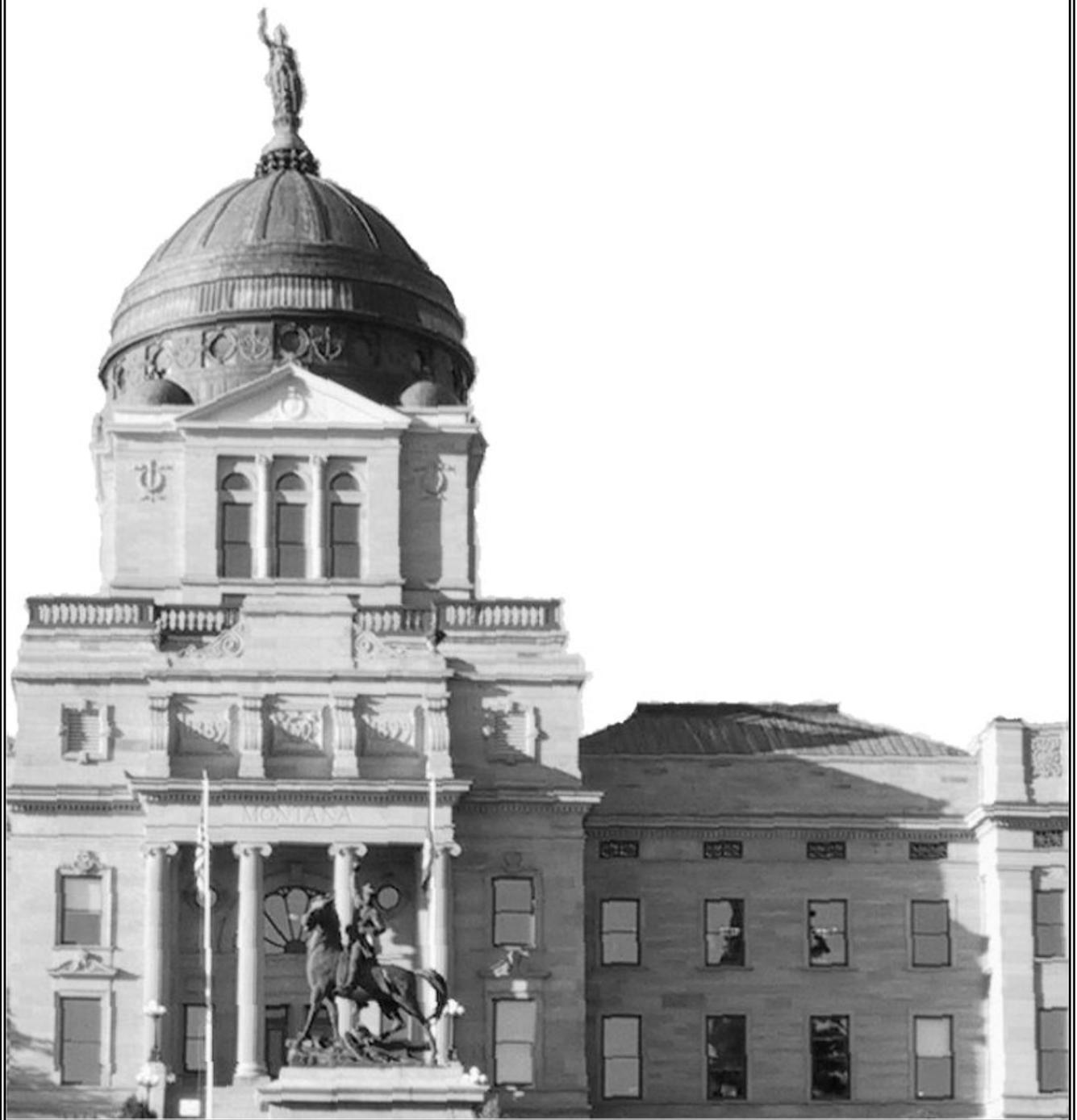


LEGISLATIVE BUDGET ANALYSIS 2017 BIENNIUM

VOLUME 1—STATEWIDE PERSPECTIVES



**LEGISLATIVE BUDGET ANALYSIS
2017 BIENNIUM
VOLUME 1 – STATEWIDE PERSPECTIVES**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION
TO THE SIXTY-FOURTH LEGISLATURE
JANUARY 2015**

Legislative Finance Committee

Senator Llew Jones (Chair)
Representative Galen Hollenbaugh (Vice Chair)
Representative Duane Ankney
Representative Rob Cook
Representative Kimberly Dudik
Representative Steve Gibson
Representative Pat Noonan
Senator Mary Caferro
Senator Rick Ripley
Senator Jon Sesso
Senator Mitch Tropila
Senator Edward Walker

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Micaela Kurth

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Sam Schaefer

Lois Steinbeck

Kris Wilkinson

Acknowledgements

The Legislative Budget Analysis report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and policy information and advice to the legislature. The LFD thanks the many entities that assisted in its completion.

For information on this report and others, contact the Legislative Fiscal Division at (406) 444-2986 or visit the division's website at: <http://leg.mt.gov/css/fiscal/default.asp>

The LFD is located at Room 110, State Capitol, Helena, MT 59620.



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

December 2014

Members of the Sixty-Fourth Legislature:

I submit for your consideration the high level state budget outlook for 2017 biennium as Volume 1 of the Legislative Budget Analysis. More details in volumes 2 through 8 will be available prior to session at <http://leg.mt.gov/fbp-2017.asp>. Additional reference material, standard charts and tables are available online at the same website as appendices to this Volume 1. If you are unable to access the online version, please let staff know and we will provide you with printed versions of the documents.

The Legislative Fiscal Division works for you, the legislators of Montana. We have no partisan alliance and seek to deliver high quality information and analysis of fiscal issues. A significant quantity of additional information is available online at our general website: www.leg.mt.gov/css/fiscal. Some specific resources that you may be interested in are reports on specific fiscal issues presented to the Legislative Finance Committee over the interim. Reports on state employee pay, local government infrastructure, and our budgeting and analysis methodologies were some of the key areas researched this interim.

In addition to this analysis, the LFD has access to the state accounting system and other resources for researching specific fiscal questions. If a fiscal question arises, please feel free to contact either myself or any member of our staff to help answer your questions.

We look forward to working with you all during the 2015 Session.

Sincerely,

A handwritten signature in cursive script, appearing to read "Amy Carlson".

Amy Carlson
Legislative Fiscal Analyst

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Staff Assignments

Legislative Fiscal Division (LFD) - State Capitol, First Floor, East Wing

Legislative Fiscal Analyst & Director - Amy Carlson (Ext. 2988, Office #116)

Fiscal Operations Manager - Barbara Smith (Ext. 5347, Office #115)

Fiscal Manager - Joe Triem (Ext. 5834, Office #113)

Office Manager - Diane McDuffie (Ext. 2986, Office #110E)

The following are the LFD staff assignments by budget sections, including agency and LFD analyst, with phone extension and office number:

General Government (Section A)

| | |
|--|---|
| Secretary of State Labor & Industry Commerce Military Affairs Administration | Kris Wilkinson (Ext. 2722, Office #131) |
| State Fund | Scot Conrady (Ext. 4421, Office #110G) |
| Revenue | Sam Schaefer (Ext. 1787, Office #110Q) |
| Legislative Branch Commissioner of Political Practices Consumer Counsel Governor's Office | Susie Lindsay (Ext. 4121, Office #110H) |
| State Auditor's Office Administration – Health Care & Benefits Division | Lois Steinbeck (Ext. 5391, Office #118) |

Health & Human Services (Section B)

| | |
|----------------------------------|---|
| Public Health and Human Services | Lois Steinbeck (Ext. 5391, Office #118) Scot Conrady (Ext. 4421, Office #110G) Cynthia Hollimon (Ext. 5387, Office #110M) |
|----------------------------------|---|

Natural Resources and Transportation (Section C)

| | |
|---|--|
| Fish, Wildlife & Parks Environmental Quality Natural Resources & Conservation Livestock Agriculture | Barbara Smith (Ext. 5347, Office #115) Stephen Forrest (Ext. 5389, Office #110F) Sam Schaefer (Ext. 1787, Office #110Q) Sam Schaefer (Ext. 1787, Office #110Q) Stephen Forrest (Ext. 5389, Office #110F) |
| Transportation | Cathy Duncan (Ext. 4580, Office #117) |

Judicial Branch, Law Enforcement, and Justice (Section D)

| | |
|---|--------------------------------------|
| Judicial Branch Board of Crime Control Justice Public Service Regulation Corrections Office of the Public Defender | Greg DeWitt (Ext. 5392, Office #119) |
|---|--------------------------------------|

Education (Section E)

| | |
|---|---|
| Office of Public Instruction - School Funding | Rob Miller (Ext. 1795, Office #132) Nick Brown (Ext. 4461, Office #110N) |
| Commissioner of Higher Education Board of Regents Community Colleges Six University Units and Colleges of Technology Agricultural Experiment Station Extension Service Forestry & Conservation Experiment Station Bureau of Mines & Geology Fire Services Training School Montana Arts Council Library Commission Montana Historical Society | Micaela Kurth (Ext. 4581, Office #110P) |
| Office of Public Instruction - Administration School for the Deaf and Blind Board of Public Education | Rob Miller (Ext. 1795, Office #132) |

Long Range Planning (Section F)

| | |
|---|---------------------------------------|
| Long-Range Building Program State Building Energy Conservation Long-Range Information Technology Program Treasure State Endowment Treasure State Endowment Regional Water System Reclamation & Development Grant Program Renewable Resource Grant & Loan Program Cultural and Aesthetic Grant Program Quality School Facility Program | Cathy Duncan (Ext. 4580, Office #117) |
|---|---------------------------------------|

Revenue Estimating / Monitoring /Tax Policy

| | |
|---|---|
| Revenue Estimating, Revenue Monitoring, Tax Policy Analysis | Stephanie Morrison (Ext. 4408, Office #130) Nick Brown (Ext. 4461, Office #110N) Sam Schaefer (Ext. 1787, Office #110Q) Cynthia Hollimon (Ext. 5387, Office #110M) |
|---|---|

Statewide Analysis & Communications

| | |
|---|---|
| Historical Budget Comparisons, Balance Sheet Analysis | Stephen Forrest (Ext. 5389, Office #110F) |
| Balance Sheet Analysis, Web Communications | Susie Lindsay (Ext. 4121, Office #110H) |

VOLUME 1: THE OVERVIEW

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2017 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2017 biennium, and identifying some of the major issues now facing the Legislature. As such, this document is intended to complement the Legislative Budget Analysis – 2017 Biennium Online, which contains our review of the 2017 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2017 Biennium Online reports the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this Statewide Perspective presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 provides an updated general fund balance sheet, projects the general fund structural balance and includes a summary of anticipated ongoing general fund revenues, ongoing present law expenditure requirements, including budget risks and budget pressures.

This volume is divided into five parts:

- The Introduction provides a high level summary of our analysis of the proposed executive budget
- State Revenues provides a review of the revenue assumptions adopted by the Revenue and Transportation Interim Committee
- State Expenditures provides an overview of the Governor's state spending plan for the 2017 biennium
- Risks & Pressures highlights key underlying assumptions in revenues and expenditures, and also details some of the pressures that the legislature may face in the upcoming session
- Appendix: Web based only documents that provide additional information

LEGISLATIVE BUDGET ANALYSIS - 2017 BIENNIUM ONLINE

Revenue Estimates

Volume 2 contains an overview of underlying national and state-specific economic forecasts, and detailed information on each of the state's general fund revenue sources and several non-general fund revenue sources. In particular, it delineates the economic assumptions used as a basis for the revenue estimates adopted by the Revenue and Taxation Interim Committee (RTIC) on November 20, 2014. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. Volume 2 will be provided to the House and Senate Taxation committees for use as a reference document.

