims Initial Action - Budget Bills	
Amend all Agencies to Joint Subcommittee Level	
General Fund - By Section/Agency	
Section A - Legislative Branch - HB 818	
Legislative Branch	\$357,211
Section A - Judicial Branch - HB 819	
Judiciary	(194,009)
Section A - Executive Branch - HB 820	
Governor's Office	539,864
Comm. Of Political Practices	84,413
Transportation	2,000,000
Revenue	4,448,106
Administration	351,473
MT Consensus Council	10,961
Office of the Public Defender	2,325,570
Section B - HB 820	
Public Health and Human Services	75,260,333
Section C - HB 820	
Environmental Quality	(542)
Livestock	277,616
Natural Resources and Conservation	10,123,543
Agriculture	297,523
Commerce	9,400,714
Section D - HB 820	
Justice	904,519
Corrections	24,988,668
Labor and Industry	(860)
Military Affairs	155,588
Section E - OPI - HB 809	
Office of Public Instruction	(9,553,207)
Section E - Higher Education/Cultural Ed. - HB 820	
Board of Public Education	(146,836)
MT School for the Deaf and Blind	(856)
MT Arts Council	83,920
MT State Library	200,000
MT Historical Society	232,740
Commissioner of Higher Education	2,491,688
Net Increase in General Fund Appropriations	<u>\$124,638,140</u>

Final Action – SFC Amendments from Joint Subcommittees Level

After restructuring the bills and inserting joint appropriations subcommittees recommendations, SFC approved increases of \$164.8 million general fund and \$197.2 million total funds, with 78 percent of general fund increases for K-12 education. The general fund increases are shown in Figure 10 by section/agency/bill.

Figure 10 (Table continued on next page)	
Senate Finance and Claims Final Action - Budget Bills	
Amendments from Joint Subcommittee Level	
General Fund - By Bill/Section/Agency	
Section A - Legislative Branch - HB 818	
Legislative Branch - 2.0 FTE and other costs to gain independence over IT environment	\$465,021
Legislative Branch - Reduce Legislator Technology Allowance appropriation	(\$60,000)
Legislative Branch - Interim Study of Mental Health issues	\$200,000
Section A - Judicial Branch - HB 819	
Judiciary - Drug Treatment Courts: Grants/Administration (including 1.00 FTE)	2,000,000
Judiciary - Reports on progress toward achievement of goals and objectives	5,000
Judiciary - Self-help Law Program (including 1.00 FTE)	505,000
Section A (Gen Govt.) - Executive Branch - HB 820	
Governor's Office - 1.0 FTE in OBPP, IT support	140,486
Governor's Office - Report on progress toward achievement of goals and objectives	5,000
Comm. Political Practices - 1.0 FTE investigator to resolve campaign violations	118,051
Comm. Political Practices - Anticipated legal costs	155,000
State Auditor - Report on progress toward achievement of goals and objectives	5,000
Transportation - Report on progress toward achievement of goals and objectives	5,000
Transp. - Restore Motor Pool usage rates to exec. level (agency budgets unrestored)	---
Revenue - 23.0 FTE FY08, 33.0 FTE FY09 plus contract services for tax compliance effort	4,148,731
Revenue - 5.0 FTE/operating costs to address workload issues for statutory duties	1,628,500
Revenue - 7.0 FTE/operating costs, in-house legal staff to support tax compliance issues	776,135
Revenue - contracted temporary staff for peak tax processing season	554,481
Revenue - 3.0 FTE FY08, 4.0 FTE FY09 for added e-file services, incl. Free Electronic Filing	5,741,859
Revenue - 3.0 FTE/operating costs for targeted auditing, Tax Gap Analysis	393,355
Revenue - 4.5 FTE/operating costs for reappraisal GIS staff	629,060
Revenue - 16.0 FTE FY08, 24.0 FTE FY09/oper. costs for caseload impacts of prop. appraisal	1,799,729
Revenue - remove funding for bus. eqpt. rate reduction reimbursement (15-1-12,MCA)	(1,400,000)
Administration - Operating costs for structure/marketing of supercomputer center (OTO)	1,000,000
Administration - Additional licensing costs for SABHRS (will recover through SWCAP)	800,000
Administration - Restore statewide personal services adjustment	112,569
Administration - State Tax Appeal Board - 1.0 FTE administrative specialist	95,687
Administration - Report on progress toward achievement of goals and objectives	5,000
MT Consensus Council - Report on progress toward achievement of goals/objectives	5,000
MT Consensus Council - Restore statewide personal services adjustment	(10,961)
Office of the Public Defender - Restore statewide personal services adjustment	1,278,596
Office of the Public Defender - Restore funding for agency to executive level	3,988,329
Section B (Health/Human Services) - Executive Branch - HB 820	
DPHHS - Eliminate funding for Secure Treatment and Examination Program (STEP)	(4,085,056)
DPHHS - Family Planning Services	1,073,046
DPHHS - Aging Services	1,500,000
Section C (Natural Resources) - Executive Branch - HB 820	
Fish, Wildlife & Parks - State Wildlife Grants to conserve native fish and wildlife species	1,000,000
Fish, Wildlife & Parks - Warm water fisheries enhancement in southeast MT	270,000
Fish, Wildlife & Parks - Cartersville Diversion Feasibility Study (Yellowstone River)	110,000
Environmental Quality - Purchase biofuels testing equipment	250,000
Environmental Quality - 1.0 FTE to address environmental violations/citizen complaints	145,598
Environmental Quality - Support for State Building Energy Conservation Program	159,917
Environmental Quality - Restore base operating authority	822,124
Environmental Quality - Restore statewide personal services adjustment	236,402
Environmental Quality - Technical amendment	542