Budget Analysis

The Budget Analysis offers detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but were unable to be updated before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Section A – General Government
- Section B – Health and Human Services
- Section C – Natural Resources and Transportation
- Section D – Judicial Branch, Law Enforcement, and Justice
- Section E – Education
- Section F – Long-Range Planning

Other Useful Links

In addition to the Legislative Budget analysis prepared for session, there are a number of other documents online that you may find helpful in your deliberations:

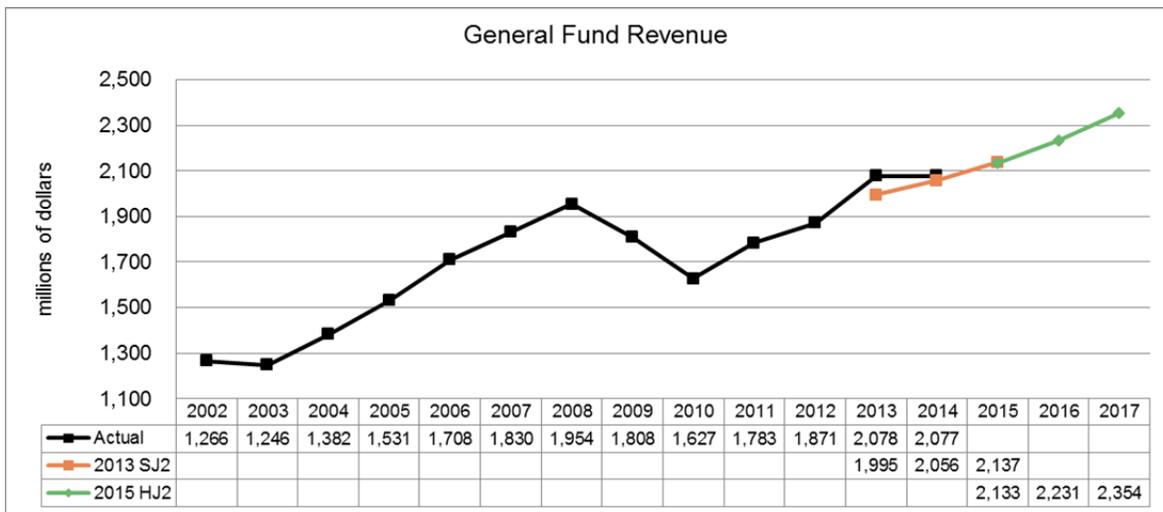
- [Understanding State Finances](#)
- [2015 Session Materials such as General Fund Status Sheets](#)
- [Historical Expenditures Report](#)
- [Personal Services HJR 17 Analysis Report from the interim](#)

OVERVIEW

Relatively Stable General Fund Budget

The 2017 biennium general fund revenues and expenditure pressures are anticipated to be relatively stable. In the past ten years, Montana has experienced high revenue growth as well as significant declines. Recent years have been more stable and this stability is anticipated to continue into the 2017 biennium. In addition, no significant unexpected expenditures, or “expenditure shocks” are currently anticipated. Fire costs have at times been a source of “expenditure shocks”. The 2013 Legislature passed a bill to allocate funds to wildfire suppression, which should take some of the “expenditure shocks” out of future budgets.

The Revenue and Transportation Interim Committee (RTIC) adopted revenue estimates for the 2017 biennium. The following chart illustrates actual revenue collections from FY 2002 to FY 2014, and includes revenue estimates as adopted by RTIC for FY 2015 through FY 2017.



While revenue collections are anticipated to have steady growth, the growth rates in Montana are not anticipated to be as robust as in some parts of the country. The general growth in the nation will keep Montana’s growth levels strong; however, the energy cost reductions aiding the national economy are expected to be a drag on Montana general fund revenues. RTIC adopted revenue estimates at a level in between the amounts suggested by the Governor, which did not take into account recent oil price reductions, and those calculated by the Legislative Fiscal Division (LFD). During the session, the House and Senate Tax committees will have an opportunity to revise revenue estimates as more information becomes available.

Governor Bullock’s Budget

The following table outlines the general fund budget recommendations of Governor Bullock with the revenue recommendations of RTIC. Note that the revenues anticipated by Governor Bullock are materially higher than the RTIC revenues, which causes the lower ending fund balance and negative structural balance.

| General Fund Balance Sheet | | | | |
|---|-------------------|--------------------|---------------------|---------------------|
| Governor's Budget Proposal with HJ 2 Revenue, and LFD Statutory, PL, and Transfer Estimates | | | | |
| (\$ Millions) | | | | |
| | Actual FY 2014 | Current FY 2015 | Proposed FY 2016 | Proposed FY 2017 |
| Beginning Fund Balance | \$537.6 | \$428.5 | \$332.8 | \$216.6 |
| RTIC HJ 2 Revenue Estimates | 2,077.0 | 2,133.0 | 2,230.7 | 2,353.5 |
| Governor's Revenue Legislation | | | | (0.8) |
| Expenditures (includes ongoing and one-time) | | | | |
| Previously authorized (statutory and other) | 406.4 | 321.6 | 289.5 | 295.6 |
| HB 2: 2017 Biennium Governor's Budget | 1,784.2 | 1,871.2 | 2,023.4 | 2,057.2 |
| HB 13: Pay plan for state employees ongoing | | | 12.5 | 30.0 |
| Other legislation included in Governor's Budget** | | 31.6 | 26.9 | 30.2 |
| Assumptions | | | | |
| HB 1 Feed Bill estimate | | 11.1 | 1.6 | 11.0 |
| Reversions | | (6.7) | (7.1) | (7.3) |
| Total Expenditures | 2,190.6 | 2,228.8 | 2,346.9 | 2,416.7 |
| Adjustments | 4.5 | | | |
| Ending Fund Balance | \$428.5 | \$332.8 | \$216.6 | \$152.6 |
| Structural Balance (CHIP FMAP savings assumed ongoing) | \$42.6 | (\$9.4) | (\$71.1) | (\$44.5) |
| Structural Balance (CHIP FMAP savings assumed OTO) | \$42.6 | (\$9.4) | (\$91.6) | (\$73.7) |

**CHIP FMAP change has been included in the HB2 Section B budget assumptions as present law

Executive Present Law Recommendations

While statutory appropriations are estimated for the 2017 biennium, the estimates are governed by statute and not subject to significant variations. HB 2 contains executive recommendations for present law budgets and includes a number of assumptions. The HB 2 executive ongoing budget contains increases in present law from FY 2015 to FY 2016 of 7.0% and from FY 2016 to FY 2017 of 1.6%. The executive present law does not include the increase in CHIP FMAP, or federal matching rate for the Children's Health Insurance Program, which is current federal law for FFY 2016 to FFY 2019. It is unknown what the match rate will be after this date; however, it is assumed throughout this analysis to be ongoing. The Legislative Finance Committee leadership will finalize the rules for whether this funding will be considered one-time or ongoing for purposes of the balance sheet.

As shown in the shaded lines in the adjacent table, adjusting for the CHIP FMAP results in lower growth rates: 5.9% in FY 2016 and 1.1% in FY 2017. While the largest percentage growth is in Section C, the base general fund expenditures are the lowest in Section C. While the percentage growth in Section E is smaller than other

| Governor's HB 2 Ongoing Present Law December 15 | | | | | |
|---|------------------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | FY 2015 % 2013 session | FY 2016 Increase (\$ Millions) | FY 2016 % Increase | FY 2017 Increase (\$ Millions) | FY 2017 % Increase |
| Section A | 7.2% | \$6.1 | 6.9% | (\$0.7) | -0.7% |
| Section B | 5.2% | 43.2 | 9.2% | 21.3 | 4.2% |
| Section B with CHIP FMAP adjusted | | 22.6 | 4.8% | 12.3 | 2.5% |
| Section C | 4.8% | 3.9 | 12.2% | 0.1 | 0.2% |
| Section D | 2.5% | 29.8 | 10.5% | 0.4 | 0.1% |
| Section E | 4.8% | 45.5 | 4.7% | 10.2 | 1.0% |
| Total | 4.6% | \$128.6 | 7.0% | \$31.3 | 1.6% |
| Total with CHIP FMAP adjusted | | \$108.0 | 5.9% | \$22.3 | 1.1% |

sections, it has the largest biennial dollar growth. Section E base general fund expenditures are over half the total HB 2 general fund budget. Section B is a close second in the biennial dollar growth. The large increases in Section B are largely the result of assumptions of increased caseload.

Key Executive Recommended New Proposals

Several new programs are recommended by the Governor. Total general fund new proposals total \$249 million. With the current bill drafts available, the total of additional all fund appropriations is \$1,399 million. In some cases bill drafts did not tie to the executive balance sheet, if these cases, the balance sheet is assumed to be correct and that the bills will be updated. The largest all fund new proposals include:

- Build Montana, with \$344 million in HB 5 and \$16 million in HB 14 for broadband bonds and bond payments of appropriations and authorizations, are requested for state and local infrastructure. Note that much of this program typically is contained in HB 5, 6, 7, 8, 14, and 15 and is not unusual. In the 2013 Session, approximately \$304 million was appropriated and authorized for infrastructure purposes.
- The HB 13 state employee pay plan proposed by the executive is \$79 million with \$44 million from the general fund. The pay increase requested includes a \$0.50/hour pay increase effective Oct 1, 2015 and a \$0.50/hour pay increase effective Oct 1, 2016. The contribution for state employee health insurance is recommended to increase by 10% on January 1, 2016 and by 8% on January 1, 2017. The Montana university system contribution for group benefits is scheduled to increase by 18% on July 1, 2016. The request also includes \$1 million general fund, \$1.95 million all funds for the personal services contingency fund and \$75,000 general fund for the labor and management training initiative. Note that the amounts contained in the bill do not contain the Governor's final recommendation. The 2015 biennium pay plan totaled \$116 million all funds.
- In HB 2, the executive is requesting a total of \$76.9 million for inflation like increases for providers of state services. In general, the request adds a 2% per year increase in rates paid to providers of services to state government. Most of these services are in the health care area, but correctional facility and legal services providers are also included. Some health care providers are also recommended to receive additional funding for health care for their employees. Last session, \$73.6 million was approved for this purpose.
- The Governor's proposal for early childhood education includes \$37.2 million of general fund in HB 2 for preschool for four-year-olds. There is no bill associated with this proposal.
- The HB 10 Information Technology Infrastructure bill contains \$20 million all funds and \$12 million of general fund. The 2015 biennium HB 10 contained \$21 million for information technology infrastructure.
- HB 2 contains a request for \$15 million to improve Montana's economy through research. These funds are intended to serve as seed money to leverage university-based research.