Figure 10 (Continued from previous page)
Senate Finance and Claims Final Action - Budget Bills
Amendments from Joint Subcommittee Level
General Fund - By Bill/Section/Agency

Section C (Natural Resources) - Executive Branch - HB 820 (continued)	
DNRC - Restore statewide personal services adjustment	278,432
DNRC - Yellowstone Compact Study and 1.0 FTE hydrologist	233,396
DNRC - GIS Enterprise equipment project	130,000
DNRC - St. Mary's diversion project	38,561
DNRC - operational support to Montana Rural Water Systems	203,000
Agriculture - Regional Agricultural Centers Program	972,307
Agriculture - Remove transfer for noxious weed trust fund (placed in HB 269)	(5,000,000)
Commerce - Remove transfer to manufactured home revolving loan fund (in comm. bill)	(3,000,000)
Commerce - Main Street Program	247,044
Commerce - Made in Montana Program	200,000
Section D (Corrections/Public Safety) - Executive Branch - HB 820	
Board of Crime Control - Restore statewide personal services adjustment	103,246
Board of Crime Control - Tech. assist to local and tribal law enforcement agencies	120,000
Justice - Methamphetamine Watch Program	1,000,000
Justice - Executive protection, increase and fund shift from state special revenue, HPD	351,729
Justice - Support progression to market pay increases for criminal investigators	361,637
Corrections - Increased funding for populaton growth (prison and community placements)	7,026,337
Corrections - Eliminate funding increase for central office rent, Admin/Support Div.	(948,440)
Labor and Industry - Replace fed. funds with general fund for Research/Analysis Bureau	400,000
Labor and Industry - Restore statewide personal services adjustment	355,536
Military Affairs - support six regional hazardous materials response teams statewide	580,000
Section E (Higher Education/Cultural Ed.) - Executive Branch - HB 820	
MT Arts Council - Grants and programs to support rural schools arts education	180,000
State Library Comm. - GIS Portal - amendment error	27,000
Comm. of Higher Education - MSU-Northern Science and Water Program (HB 116)	480,000
Comm. of Higher Education - MT Tech. Advanced Nursing Workforce Program	80,000
Comm. of Higher Education - MSU Bozeman: PBS Television Satellite Delivery	400,000
Comm. of Higher Education - Increase funding for new eqpt./technology, U system	500,000
Comm. of Higher Education - Increase funding for workforce training program development	100,000
Comm. of Higher Education - Increase funding for Tribal College Assistance Program	100,000
Comm. of Higher Education - Inc. funds for Tribal College Assist. Pgm., if HB 283 fails	1,014,400
Comm. of Higher Education - UM Speech Pathology Program start-up costs	700,000
Comm. of Higher Education - Increase state share funding for community colleges to 53%	1,398,149
Comm. of Higher Education - Incr state support to 100% for Ag. Exp. Sta./Extension Svc.	63,335
Comm. of Higher Education - Yellow Bay Biol. Sta. for Whitefish Lake water qual. study	50,000
Comm. of Higher Education - Restore statewide personal services adjustment	350,259
Section E (K-12 Education) - OPI - HB 809	
Office of Public Instruction - Increase Base Aid to Executive level	93,578,105
Office of Public Instruction - Full-time kindergarten start-up costs	10,000,000
Office of Public Instruction - Inflation/Base for Spec. Ed., incr. for school fac./adult ed.	6,598,700
Office of Public Instruction - Indian Education for All at \$35 per ANB	4,200,000
Office of Public Instruction - Increase in Base aid resulting from higher ANB count	5,844,140
Office of Public Instruction - 10.5 FTE for gifted/tal., data sys., curr. Spec., and IT eqpt.	5,527,015
Office of Public Instruction - Indian Ed./Indian Achievement Gap, Little Shell Tribal History	2,641,475
Office of Public Instruction - Gifted and talented one-time increasee	2,000,000
Office of Public Instruction - Mental health screening and referral program admin.	219,296
Office of Public Instruction - Traffic safety program - remove gen. fund, move to SSR	(1,500,000)
Office of Public Instruction - Restore statewide personal services adjustment	64,971
Net Increase in General Fund Appropriations	<u>\$164,841,831</u>