The following table summarizes the general fund and all funds appropriations requested:

| Governor's New Proposal Budget Recommendations - 2017 Biennium (\$ Millions) | | |
|---|----------------|------------------|
| New Proposal Item | General Fund | All Funds |
| Education | | |
| Early Childhood Education (HB 2) | \$37.2 | \$37.2 |
| Improve Montana's Economy through Research OTO (HB 2) | 15.0 | 15.0 |
| Student Assistance Fund Allocation (HB 2) | 6.2 | 6.2 |
| Quality Schools Redirect NRD Payment (net of HB 2 + LC717) | 7.0 | 16.5 |
| Public Health and Human Services | | |
| Medicaid Autism Services (HB 2) | 4.3 | 12.2 |
| Mental Health (HB 2 + bill unknown) | 12.3 | 10.2 |
| TANF FPL/Benefits Update (HB 2) | - | 5.5 |
| SNAP Benefits from HB 2 to Statutory Appropriation (HB 2 + LC627) | - | - |
| Healthy Montana NP general fund other funds not listed (LC631) | (9.9) | 623.8 |
| Safe Child Initiative (LC1089 amounts do not tie to balance sheet) | 3.0 | 4.4 |
| Natural Resources and Transportation | | |
| Sage Grouse Conservation OTO and ongoing (HB 2) | 11.2 | 11.2 |
| CSKT Water Compact | 8.0 | 8.0 |
| Operating Adjustment for Abandoned Mine Lands (HB 2) | - | 8.0 |
| Federal Pittman Robertson Funds (HB 2) | - | 6.0 |
| Yellowstone Airport Taxiway (HB 2) | - | 6.4 |
| Water Adjudication (LC398 general fund transfer) | 4.2 | 4.2 |
| All others | | |
| HB 5 Build Montana** | 23.1 | 344.1 |
| HB13 Pay plan includes ongoing and OTO | 43.8 | 79.3 |
| Provider rate increases (HB 2) | 28.8 | 76.9 |
| Other new proposals: ongoing and OTO (HB 2) | 19.6 | 23.4 |
| HB 10 Information Technology cash infrastructure | 12.0 | 20.0 |
| HB 14 Broadband Bonds | 1.2 | 16.2 |
| Personal Services related new proposals (HB 2) | 11.8 | 13.2 |
| Unexploded Ordinance Remediation for MTARNG (HB 2) | - | 8.0 |
| Enhance Economic Development in Montana OTO (HB 2) | 5.5 | 5.5 |
| Fund Switches (HB 2) | 4.9 | (0.1) |
| HB 9 Cultural and Asthetic Grants | - | 0.4 |
| Total | \$249.0 | \$1,361.7 |
| **HB 5 Build Montana all funds total excludes \$70.2 million in spending authority. | | |

Managing General Fund Budget Risk

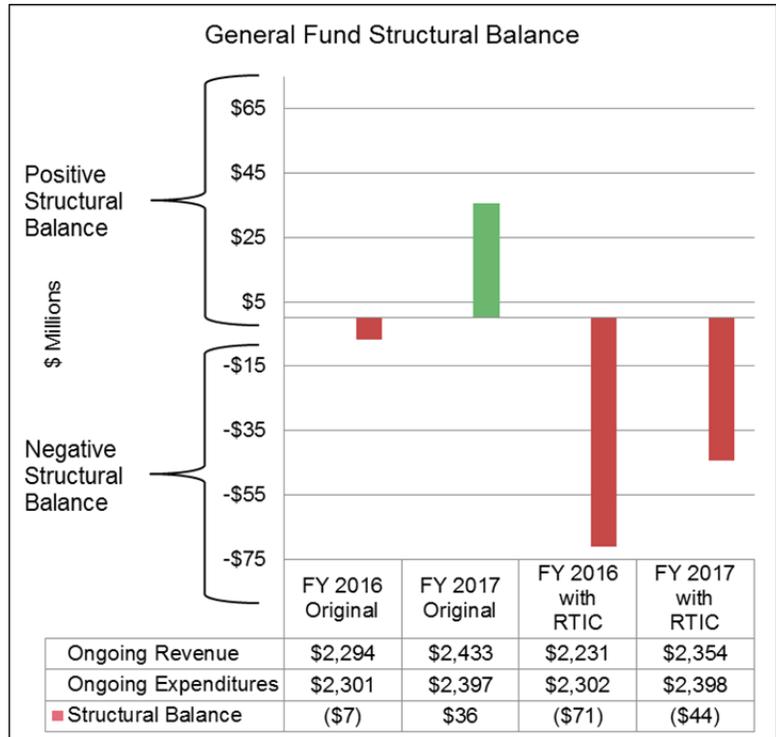
Budget risk is primarily measured by two methods: 1) structural balance, which measures if the ongoing revenues and the ongoing expenditures are in balance and 2) ending fund balance, which measures the amount of funds available for one-time expenditures or revenue shocks and cash flow.

Structural Balance

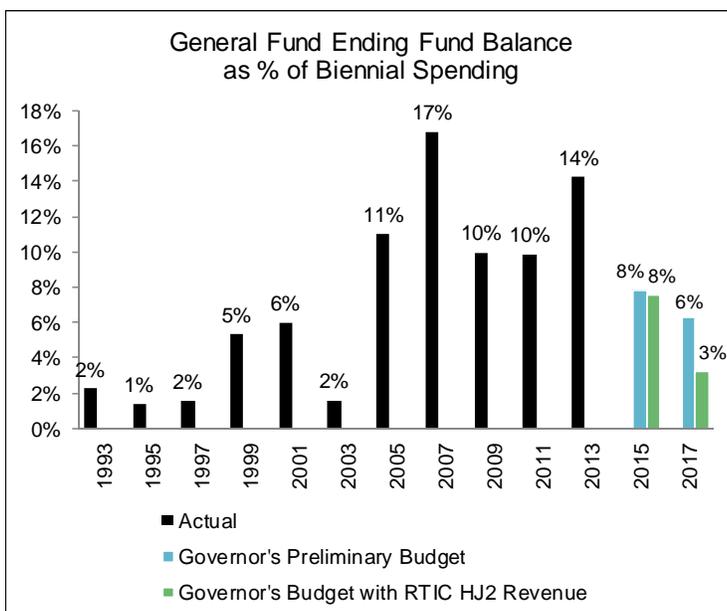
In all biennia, assumptions on ongoing versus one-time only are made. This biennium a significant assumption needs to be made about whether the additional Children’s Health Insurance Program (CHIP) Federal Medical Assistance Percentages (FMAP) discussed earlier is considered one-time or ongoing. In this analysis in FY 2017 \$30 million in general fund savings is assumed to be ongoing.

As shown in the chart to the right, the Governor’s recommended ongoing expenditures total \$2,301 million in FY 2016 and \$2,397 million in FY 2017. The Governor’s revenue estimates are \$2,294 in FY 2016 and \$2,433 in FY 2017. As stated, the RTIC committee adopted revenue estimates for the legislature for HJ 2 (the official legislative revenue estimate) of lower revenue levels. The Governor’s

recommended structural balance was a positive \$36 million in FY 2017 with CHIP FMAP assumed to be ongoing and \$7 million if it were assumed to be one time only. After the RTIC revenues are taken into consideration, the Governor’s structural balance with CHIP FMAP assumed to be ongoing would be negative \$44 million.



Ending Fund Balance



The Governor’s original recommended ending fund balance is \$300 million or 6% of biennial expenditures. With the RTIC adopted revenues, the ending fund balance at the end of the 2017 biennium is estimated to be 3%.

Legislative Options

Legislative options for managing volatility were researched and reported to the Legislative Finance Committee in September 2012; the link to this report is shown below in the references section. One material change in statute has been made since the writing of that report: in the 2013 Session, the legislature passed HB 354, which provides a funding stream for wildfire suppression. The need to have additional ending fund balance for potential fire suppression costs is greatly reduced with this new statute.

In addition to structural balance and ending fund balance, risk can be seen throughout specific areas of the budget. Examples of other specific budget risk include revenue shocks from economic, demographic, or other tax related risks; and expenditure shocks from caseload estimate inaccuracy, natural disaster costs above those budgeted, and other changes. The legislature will consider estimates of these items primarily in Joint Appropriations Subcommittees and the appropriation committees of House Appropriations and Senate Finance and Claims.

Budget Pressures for 2017 Current Budget

The 2017 Outlook contained a number of budget pressures for the 2017 Biennium. The list of pressures included items such as:

- Financial pressures
- Population
- Cost pressures
- Sunset
- Property Tax Reappraisal

A few items have been added to and subtracted from this list as updated information has become available. For updated information regarding these budget pressures, please see the Risks and Pressures section of this document.

References

The Legislative Finance Committee considered options for managing volatility in the 2013 interim; further information can be found in the following reports located at <http://leg.mt.gov/css/fiscal/>:

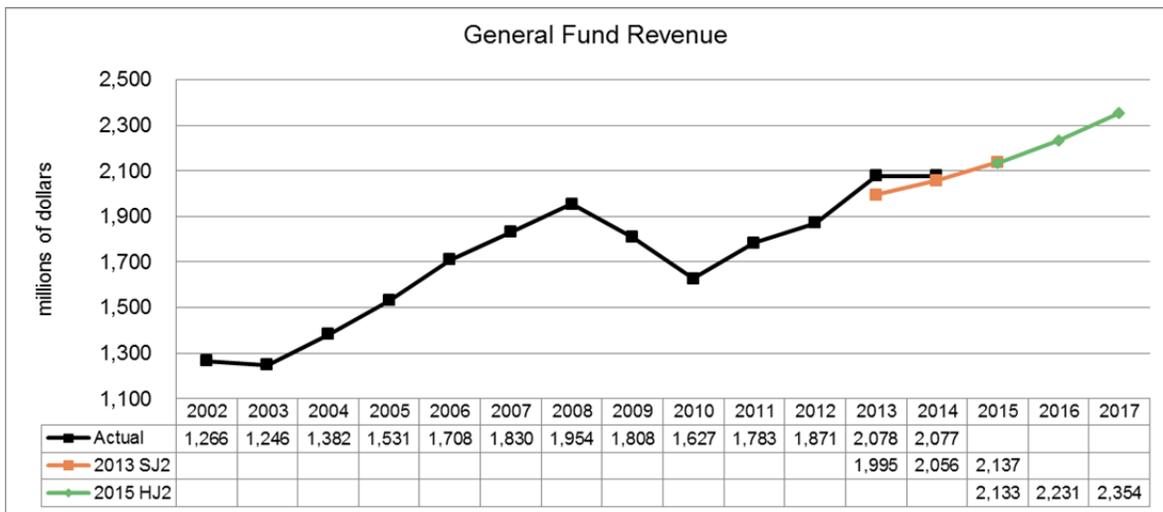
- [Managing Financial Volatility](#)
- [2015 Biennium Budget Update Report](#)
- [2017 Biennium Outlook](#)

OVERVIEW

Relatively Stable General Fund Budget

The 2017 biennium general fund revenues and expenditure pressures are anticipated to be relatively stable. In the past ten years, Montana has experienced high revenue growth as well as significant declines. Recent years have been more stable and this stability is anticipated to continue into the 2017 biennium. In addition, no significant unexpected expenditures, or “expenditure shocks” are currently anticipated. Fire costs have at times been a source of “expenditure shocks”. The 2013 Legislature passed a bill to allocate funds to wildfire suppression, which should take some of the “expenditure shocks” out of future budgets.

The Revenue and Transportation Interim Committee (RTIC) adopted revenue estimates for the 2017 biennium. The following chart illustrates actual revenue collections from FY 2002 to FY 2014, and includes revenue estimates as adopted by RTIC for FY 2015 through FY 2017.



While revenue collections are anticipated to have steady growth, the growth rates in Montana are not anticipated to be as robust as in some parts of the country. The general growth in the nation will keep Montana’s growth levels strong; however, the energy cost reductions aiding the national economy are expected to be a drag on Montana general fund revenues. RTIC adopted revenue estimates at a level in between the amounts suggested by the Governor, which did not take into account recent oil price reductions, and those calculated by the Legislative Fiscal Division (LFD). During the session, the House and Senate Tax committees will have an opportunity to revise revenue estimates as more information becomes available.

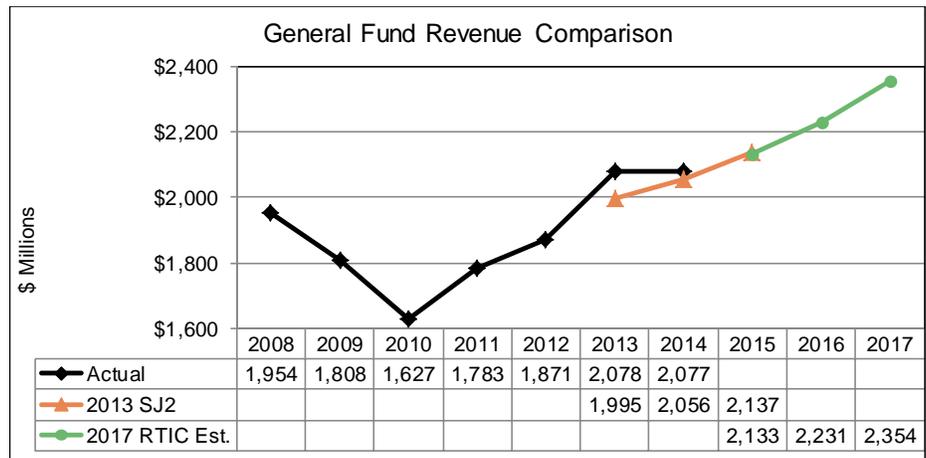
Governor Bullock’s Budget

The following table outlines the general fund budget recommendations of Governor Bullock with the revenue recommendations of RTIC. Note that the revenues anticipated by Governor Bullock are materially higher than the RTIC revenues, which causes the lower ending fund balance and negative structural balance.