BUDGET BILLS – COMPARISON TO BASE

Figure 11 provides a general fund summary of HB 2. Status is shown by agency, for general fund only, as compared to the 2006 base year. A comparison is made to the 2006 base because this is the base from which the legislature determines budgets in the 2009 biennium. Please note, however, that this base-year-only comparison overstates changes from the total 2007 biennium. Biennium to biennium is the statutorily required method for legislative comparisons (see the narrative and graphs on pages 1 through 5 for a biennial comparison).

Figure 11

Revised Executive Budget Compared to the Base General Fund				
House Bill/Sub-Committee	Agency	Base Times 2	Rev. Exec. Budget 2009 Biennium	Change
General Government & Transportation		\$175,256,592	\$251,655,795	\$76,399,203
	1104 Legislative Branch	15,460,034	19,997,691	4,537,657
	2110 Judicial Branch	74,820,864	66,608,901	(8,211,963)
	3101 Governor'S Office	10,089,148	12,265,009	2,175,861
	3202 Commissioner Of Political Practices	596,862	1,165,583	568,721
	3401 State Auditor'S Office		5,000	5,000
	5401 Department Of Transportation		3,005,000	3,005,000
	5801 Department Of Revenue	65,433,772	97,789,422	32,355,650
	6101 Department Of Administration	7,290,942	14,934,101	7,643,159
	6102 Appellate Defender	-	-	-
	6106 Mt Consensus Council	138,082	157,139	19,057
	6108 Office Of The Public Defender	1,426,888	35,727,949	34,301,061
Health & Human Services	6901 Dept Of Public Health & Human Services	615,753,228	772,102,159	156,348,931
03 Natural Resources & Commerce		50,066,938	90,159,151	40,092,213
	5201 Department Of Fish, Wildlife & Parks		1,380,000	1,380,000
	5301 Department Of Environmental Quality	7,561,682	14,277,697	6,716,015
	5603 Department Of Livestock	1,145,330	2,154,367	1,009,037
	5706 Dept Of Natural Resources & Conservati	36,281,050	49,649,686	13,368,636
	6201 Department Of Agriculture	1,157,252	1,732,256	575,004
	6501 Department Of Commerce	3,921,624	20,965,145	17,043,521
04 Corrections & Public Safety		312,882,196	407,685,039	94,802,843
	4107 Crime Control Division	3,444,262	4,468,651	1,024,389
	4110 Department Of Justice	42,388,694	51,431,871	9,043,177
	6401 Department Of Corrections	254,476,676	336,756,709	82,280,033
	6602 Department Of Labor & Industry	3,247,828	4,350,259	1,102,431
	6701 Department Of Military Affairs	9,324,736	10,677,549	1,352,813
05 Education		1,379,369,156	1,687,621,179	308,252,023
	3501 Office Of Public Instruction	1,063,364,968	1,328,313,844	264,948,876
	5101 Board Of Public Education	335,364	417,175	81,811
	5102 Commissioner Of Higher Education	298,153,660	337,198,001	39,044,341
	5113 School For The Deaf & Blind	9,350,772	10,925,844	1,575,072
	5114 Montana Arts Council	799,952	981,505	181,553
	5115 Montana State Library	3,343,574	4,723,634	1,380,060
	5117 Montana Historical Society	4,020,866	5,061,176	1,040,310
Grand Total		<u>\$2,533,328,110</u>	<u>\$3,209,223,323</u>	<u>\$675,895,213</u>