STATE REVENUE

General Fund Revenue Estimates as Adopted by RTIC

On November 20, 2014, Revenue and Transportation Interim Committee (RTIC) met to review and adopt a revenue estimate recommendation. The executive recommendation was \$295.4 million above the LFD recommendation. The committee ultimately adopted the LFD recommendations, with total adjustments in individual income tax and oil and natural gas tax equal to



half of the total difference between the executive and LFD recommendations for individual income tax, corporation income tax, and oil and natural gas tax.

The table below shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources.

| General Fund Revenue Estimates as Adopted by RTIC (\$ Millions) | | | | | | |
|--|-------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
| Source of Revenue | Actual FY 2014 | Estimated FY 2015 | Estimated FY 2016 | Estimated FY 2017 | Estimated 2015 Bien | Estimated 2017 Bien |
| Individual Income Tax | \$1,063.3 | \$1,108.3 | \$1,212.5 | \$1,295.8 | \$2,171.6 | \$2,508.3 |
| Property Tax | 250.3 | 249.8 | 245.4 | 255.3 | 500.2 | 500.7 |
| Corporation Income Tax | 147.5 | 157.7 | 148.6 | 152.5 | 305.2 | 301.1 |
| Vehicle Taxes & Fees | 101.1 | 102.3 | 103.6 | 104.8 | 203.4 | 208.3 |
| Oil & Natural Gas Production Tax | 109.6 | 95.2 | 90.6 | 92.7 | 204.8 | 183.3 |
| Insurance Tax & License Fees | 60.9 | 63.9 | 65.4 | 66.1 | 124.8 | 131.5 |
| Video Gambling Tax | 57.1 | 60.4 | 62.7 | 66.0 | 117.6 | 128.8 |
| Largest Seven Subtotal | 1,789.9 | 1,837.7 | 1,928.8 | 2,033.3 | 3,627.6 | 3,962.1 |
| Remaining Sources Subtotal | 287.2 | 295.3 | 301.9 | 320.2 | 582.4 | 622.2 |
| Total General Fund | \$2,077.0 | \$2,133.0 | \$2,230.7 | \$2,353.5 | \$4,210.1 | \$4,584.2 |

Executive Estimate

The difference between the executive and LFD revenue estimate were almost entirely explained by the differences in three revenue sources. As summarized in the table below, difference in the individual and corporation income taxes and oil & natural gas production taxes accounted for 95.5% of the overall difference between the two total estimates.

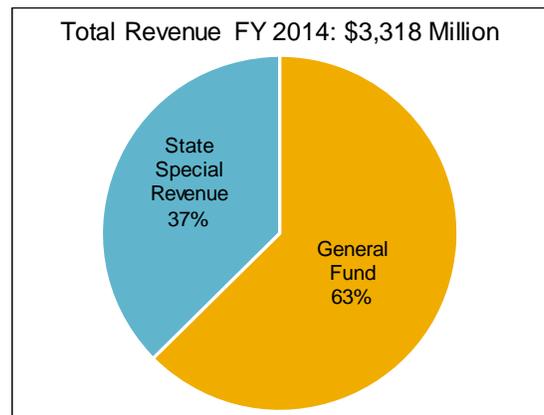
| Key Differences from Executive Revenue Estimate (\$ Millions) | | | | |
|--|---------------------------|---------------------|----------------------|--------------------------------|
| | Executive 3-Year Total | LFD 3-Year Total | 3-Year Difference | % Share of Total Difference |
| Individual Income Tax | \$3,602.8 | \$3,486.8 | \$115.9 | 39.2% |
| Corporation Tax | 572.7 | 458.8 | 113.9 | 38.5% |
| Oil & Natural Gas Production Tax | 319.9 | 267.3 | 52.5 | 17.8% |
| U.S. Mineral Royalties | 95.3 | 76.2 | 19.2 | 6.5% |
| Remaining | 2,281.0 | 2,287.1 | (6.1) | -2.1% |
| Total General Fund | \$6,871.6 | \$6,576.2 | \$295.4 | 100.0% |

Legislative Options

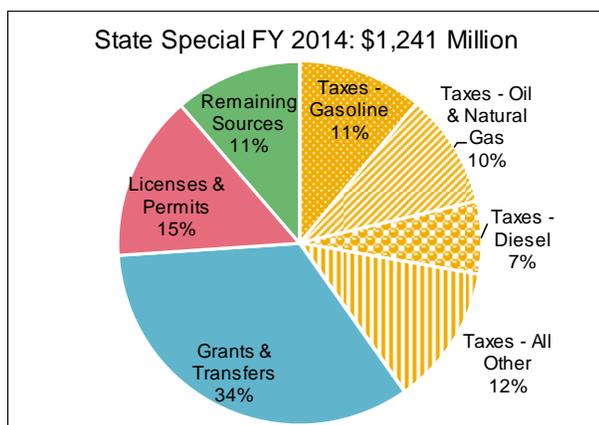
While the RTIC established initial revenue estimates for session, the committee recognized the need to continue evaluating the revenue estimates. During session, as more information becomes available, the LFD will make updates available to the legislature. In addition, throughout the session, the House and Senate Tax committees and the House and Senate committees of the whole will have opportunities to revise the revenue estimates contained in HJ 2.

General Fund & Other State Revenue Sources

Most general taxes are deposited in the state general fund. The general fund is used for most broad purposes of state government; education, health, and corrections are the predominant uses of this fund. State special fund revenues are raised and used for specific purposes. For example the state levies a gas tax that is dedicated for use on state roads and highways. Details of all general fund and most major state special fund revenue sources are contained in the Legislative Fiscal Division's [2017 Biennium Budget Analysis: Volume 2](#).



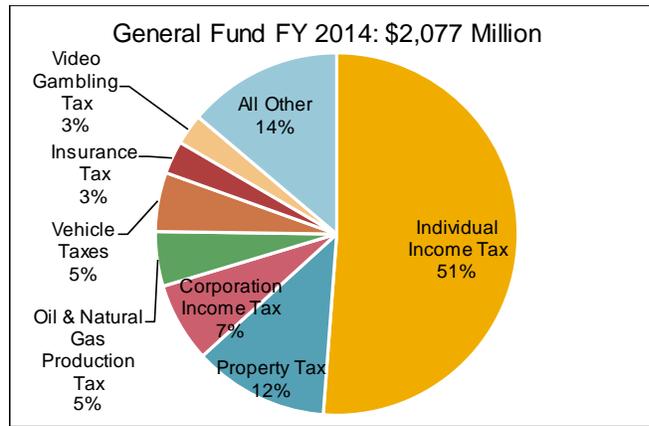
Most of the focus during session tends to be on the state general fund which accounted for 63% of FY 2014 total state revenue. Note that trusts or direct services funds such as unemployment insurance and workers' compensation insurance are not included in the adjacent chart. In addition, there is limited double counting as some sources of revenues are transferred between funds.



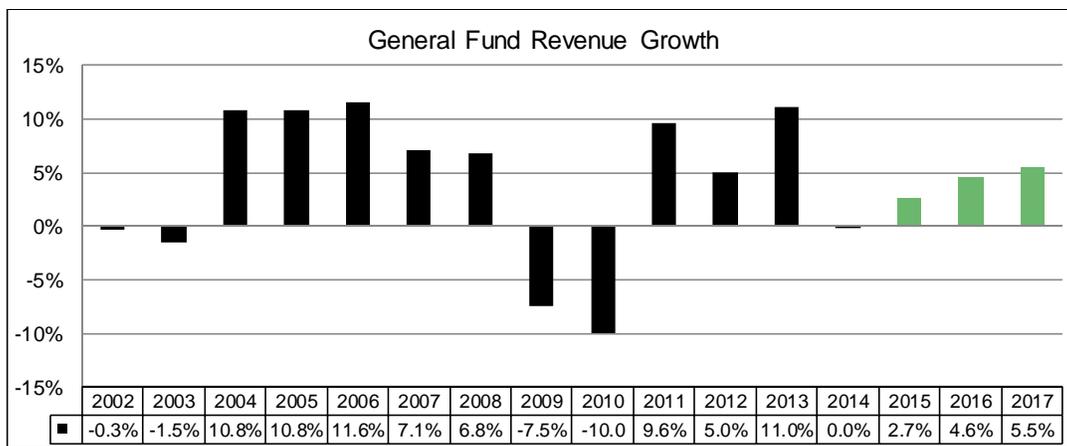
Large sources of state special revenue include the gasoline and diesel taxes, and oil and natural gas production tax. In FY 2014, the various taxes accounted for 40% of total state special revenue. Grants and transfers were the next largest contributor, amounting to 34% of state special revenue.

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The largest seven sources of general revenue are individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2014, these sources accounted for 86% of total general fund revenue.



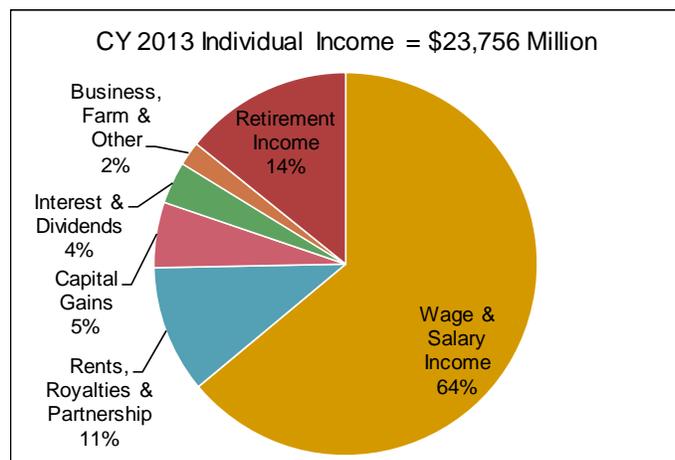
The chart below shows the annual percent change in revenue, with actual values shown in black and estimated values shown in green. The estimate for annual growth in general fund revenue for FY 2015 is 2.7%, for FY 2016 is 4.6% and for FY 2017 is 5.5%. These growth rates are slightly lower than the growth rates contained in the [2017 Outlook Revenue Detail](#), primarily due to the lower IHS estimates of oil price and short-term interest rates, and lower property tax reappraisal values.



Five of the top seven tax sources, the significant economic drivers and their influence on the general fund are highlighted in the following sections. More details on all sources of revenue can be found in the Legislative Fiscal Division's [2017 Biennium Budget Analysis: Volume 2](#).

Individual Income Tax

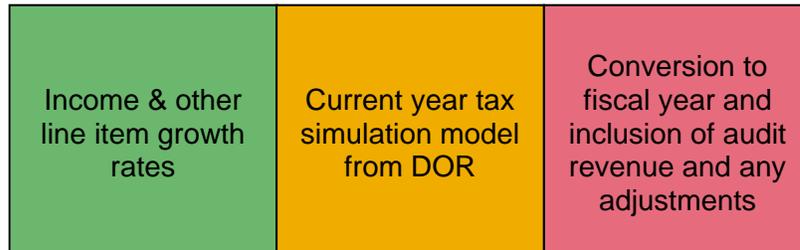
The individual income tax is levied against taxable income, which is defined as total Montana income adjusted for exemptions and deductions. In 2013, full year resident income totaled \$23.8 billion. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. The tax rate on capital gains income is less than the tax rate on ordinary income by 2%. Wage income accounts for nearly two-thirds of total individual income, while withholding tax on wages accounts for about one-third of total general fund revenue.



The individual income tax estimating process contains three broad steps, which are illustrated in the diagram below. First, growth rates for each income type and other line items are developed—income streams are generally modeled on various IHS predictors, while many of the smaller addition, reduction or deduction items are forecast based on historical trend or an assumption of no growth.

Second, a tax simulation model produces a calendar year state tax liability forecast by applying the modeled growth rates to each resident taxpayer’s income and deduction items. The model is updated each year by the Department of Revenue (DOR) to incorporate the changes in federal and state tax law. The LFD estimate utilized the CY 2013 tax simulation model and CY 2013 taxpayer data provided by DOR as the basis for forecasted state tax liability.