As shown in Figure 12, the total general fund increase over the base year is \$675.9 million, which includes \$374.5 million present law adjustments and \$301.4 million new proposals.

The most significant general fund increases over the base budget are summarized as follows:

- DPHHS increases of \$156.3 million for Medicaid matching rate, caseloads and service changes, and institutional facility costs (new FTE, overtime, utilities, provider rates, etc.)
- K-12 education increases of \$264.9 million, reflecting
 - Present law increases of \$111.9 million for base aid annualization of 2005 special session initiatives, special education and other local distribution changes
 - Local distribution new proposals of \$143.7 million for full-time kindergarten (\$26.6 million) and start-up costs (\$10 million), an increase in the quality educator payment (\$26.4 million), diversion of royalties to a facilities trust account (\$40.8 million), Guaranteed Tax Base increases and reimbursements for property tax relief (\$25.5 million), and increases for Indian Education for All, the Gifted and Talented program, special education, school facility payments, and adult education
 - OPI state level activity increases of \$9.4 million, including a K-12 education data system and Indian Education for All
- Corrections increases of \$82.3 million for expanding prison population, increased prisoner per diem rates, and additional probation and parole officers
- Montana University System increases of \$39.0 million for enrollments, student assistance program increases, increased general fund support to cap tuition increases (College Affordability Program), and an increase in the state share percentage for community colleges
- Annualization of costs and increased caseloads for the Office of the Public Defender at \$34.3 million, started in the 2007 biennium
- Department of Revenue increases of \$32.4 million for FTE expansions that include increased compliance and reappraisal activity, information technology systems maintenance costs, and other initiatives
- Natural resources program initiatives of over \$23 million, including funding for wildfire suppression initial attack initiatives
- New initiatives in the Department of Justice (\$9.0 million), including meth prevention and treatment programs
- Statewide present law adjustments for fixed costs and personal services (including annualization of the 2007 biennium pay plan and broadbanding initiatives)
- Computer systems updates/completion/replacements

HB 2 proposals are further summarized in the following sections, comparing the proposals to the original regular session executive budget and to present law.

COMPARISON TO THE EXECUTIVE REGULAR SESSION PROPOSAL

Figure 12 compares the executive special session general fund HB 2 recommendations to the original regular session HB 2 executive budget. For the purposes of this comparison, the regular session executive budget is the printed budget submitted by the Governor in November. As shown in Figure 12, the executive special session budget is \$15.4 million general fund above the regular session original executive HB 2 budget. The actual increase over the original executive budget is \$34.7 million, as transfers included in the executive budget in the budget bills were moved to other appropriations bills, including infrastructure deferred maintenance, \$14.3 million (is in special session HB 3) and noxious weeds fund, \$5 million (approved in the regular session in HB 269). The total increase of \$34.7 million over the regular session executive budget includes \$25.5 million in K-12 tax policy adjustments (GTB ratio, Section 8 property tax reimbursement). Excluding the tax policy adjustments, the net increase in the special session Governor's budget is \$9.2 million.