Finally, fiscal year collections before audit, penalty, and interest income are modeled on total calendar year liability, and forecast fiscal year collections are then augmented by expected future audit, penalty and interest collections to produce the total individual income tax revenue estimate.



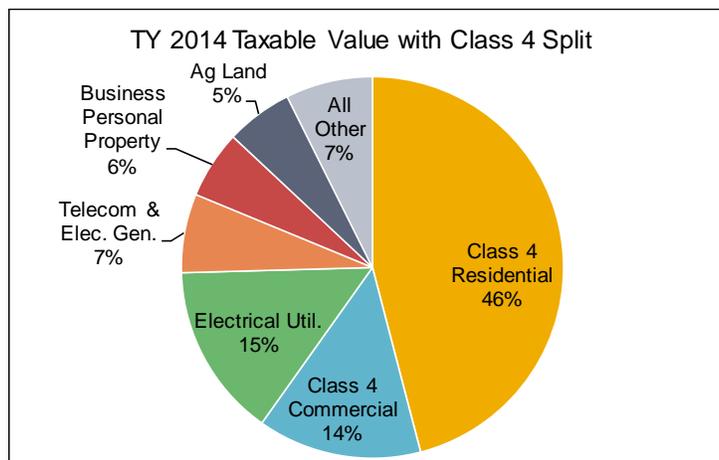
Executive Estimate

The executive estimate relied on the CY 2012 tax simulation model and CY 2013 taxpayer data. Each year DOR updates the tax simulation model to reflect changes in state and federal tax laws, and individualize it to a given tax year’s taxpayer data. Using current taxpayer data with a prior year’s model may lead to an incomplete assessment of state tax liability.

Property Tax

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate.

Agricultural land, timber land, and residential and commercial land values are reappraised every six years; all other property classes are reappraised annually. The 2014 reappraisal will be the basis for FY 2016 property tax. Further detail on whether the reappraisal may cause a budget pressure is highlighted in the Risks & Pressures section.

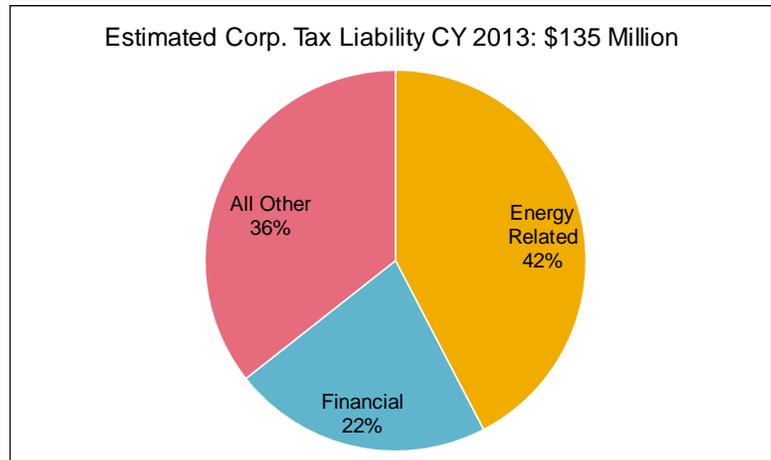


Corporation Income Tax

The corporation income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. The tax rate is 6.75%, except for corporations making a "water's edge" election (see [15-31-322, MCA](#)), who pay a 7.0% tax on their net income.

Financial and energy related sectors are the largest contributors to corporation income tax liability. Primary economic drivers of this source include oil prices, median house price, and retail sales.

Since several of the sector models rely on the IHS forecast of West Texas Intermediate (WTI) oil price, the IHS November downward revision has a significant impact on the LFD estimate of corporation income tax—resulting in a revenue reduction of about \$25 million over the three-year period.



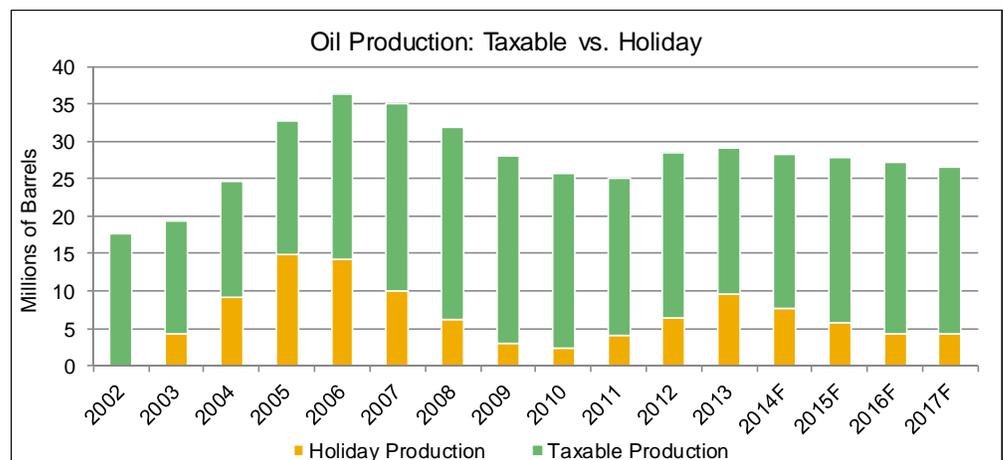
Executive Estimate

The executive forecast is based on a model using lagged U.S. corporate profits, while the legislative forecast takes a multi-sector approach using multiple economic variables to forecast various corporate sectors. The difference between the two approaches has been discussed extensively throughout the interim; for more information, see the report here: [Corporation Tax Estimating: Using Confidence Intervals to Minimize Forecasting Error](#).

Oil & Natural Gas Production Tax

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. The gross taxable value of oil and natural gas production is based on the type of well and type of production, and whether the production occurs within the tax holiday.

Oil production peaked in Montana in 2006 and fell 34% by 2011. Exploratory drilling in 2012 and 2013 resulted in an increase in production; the estimate assumes a gradual decline as the surge in exploratory drilling has tapered off.

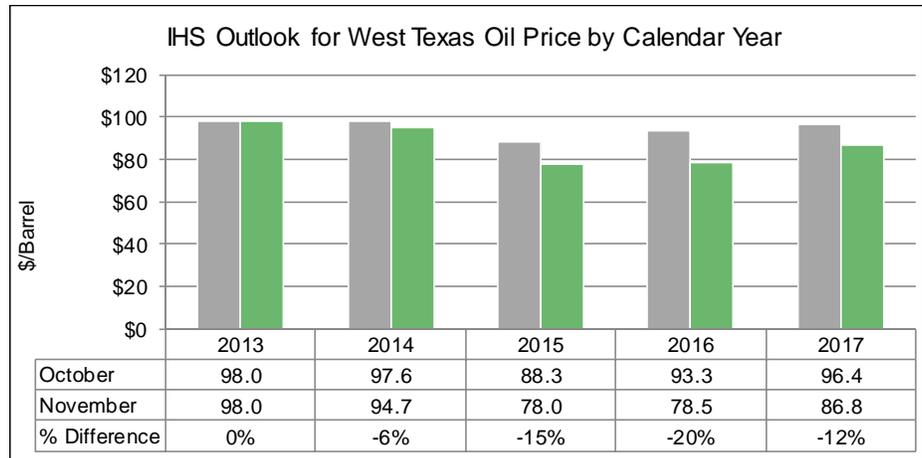


At the national level, lower oil prices tend to

correspond with a better economic outlook; manufacturing and transportation costs are lower, and consumers have more income to spend on goods and services. The impact on Montana revenue is more nuanced, however—although overall consumer activity may increase with lower prices, natural resource extraction and related industry activity may decline, resulting in lower individual, corporation and natural resource tax collections. Montana oil price tracks closely with West Texas Intermediate oil price, with an approximate 10% reduction to account for transportation costs.

Executive Estimate

The difference between the executive and legislative estimates of oil and natural gas production tax stemmed almost entirely from price difference in oil. The October IHS forecast had much higher estimates for oil prices than the November IHS forecast, which assumes the current price weakness is likely to continue. Due to timing of when estimates are published, this abnormally large price change affected the estimates greatly.



Legislative Options

While the legislative estimate for oil & natural gas production tax is closely tied to the IHS forecast of West Texas Intermediate (WTI) oil price and Henry Hub (HH) natural gas price, the tax committees may wish to explore options regarding the forecast of new drilling in the state. The RTIC estimate assumes an average of 10 oil drilling rigs per month throughout the forecast period. The adjacent table summarizes the revenue impact of assuming alternative drilling rig assumptions.

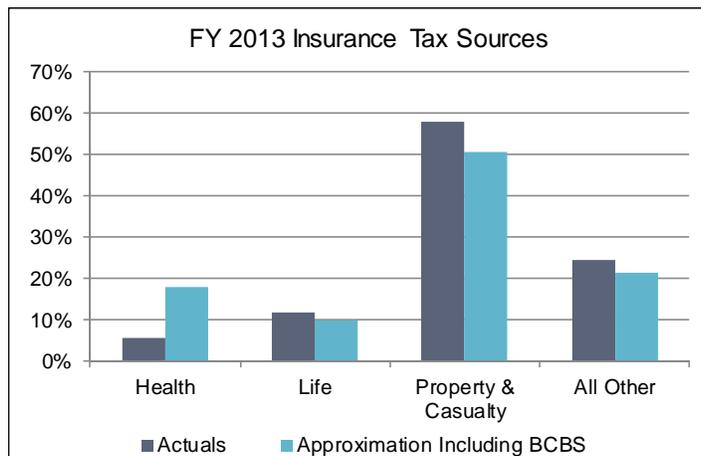
| General Fund Impact of Including Alternative Numbers of Oil Rigs (\$ Millions) | | | | |
|--|-----------|-----------|------------|--------------|
| Number of Rigs | FY 2015 | FY 2016 | FY 2017 | 3-Year Total |
| 0 | (\$0.018) | (\$5.294) | (\$11.080) | (\$16.392) |
| 5 | (0.846) | (2.647) | (5.540) | (9.033) |
| 10 | - | - | - | - |
| 20 | 1.692 | 5.294 | 11.080 | 18.066 |

Insurance Tax

The majority of insurance tax collections come from 2.75% of net premiums sold. There is an additional 2.5% levied on fire insurance premiums sold, and a number of small fees.

Two FY 2014 changes impacted this revenue source: Blue Cross and Blue Shield (BCBS) was bought out by Health Care Services Corporation (HCSC) at the beginning of FY 2014 under terms that made all of its policies taxable where they had previously been exempt; and the implementation of the Affordable Care Act.

The adjacent chart illustrates changing share of insurance tax sources with the inclusion of former BCBS premiums.