Figure 12

Revised Executive Budget Compared to the Original Executive Budget General Fund				
House Bill/Sub-Committee	Agency	Org. Exec. Budget 2009 Biennium	Rev. Exec. Budget 2009 Biennium	Change
General Government & Transportation		\$270,466,894	\$251,655,795	(\$18,811,099)
	1104 Legislative Branch	19,174,046	19,997,691	823,645
	2110 Judicial Branch	65,023,418	66,608,901	1,585,483
	3101 Governor'S Office	12,898,205	12,265,009	(633,196)
	3202 Commissioner Of Political Practices	893,832	1,165,583	271,751
	3401 State Auditor'S Office	-	5,000	5,000
	5401 Department Of Transportation	3,000,000	3,005,000	5,000
	5801 Department Of Revenue	101,336,420	97,789,422	(3,546,998)
	6101 Department Of Administration	29,694,085	14,934,101	(14,759,984)
	6102 Appellate Defender	-	-	-
	6106 Mt Consensus Council	152,139	157,139	5,000
	6108 Office Of The Public Defender	38,294,749	35,727,949	(2,566,800)
Health & Human Services	6901 Dept Of Public Health & Human Services	766,873,724	772,102,159	5,228,435
03 Natural Resources & Commerce		98,249,867	90,159,151	(8,090,716)
	5201 Department Of Fish, Wildlife & Parks	1,255,644	1,380,000	124,356
	5301 Department Of Environmental Quality	14,683,186	14,277,697	(405,489)
	5603 Department Of Livestock	2,213,521	2,154,367	(59,154)
	5706 Dept Of Natural Resources & Conservati	53,114,258	49,649,686	(3,464,572)
	6201 Department Of Agriculture	6,678,070	1,732,256	(4,945,814)
	6501 Department Of Commerce	20,305,188	20,965,145	659,957
04 Corrections & Public Safety		415,262,216	407,685,039	(7,577,177)
	4107 Crime Control Division	4,508,581	4,468,651	(39,930)
	4110 Department Of Justice	54,870,400	51,431,871	(3,438,529)
	6401 Department Of Corrections	340,868,235	336,756,709	(4,111,526)
	6602 Department Of Labor & Industry	4,350,691	4,350,259	(432)
	6701 Department Of Military Affairs	10,664,309	10,677,549	13,240
05 Education		1,642,918,222	1,687,621,179	44,702,957
	3501 Office Of Public Instruction	1,284,609,121	1,328,313,844	43,704,723
	5101 Board Of Public Education	426,526	417,175	(9,351)
	5102 Commissioner Of Higher Education	336,656,989	337,198,001	541,012
	5113 School For The Deaf & Blind	10,856,309	10,925,844	69,535
	5114 Montana Arts Council	962,951	981,505	18,554
	5115 Montana State Library	4,444,256	4,723,634	279,378
	5117 Montana Historical Society	4,962,070	5,061,176	99,106
Grand Total		\$3,193,770,923	\$3,209,223,323	\$15,452,400

The largest general fund differences between the original regular session executive budget and the special session executive budget (HB 2) occur in the following areas:

- The Office of Public Instruction (\$43.7 million above) is primarily due to the addition of one-time only money for full-time kindergarten start-up costs (\$10.0 million, Indian Education for All (\$4.2 million), the Gifted and Talented Program (\$2.0 million), and Guaranteed Tax Base increases and reimbursements for property tax relief (\$25.5 million -- this is not new money for education).
- The Department of Public Health and Human Services (\$5.2 million higher) is the net of substantial increases over the original executive budget (attributable to provider rate increases that include direct care worker wages, changes to mental health programs, and Medicaid expansion), as compared to partially offsetting reductions from original executive proposals (driven by savings in Medicaid and foster care and elimination of the STEP program).
- The Department of Administration (\$14.8 million lower) is primarily due to the exclusion of an original executive proposal to transfer funding for deferred maintenance (\$14.3 million) – the transfer is included in another special session bill (HB 4).
- The Department of Corrections (\$4.1 million below) is the net of several differences from the original executive proposal, including a change in assumptions on the rate of increase in population growth. In general, the executive special session bill assumes a population growth rate of 4.5 percent in FY 2008 and 6.3 percent in FY 2009, while the original executive budget estimated a higher overall rate of increase of about 7.5 percent each year for the same time period. This and other minor reductions are partially offset by higher secure care provider rate increases and exempting 24/7 facilities direct care staff from vacancy savings.
- The Department of Revenue (\$3.5 million lower) is primarily due to non-approval of additional FTE for various initiatives.
- The Department of Agriculture (\$4.9 million lower) is primarily due to the shift of a transfer to the noxious weed trust fund, \$5.0 million, to a separate appropriations bill
- The Department of Justice (\$3.4 million lower) is primarily due to the passage of SB 12 in regular session, which made reimbursement for county attorney salaries a statutory appropriation, and removed it from HB 2.
- The Department of Natural Resources and Conservation (\$3.5 million lower), is primarily due to a \$4 million reduction in the original proposal for wildfire suppression ongoing funding (this reduction may result in a supplemental).

COMPARISON TO PRESENT LAW AND NEW PROPOSALS

Figure 13 provides a general fund summary, by agency, of the executive budget special session recommendation and regular session Budget Bill proposals as compared to the estimated cost of continuing the present law level of operations and services. The first column shows the present law budget contained in HB 2, \$2.908 billion. The second column shows the special session Executive Budget recommendation, \$3.209 billion. The third column shows the original executive budget as submitted by the Governor for the regular session, \$3.194 billion. The “Revised (Executive) over/(under) Original Executive” column shows that the Executive special session introduced HB 2 is \$15.4 million above the regular session executive budget. The “Original Executive New Proposals” column shows that the Governor’s original budget included \$189.4 million of new proposals. And as shown in the column “Revised New Proposals”, the executive budget special session new proposals are \$301.4 million.

Figure 13

General Fund Budget Information By Agency							
Agcy Code	Agency Name	Present Law Budget 2009 Biennium	Rev. Exec. Budget 2009 Biennium	Org. Exec. Budget 2009 Biennium	Revised Over/Under Org. Exec.	Revised New Proposals	Org. Exec. New Proposals
1104	Legislative Branch	\$18,621,678	\$19,997,691	\$19,174,046	\$823,645	\$1,376,013	\$552,092
2110	Judicial Branch	64,036,060	66,608,901	65,023,418	1,585,483	2,572,841	1,340,474
3101	Governor's Office	12,119,523	12,265,009	12,898,205	(633,196)	145,486	779,233
3202	Comm Of Political Practices	691,919	1,165,583	893,832	271,751	473,664	201,913
3401	State Auditor's Office	-	5,000	-	5,000	5,000	-
3501	Office Of Public Instruction	1,177,613,289	1,328,313,844	1,284,609,121	43,704,723	150,700,555	64,976,855
4107	Crime Control Division	4,388,581	4,468,651	4,508,581	(39,930)	80,070	120,000
4110	Department Of Justice	48,521,800	51,431,871	54,870,400	(3,438,529)	2,910,071	5,229,502
5101	Board Of Public Education	411,100	417,175	426,526	(9,351)	6,075	-
5102	Commissioner Of Higher Education	297,938,352	337,198,001	336,656,989	541,012	39,259,649	8,722,021
5113	School For The Deaf & Blind	9,687,165	10,925,844	10,856,309	69,535	1,238,679	1,167,721
5114	Montana Arts Council	865,085	981,505	962,951	18,554	116,420	116,420
5115	Montana State Library	4,443,634	4,723,634	4,444,256	279,378	280,000	-
5117	Montana Historical Society	4,663,570	5,061,176	4,962,070	99,106	397,606	317,606
5201	Department Of Fish, Wildlife & Parks	-	1,380,000	1,255,644	124,356	1,380,000	1,000,000
5301	Department Of Environmental Quality	13,346,788	14,277,697	14,683,186	(405,489)	930,909	1,284,472
5401	Department Of Transportation	-	3,005,000	3,000,000	5,000	3,005,000	3,000,000
5603	Department Of Livestock	1,311,932	2,154,367	2,213,521	(59,154)	842,435	895,007
5706	Dept Of Natural Resources & Conservation	40,526,451	49,649,686	53,114,258	(3,464,572)	9,123,235	12,957,327
5801	Department Of Revenue	90,167,520	97,789,422	101,336,420	(3,546,998)	7,621,902	6,821,404
6101	Department Of Administration	12,612,100	14,934,101	29,694,085	(14,759,984)	2,322,001	16,764,332
6102	Appellate Defender	-	-	-	-	-	-
6106	Mt Consensus Council	152,139	157,139	152,139	5,000	5,000	-
6108	Office Of The Public Defender	35,294,749	35,727,949	38,294,749	(2,566,800)	433,200	400,000
6201	Department Of Agriculture	1,328,460	1,732,256	6,678,070	(4,945,814)	403,796	5,403,796
6401	Department Of Corrections	326,956,131	336,756,709	340,868,235	(4,111,526)	9,800,578	7,268,449
6501	Department Of Commerce	14,697,296	20,965,145	20,305,188	659,957	6,267,849	5,607,849
6602	Department Of Labor & Industry	3,950,259	4,350,259	4,350,691	(432)	400,000	400,000
6701	Department Of Military Affairs	9,918,718	10,677,549	10,664,309	13,240	758,831	744,441
6901	Dept Of Public Health & Human Services	<u>713,535,679</u>	<u>772,102,159</u>	<u>766,873,724</u>	<u>5,228,435</u>	<u>58,566,480</u>	<u>43,374,602</u>
	Total	\$2,907,799,978	\$3,209,223,323	\$3,193,770,923	\$15,452,400	\$301,423,345	\$189,445,516