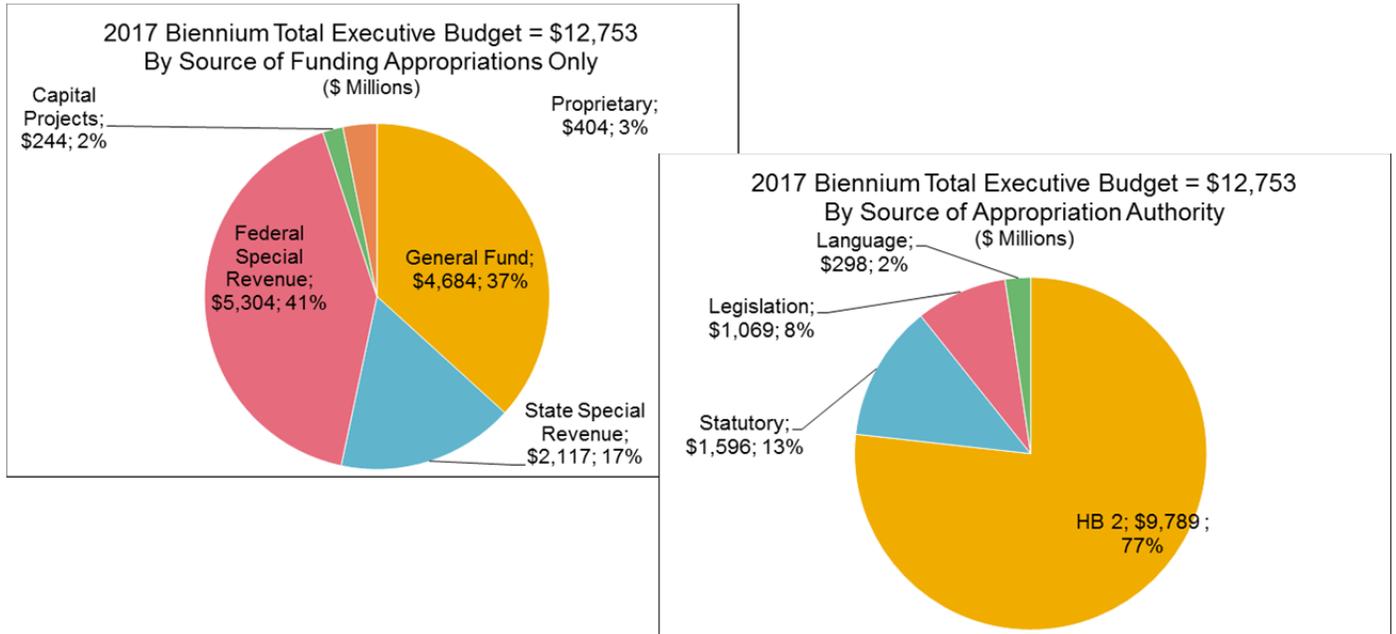


Although the RTIC estimate includes those who became insured during the ACA open enrollment last year, if there are additional enrollees in the upcoming years, revenues may increase slightly above the estimate.

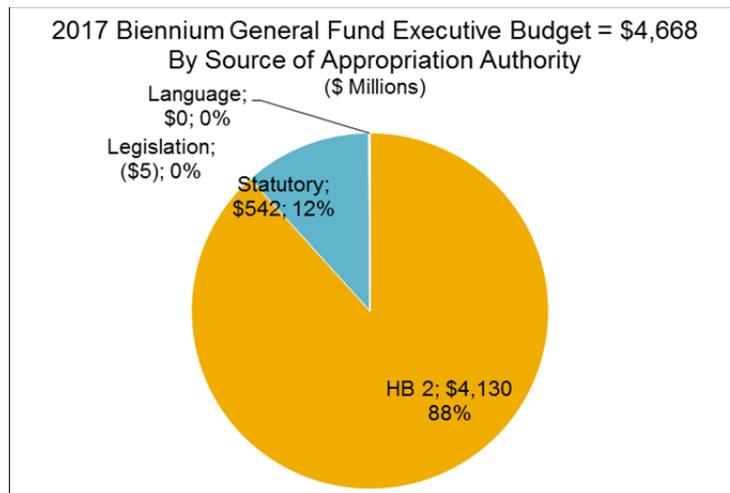
STATE EXPENDITURES

Overview: Executive Proposed Spending by Source of Authority

The following charts shows the executive budget broken down by source of authority (appropriation source) and funding. HB 2 dominates the appropriation sources for total funds, while federal funds are the largest funding source at 41%.



The figure below shows the general fund budget proposed by the executive by appropriation source of authority. Please note that “Legislation” includes Long-Range Planning.



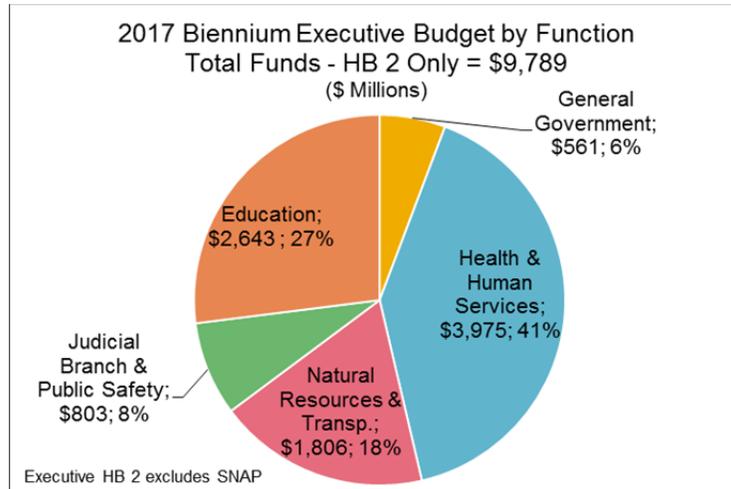
The following sections discuss the various components, beginning with HB 2.

HB 2 Funding

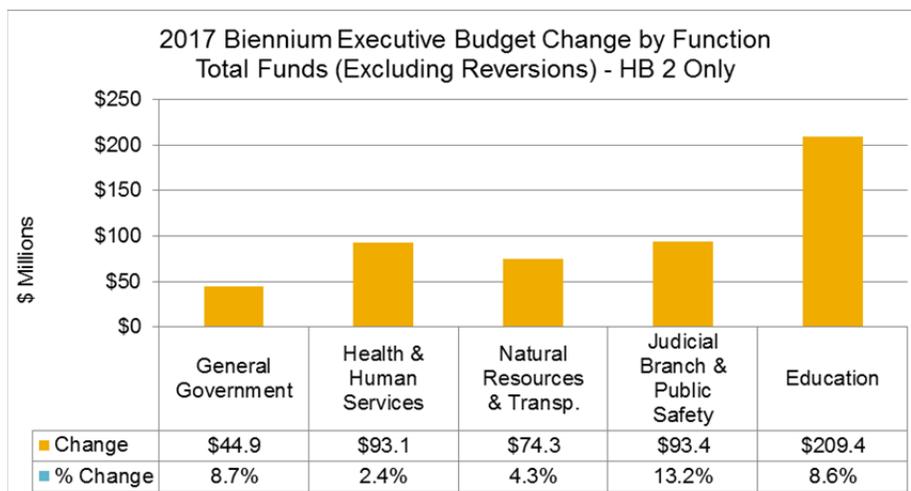
HB 2 is the general appropriations bill, in which about 95% of general fund and 77% of total funds would be appropriated in the 2017 biennium in the executive budget.

Funding by Functional Area

The following figures show the allocation of total funds in HB 2 by functional area and by source of funding. Education and human services account for almost 68% of the total, while federal funds are the largest funding source.



The following chart shows the changes between the 2015 and 2017 biennia in total funds HB 2 by functional area. Note that the preliminary Volume 1 compared the FY 2015 including biennial continuing appropriations. In order to tie to the agency tables in Volume 3-6, these charts do not include continuing appropriations. As a result, these percentage increases appear larger than in the preliminary document.



The following table shows total funding in HB 2 by agency, and compares each to the 2015 biennium. One-time-only (OTO) funds have been segregated from ongoing expenditures. The chart shows both the biennium-to-biennium change (“% Change”) without continuing biennials appropriations in the 2015 biennium, as well as the difference when compared from biennial appropriation to proposed

biennial appropriation (“Approp to Approp Change”). Please note that the 2015 biennium appropriations used to calculate the appropriation to appropriation change do not appear in the table except for at the bottom of the table in the after adjustments totals. The proposed change in funding for the federal Supplemental Nutrition Assistance Program (SNAP) is segregated to show the impact of the change without this factor; the proposed funding change is discussed following the table.

HB 2 Only - All Funds Agency Comparison
2015 versus 2017 Executive Proposed Budget
(\$ Millions)

| | 2014 Actuals (1) | 2015 Executive Budget (2) | 2016 Executive Request | 2017 Executive Request | % Change | Approp Change |
|--|---------------------|---------------------------------|------------------------------|------------------------------|-------------|------------------|
| Ongoing | | | | | | |
| Section A: General Government | | | | | | |
| 11040 Legislative Branch | \$12.832 | \$14.901 | \$15.254 | \$14.774 | 8.3% | 2.2% |
| 11120 Consumer Counsel | 1.321 | 1.454 | 1.450 | 1.464 | 5.1% | 1.9% |
| 31010 Governors Office | 5.882 | 6.166 | 6.653 | 6.604 | 10.0% | 5.6% |
| 32010 Secretary Of State's Office | - | - | - | - | 0.0% | 0.0% |
| 32020 Commissioner Of Political Practices | 0.490 | 0.517 | 0.680 | 0.671 | 34.3% | 33.3% |
| 34010 State Auditor's Office | 8.092 | 9.310 | 8.134 | 7.689 | -9.1% | -14.0% |
| 58010 Department Of Revenue | 54.375 | 55.835 | 58.877 | 58.465 | 6.5% | 6.1% |
| 61010 Department Of Administration | 16.019 | 17.809 | 23.093 | 21.274 | 31.2% | 25.8% |
| 65010 Department Of Commerce | 17.182 | 26.225 | 30.159 | 29.540 | 37.5% | 9.0% |
| 66020 Department Of Labor & Industry | 71.734 | 81.519 | 82.963 | 83.168 | 8.4% | 3.4% |
| 67010 Department Of Military Affairs | 38.463 | 43.374 | 48.668 | 48.692 | 19.0% | 10.4% |
| Section B: Health & Human Services | | | | | | |
| 69020 Economic Security Services Branch* | 418.040 | 448.569 | 252.042 | 254.972 | -41.5% | -43.2% |
| 69040 Directors Office | 6.848 | 4.765 | 5.769 | 5.780 | -0.6% | 45.9% |
| 69060 Operations Services Branch | 46.033 | 52.432 | 50.779 | 50.101 | 2.5% | -3.9% |
| 69070 Public Health & Safety | 61.133 | 66.164 | 64.115 | 64.115 | 0.7% | -2.9% |
| 69110 Medicaid And Health Services Branch | 1,339.740 | 1,431.038 | 1,562.392 | 1,662.318 | 16.4% | 15.7% |
| Section C: Natural Resources & Transp | | | | | | |
| 52010 Department Of Fish, Wildlife & Parks | 72.806 | 78.175 | 85.747 | 85.694 | 13.6% | 10.8% |
| 53010 Department Of Environmental Quality | 49.465 | 58.257 | 62.058 | 62.070 | 15.2% | 7.7% |
| 54010 Department Of Transportation | 618.120 | 679.269 | 657.639 | 651.048 | 0.9% | -3.6% |
| 56030 Department Of Livestock | 9.971 | 10.438 | 12.250 | 12.209 | 19.8% | 19.0% |
| 57060 Department Of Natural Resources & Con: | 56.259 | 59.100 | 64.895 | 64.989 | 12.6% | 9.3% |
| 62010 Department Of Agriculture | 15.752 | 17.779 | 17.993 | 17.940 | 7.2% | 2.1% |
| Section D: Judicial Br. Law Enf & Justice | | | | | | |
| 21100 Judicial Branch | 38.909 | 42.034 | 45.173 | 45.086 | 11.5% | 9.5% |
| 41070 Crime Control Division | 7.965 | 8.646 | 8.139 | 8.139 | -2.0% | -5.6% |
| 41100 Department Of Justice | 84.361 | 89.337 | 98.471 | 99.190 | 13.8% | 12.3% |
| 42010 Public Service Commission | 3.610 | 3.869 | 4.251 | 4.028 | 10.7% | 7.5% |
| 61080 Office Of The Public Defender | 26.705 | 25.540 | 34.021 | 34.249 | 30.7% | 26.1% |
| 64010 Department Of Corrections | 186.140 | 188.053 | 210.057 | 211.329 | 12.6% | 11.1% |
| Section E: Education | | | | | | |
| 35010 Office Of Public Instruction | 883.560 | 921.928 | 975.675 | 987.492 | 8.7% | 9.9% |
| 51010 Board Of Public Education | 0.285 | 0.384 | 0.389 | 0.374 | 14.1% | -1.2% |
| 51020 Commissioner Of Higher Ed | 272.101 | 292.800 | 311.678 | 311.669 | 10.3% | 8.6% |
| 51130 School For The Deaf & Blind | 6.741 | 7.093 | 7.303 | 7.272 | 5.4% | 4.4% |
| 51140 Montana Arts Council | 1.415 | 1.429 | 1.464 | 1.443 | 2.2% | 1.8% |
| 51150 Montana State Library | 5.609 | 5.320 | 6.500 | 5.422 | 9.1% | 2.1% |
| 51170 Montana Historical Society | 5.109 | 5.163 | 5.682 | 5.641 | 10.2% | 7.9% |
| Ongoing Subtotal | 4,443.065 | 4,754.691 | 4,820.412 | 4,924.915 | 6.0% | 4.1% |
| One Time Only | | | | | | |
| Section A: General Government | 15.021 | 17.911 | 9.165 | 3.929 | -60.2% | -63.0% |
| Section B: Health & Human Services | 0.501 | 7.179 | 1.517 | 1.450 | -61.4% | -78.2% |
| Section C: Natural Resources & Transp | 2.886 | 3.519 | 5.788 | 5.780 | 80.6% | 31.9% |
| Section D: Judicial Br. Law Enf & Justice | 2.716 | 1.973 | 0.546 | 0.564 | -76.3% | -77.8% |
| Section E: Education | 8.960 | 15.773 | 7.552 | 7.527 | -39.0% | -54.2% |
| One-Time-Only Subtotal | 30.085 | 46.354 | 24.568 | 19.250 | -42.7% | -54.2% |
| Total Submitted HB 2 Before Adjustments | 4,473.150 | 4,801.045 | 4,844.980 | 4,944.165 | 5.6% | |
| Reversions and Other Adjustments (3) | 184.057 | -5.306 | | | | |
| Total Submitted HB 2 After Adjustments | \$4,657.206 | \$4,795.739 | \$4,850.499 | \$4,951.071 | | 3.7% |
| *SNAP moved to statutory approp | | | 181.958 | 181.958 | | |
| Total Submitted HB 2 with SNAP Before Adjustments | | | 5,026.938 | 5,126.123 | 9.5% | |
| Total Submitted HB 2 with SNAP After Adjustments | | | \$5,032.457 | \$5,133.029 | | 7.5% |

(1) FY 2014 contains actual expenditures as contained in IBARS
(2) Does not include FY 2015 continuing biennial appropriations and OTO are separated
(3) Under certain laws, agencies have the authority to move appropriations between years. Growth can be greater than the approp to approp comparison when agencies revert (or do not spend) appropriated level of funding in FY 2014.

Type of Funding

The largest source of funding for HB 2 operations of state government is federal funds at 42.3% of the total, followed by general fund at 42.1%. Federal funds decrease and general fund increases as a percentage of the budget compared to the previous biennium primarily for two reasons:

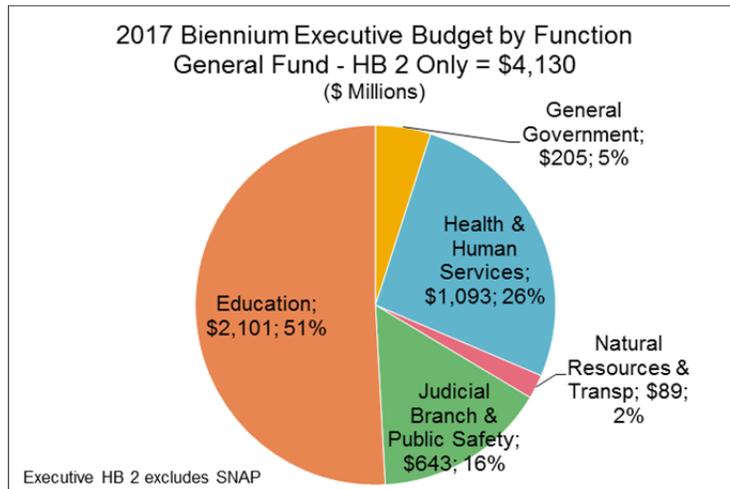
- The executive recommends that a large federally funded function (SNAP) be appropriated in a statutory appropriation, reducing federal funds in HB 2 by \$363.9 million in the 2017 biennium
- General fund would increase at a higher rate not only than federal funds, but of state special revenue as well, further increasing its share compared to other sources

If the impact of the proposed change in SNAP funding was removed, federal funds would be 44.3% of the budget and general fund 40.6%.

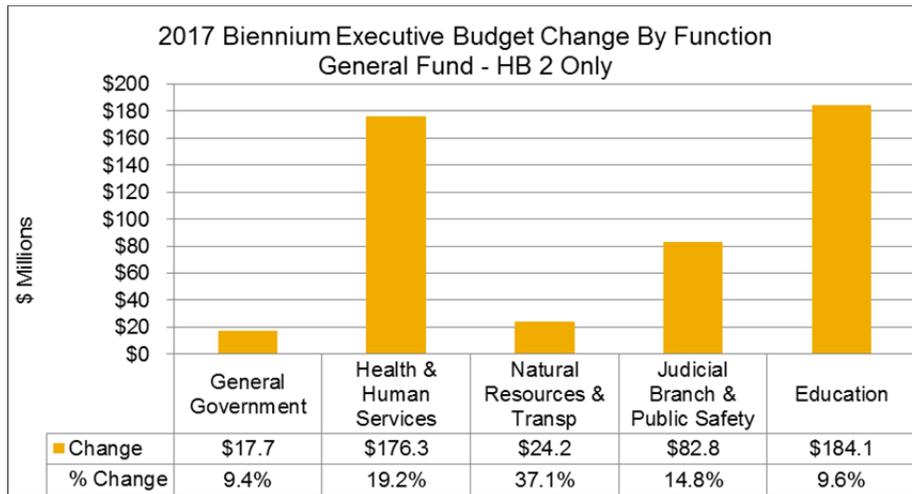
The four primary funding sources in HB 2—general fund, state special revenue, federal funds, and budgeted proprietary funds—are discussed in the following subsections.

General Fund

The following chart shows total HB 2 general fund expenditures as proposed by the executive, by government functional area. Education, human services, and judicial branch and public safety are 93% of the total proposed expenditures.



The following chart shows the total increases from the 2015 biennium, by functional area. As shown, the increases are dominated by human services and education. Note that the preliminary Volume 1 compared the FY 2015 including biennial continuing appropriations. In order to tie to the agency tables in Volume 3-6, these charts do not include continuing appropriations. As a result, these percentage increases appear larger than in the preliminary document.



Ongoing Expenditures

The Governor would increase ongoing general fund expenditures by over \$500 million, or 14%. Increases for human services, the public defender, corrections, and K-12 education are over 87% of the total increase. Major present law increases and policy proposals include:

- Caseloads and/or population increases in Medicaid and other human services programs, corrections, the public defender, and K-12 education (including all costs associated with SB 175 from the 2013 legislative session)
- Changes in FMAP (the percent of Medicaid expenses paid by the federal government), which increases state costs
- Annualization of K-12 education costs, as well as K-12 inflation and SB 96 block grants
- Funding various present law increases in the Montana University System (MUS) 46% in FY 2016 and 40% in FY 2017
- All personal services (including to implement the direction in the 2015 biennium HB 2 that FTE reflect the personal services budget), including annualization of all stepped in costs of the 2015 biennium pay plan as negotiated by the Governor and elimination of the additional 2% vacancy savings rate adopted by the 2013 Legislature

The Governor is recommending almost \$110 million in ongoing new proposals. Significant new proposals include:

- A 2% provider rate increase in human services and corrections, as well as a direct care worker wage increase and a per-diem increase at the Shelby prison - \$27.9 million
- Pre-Kindergarten - \$37.0 million
- The “First Step” initiative and other mental health proposals - \$14.0 million
- Autism services - \$4.3 million
- Student assistance fund allocation in the MUS - \$5.2 million
- Water Court and Conservation Districts fund switches - \$3.4 million

One-Time-Only

The Governor proposes \$42 million in OTO appropriations. Significant OTO new proposals include:

- Research in the Montana University and activities in the Department of Commerce for economic development - \$20.5 million
- A sage grouse conservation fund - \$10.0 million
- Bridge funding for the Insure Montana program in the Office of the State Auditor - \$4.7 million

The next figure shows general fund appropriations by agency compared to the 2015 biennium. The notes preceding the All Funds table apply to this table as well.

**HB 2 Only - General Fund Agency Comparison
2015 versus 2017 Executive Proposed Budget
(\$ Millions)**

| | 2014 Actuals (1) | 2015 Executive Budget (2) | 2016 Executive Request | 2017 Executive Request | % Change | Approp to Approp Change |
|--|---------------------|---------------------------------|------------------------------|------------------------------|--------------|-------------------------------|
| Ongoing | | | | | | |
| Section A: General Government | | | | | | |
| 11040 Legislative Branch | \$10.615 | \$12.754 | \$12.661 | \$12.736 | 8.7% | 3.0% |
| 31010 Governors Office | 5.882 | 6.158 | 6.653 | 6.604 | 10.1% | 5.7% |
| 32020 Commissioner Of Political Practices | 0.490 | 0.517 | 0.680 | 0.671 | 34.3% | 33.3% |
| 58010 Department Of Revenue | 50.016 | 51.523 | 54.067 | 53.927 | 6.4% | 6.2% |
| 61010 Department Of Administration | 5.131 | 5.368 | 8.319 | 8.173 | 57.1% | 56.0% |
| 65010 Department Of Commerce | 3.455 | 2.037 | 5.371 | 4.986 | 88.6% | 65.8% |
| 66020 Department Of Labor & Industry | 1.347 | 1.446 | 2.485 | 2.484 | 77.9% | 77.7% |
| 67010 Department Of Military Affairs | 5.703 | 6.087 | 6.456 | 6.475 | 9.7% | 7.3% |
| Section B: Health & Human Services | | | | | | |
| 69020 Economic Security Services Branch | 75.249 | 79.740 | 80.199 | 81.963 | 4.6% | 3.4% |
| 69040 Directors Office | 3.128 | 2.030 | 2.595 | 2.601 | 0.7% | 49.9% |
| 69060 Operations Services Branch | 16.921 | 18.203 | 18.835 | 18.667 | 6.8% | 3.1% |
| 69070 Public Health & Safety | 3.672 | 3.961 | 3.865 | 3.864 | 1.2% | -1.8% |
| 69110 Medicaid And Health Services Branch | 346.953 | 364.985 | 421.396 | 455.870 | 23.2% | 23.4% |
| Section C: Natural Resources & Transp | | | | | | |
| 52010 Department Of Fish, Wildlife & Parks | - | - | 1.628 | 1.533 | | |
| 53010 Department Of Environmental Quality | 5.303 | 5.508 | 5.761 | 5.762 | 6.6% | 6.0% |
| 56030 Department Of Livestock | 0.984 | 1.029 | 2.536 | 2.537 | 151.9% | 150.6% |
| 57060 Department Of Natural Resources & Con: | 23.638 | 24.793 | 28.300 | 28.379 | 17.0% | 15.9% |
| 62010 Department Of Agriculture | 0.969 | 0.986 | 1.237 | 1.193 | 24.3% | 22.5% |
| Section D: Judicial Br. Law Enf & Justice | | | | | | |
| 21100 Judicial Branch | 36.437 | 39.259 | 43.457 | 43.366 | 14.7% | 12.8% |
| 41070 Crime Control Division | 2.344 | 2.411 | 2.484 | 2.484 | 4.5% | 3.7% |
| 41100 Department Of Justice | 29.279 | 30.305 | 35.357 | 35.525 | 19.0% | 18.5% |
| 61080 Office Of The Public Defender | 26.443 | 25.266 | 33.760 | 33.988 | 31.0% | 26.4% |
| 64010 Department Of Corrections | 181.629 | 182.014 | 204.954 | 206.228 | 13.1% | 11.9% |
| Section E: Education | | | | | | |
| 35010 Office Of Public Instruction | 712.686 | 745.170 | 798.443 | 808.917 | 10.3% | 12.4% |
| 51010 Board Of Public Education | 0.119 | 0.207 | 0.208 | 0.194 | 23.2% | -4.9% |
| 51020 Commissioner Of Higher Ed | 202.293 | 214.088 | 224.934 | 224.946 | 8.0% | 7.8% |
| 51130 School For The Deaf & Blind | 6.416 | 6.759 | 6.978 | 6.947 | 5.7% | 4.8% |
| 51140 Montana Arts Council | 0.494 | 0.493 | 0.514 | 0.507 | 3.3% | 3.3% |
| 51150 Montana State Library | 2.882 | 2.954 | 3.073 | 3.057 | 5.0% | 4.8% |
| 51170 Montana Historical Society | <u>3.088</u> | <u>3.060</u> | <u>3.516</u> | <u>3.475</u> | <u>13.7%</u> | <u>10.5%</u> |
| Subtotal | 1,763.567 | 1,839.108 | 2,020.721 | 2,068.055 | 13.5% | 14.0% |
| One Time Only | | | | | | |
| Section A: General Government | 6.427 | 11.988 | 8.275 | 3.574 | -35.7% | -41.1% |
| Section B: Health & Human Services | 0.380 | 1.263 | 1.517 | 1.450 | 80.6% | 37.8% |
| Section C: Natural Resources & Transp | 1.040 | 1.039 | 5.313 | 5.313 | 411.2% | 408.7% |
| Section D: Judicial Br. Law Enf & Justice | 2.440 | 1.973 | 0.500 | 0.500 | -77.3% | -78.9% |
| Section E: Education | <u>8.354</u> | <u>7.603</u> | <u>7.552</u> | <u>7.527</u> | <u>-5.5%</u> | <u>-9.1%</u> |
| Subtotal | 18.641 | 23.866 | 23.157 | 18.364 | -2.3% | -9.1% |
| Total before adjustments | 1,782.208 | 1,862.974 | 2,043.878 | 2,086.419 | 13.3% | |
| Reversions and Other Adjustments (3) | -4.695 | -6.816 | | | | |
| Grand Total | \$1,777.513 | \$1,856.158 | \$2,043.878 | \$2,086.419 | | 13.7% |