LFD COMMENT

The predominant portion of the significant increase in new proposals in the special session executive budget over the Governor's original budget submission (\$301.4 million vs. \$189.4 million) is explained by the mischaracterization of a number of HB 2 new proposals as present law adjustments in the Governor's original regular session budget. As a consequence, the statutory requirement to reflect the ongoing costs of government were overstated, and new proposals were understated. The legislative regular session budget action corrected the mischaracterizations, and the executive special session budget retained the legislative action.

The legislature mandated this important distinction in statute to be able to ascertain when funding is needed to maintain government services and when government programs are being expanded. The LFD has raised the issue of misrepresentation of present law versus new proposals in nearly every session budget analysis report for several biennia. The 2009 biennium executive budget submission showed a serious disregard of this statutory requirement, eroding the legislature's confidence that the executive budget provides an accurate distinction between maintenance funding and funding for new initiatives. The issue was raised by the LFA at the beginning of the 2009 regular session, and as a result, a bill was introduced (HB 522) to close loopholes in the "present law adjustments" definition in an effort to enforce compliance by future administrations. The bill passed the legislature, but was vetoed by the Governor.



HB 2 NARRATIVE OVERVIEW

PURPOSE AND FORMAT

The following narrative is an agency-by-agency summary of the 2009 biennium appropriations contained in the Governor's proposal. The purpose of the summary narrative is to provide a resource for legislators in reviewing the executive's proposed budget and provide comparative information in relation to the last legislative budgetary actions of the 2007 regular legislative session. Due to the very short notice of the special session call and the receipt of the Governor's budget proposal less than two days before the session, a typically more detailed narrative was not possible.

The summary for each agency begins with an agency proposed budget table comparing the total appropriations for the 2009 biennium, including both present law adjustments and new proposals, to the 2006 base budget. (Present law adjustments are those adjustments to the base necessary to maintain operations under current law. New proposals are to fund new activities, reductions in existing services, or expansion not currently conducted by the agency.) In addition, the table provides the information by major expense category and by funding source.

Following the agency table is a budget comparison table. This table provides a comparison of the proposed executive budget to the last legislative action (Senate Floor) of the 2007 regular session. This table begins with the total biennial agency budget after the last legislative action, followed by itemized adjustments to arrive at the Governor's proposed budget. "Legislative related changes" are those resulting because of an action on other bills. For example, if an appropriation was made contingent on passage of another bill and that bill is vetoed, the appropriation is eliminated. "Governor Adjustments" describe the policy-related or technical adjustments proposed by the executive.

To provide essential information to the itemized adjustments, major budget highlights are provided in bulleted format to further describe the policy change or the outcome of the adjustment in question. Staff has provided comments or raised issues as necessary to alert the legislature to any related concerns. The highlights also address any change in language and/or other conditions such as a one-time-only designation.

The last table of the narrative summary provides a listing of the new proposals that are included in executive's proposed budget. This table provides the reader with a quick reference to the new, expanded (or reduced) services within state government that are proposed.