(1) FY 2014 contains actual expenditures as contained in IBARS

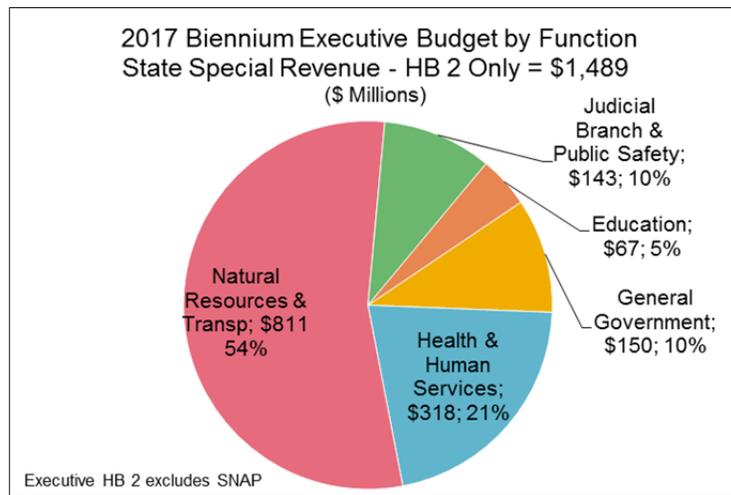
(2) Does not include FY 2015 continuing biennial appropriations and OTO are separated

(3) Under certain laws, agencies have the authority to move appropriations between years. Growth can be greater than the approp to approp comparison when agencies revert (or do not spend) appropriated level of funding in FY 2014.

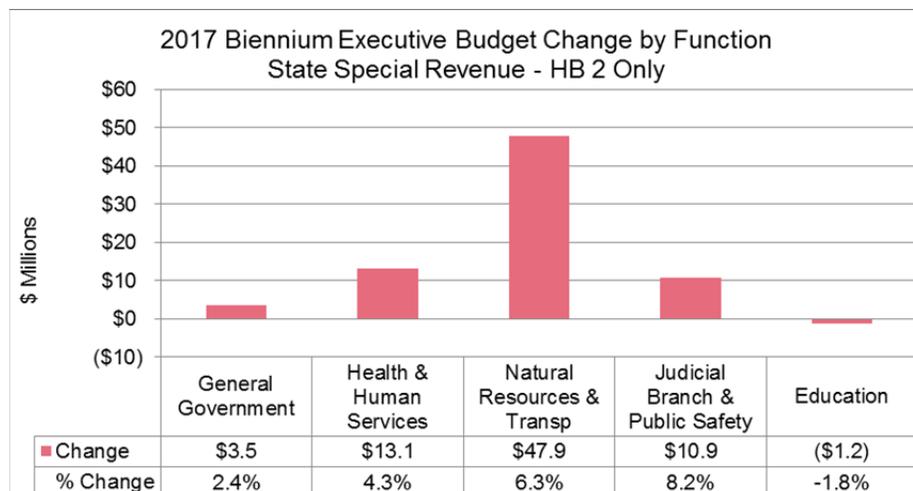
General fund new proposals and present law adjustments are discussed in more detail in Volumes 3-6 of the 2017 Biennium LFD Budget Analysis, and are summarized more fully in Appendix B located online. Each of the OTO proposals is explained more fully in Volumes 3-6, along with any analysis comments or issues.

State Special Revenue

State special revenue is earmarked for specific purposes and totals \$1,488.8 million or 15.2% of total proposed expenditures in the 2017 biennium in HB 2. The following figure shows total state special revenues by function for HB 2 only.



The following shows the proposed change from the previous biennium, by function of state government. The executive budget would add \$74.2 million for a 5.2% increase. Note that the preliminary Volume 1 compared the FY 2015 including biennial continuing appropriations. In order to tie to the agency tables in Volume 3-6, these charts do not include continuing appropriations. As a result, these percentage increases appear larger than the preliminary document.



The executive budget would increase ongoing expenditures by \$91 million or 6.6% from actual and appropriated or 3.2% from the previous appropriated level. Major policy adjustments proposed include the following:

- o Annualization of personal services costs, including all stepped in costs of the 2015 biennium pay plan as negotiated by the Governor and elimination of the additional 2% vacancy savings rate adopted by the 2013 Legislature
- o A tobacco use prevention program in DPHHS

- Caseload and utilization increases in Medicaid and Healthy Montana Kids
- Various adjustments in Fish, Wildlife, and Parks, the Department of Environmental Quality, and the Department of Natural Resources and Conservation (DNRC)
- Costs of issuance of new license plates and for drivers' license related services in the Department of Justice

Ongoing new proposals show a reduction, primarily due to several funding shifts to the general fund, including a portion of the water court, the diagnostic lab in the Department of Livestock, and the Conservation and Resource Development Division in DNRC.

One-Time-Only

Proposed OTO expenditures are \$0.8 million and consist of several positive and negative adjustments, the largest of which is a state water project dam analysis in DNRC.

The next figure compares state special revenue appropriations by agency in the proposed 2017 biennium budget to the 2015 biennium. The notes preceding the All Funds table apply to this table as well.

| HB 2 Only - State Special Revenue Fund Agency Comparison 2015 versus 2017 Executive Proposed Budget (\$ Millions) | | | | | | |
|---|---------------------|---------------------------------|------------------------------|------------------------------|---------------|-------------------------------|
| | 2014 Actuals (1) | 2015 Executive Budget (2) | 2016 Executive Request | 2017 Executive Request | % Change | Approp to Approp Change |
| Ongoing | | | | | | |
| Section A: General Government | | | | | | |
| 11040 Legislative Branch | \$2.217 | \$2.148 | \$2.593 | \$2.038 | 6.1% | -1.9% |
| 11120 Consumer Counsel | 1.321 | 1.454 | 1.450 | 1.464 | 5.1% | 1.9% |
| 31010 Governors Office | - | 0.008 | - | - | -100.0% | -100.0% |
| 34010 State Auditor's Office | 8.092 | 9.310 | 8.134 | 7.689 | -9.1% | -14.0% |
| 58010 Department Of Revenue | 1.120 | 1.079 | 1.252 | 1.042 | 4.3% | -2.6% |
| 61010 Department Of Administration | 5.843 | 6.326 | 6.953 | 6.883 | 13.7% | 11.0% |
| 65010 Department Of Commerce | 3.188 | 6.307 | 6.493 | 6.452 | 36.3% | -0.5% |
| 66020 Department Of Labor & Industry | 40.595 | 41.848 | 47.627 | 47.820 | 15.8% | 15.5% |
| 67010 Department Of Military Affairs | 0.688 | 1.064 | 0.761 | 0.758 | -13.3% | -29.8% |
| Section B: Health & Human Services | | | | | | |
| 69020 Economic Security Services Branch | 5.640 | 6.893 | 5.813 | 5.815 | -7.2% | -16.6% |
| 69040 Directors Office | 0.747 | 0.587 | 0.626 | 0.626 | -6.2% | 49.0% |
| 69060 Operations Services Branch | 2.529 | 2.520 | 2.810 | 2.853 | 12.2% | 13.5% |
| 69070 Public Health & Safety | 16.292 | 16.847 | 18.152 | 18.156 | 9.6% | 8.1% |
| 69110 Medicaid And Health Services Branch | 121.720 | 130.699 | 129.947 | 133.039 | 4.2% | 1.9% |
| Section C: Natural Resources & Transp | | | | | | |
| 52010 Department Of Fish, Wildlife & Parks | 54.377 | 58.113 | 61.090 | 61.128 | 8.6% | 6.2% |
| 53010 Department Of Environmental Quality | 25.977 | 31.821 | 32.016 | 32.023 | 10.8% | 1.5% |
| 54010 Department Of Transportation | 234.078 | 248.683 | 254.620 | 254.897 | 5.5% | 2.3% |
| 56030 Department Of Livestock | 7.608 | 7.962 | 7.949 | 7.907 | 1.8% | 1.1% |
| 57060 Department Of Natural Resources & Con: | 30.745 | 32.307 | 34.328 | 34.339 | 8.9% | 4.2% |
| 62010 Department Of Agriculture | 13.275 | 14.041 | 14.950 | 14.942 | 9.4% | 7.7% |
| Section D: Judicial Br. Law Enf & Justice | | | | | | |
| 21100 Judicial Branch | 2.352 | 2.649 | 1.596 | 1.600 | -36.1% | -38.7% |
| 41070 Crime Control Division | 0.113 | 0.153 | 0.127 | 0.127 | -4.3% | -16.6% |
| 41100 Department Of Justice | 52.219 | 56.032 | 60.076 | 60.627 | 11.5% | 9.5% |
| 42010 Public Service Commission | 3.537 | 3.786 | 4.178 | 3.955 | 11.1% | 7.8% |
| 61080 Office Of The Public Defender | 0.262 | 0.274 | 0.262 | 0.262 | -2.3% | -5.7% |
| 64010 Department Of Corrections | 4.444 | 5.960 | 4.995 | 4.995 | -4.0% | -16.0% |
| Section E: Education | | | | | | |
| 35010 Office Of Public Instruction | 9.615 | 10.305 | 9.657 | 9.657 | -3.0% | -7.6% |
| 51010 Board Of Public Education | 0.165 | 0.177 | 0.181 | 0.181 | 5.5% | 3.4% |
| 51020 Commissioner Of Higher Ed | 20.447 | 21.006 | 20.711 | 20.710 | -0.1% | -0.2% |
| 51130 School For The Deaf & Blind | 0.256 | 0.263 | 0.256 | 0.256 | -1.5% | -2.8% |
| 51140 Montana Arts Council | 0.223 | 0.223 | 0.235 | 0.229 | 4.0% | 4.0% |
| 51150 Montana State Library | 1.738 | 1.801 | 1.748 | 1.741 | -1.4% | -3.1% |
| 51170 Montana Historical Society | <u>0.712</u> | <u>0.714</u> | <u>0.722</u> | <u>0.722</u> | <u>1.2%</u> | <u>1.2%</u> |
| Subtotal | 672.135 | 723.361 | 742.307 | 744.934 | 6.6% | 3.2% |
| One Time Only | | | | | | |
| Section A: General Government | 8.227 | 5.569 | 0.250 | 0.250 | -96.4% | -96.6% |
| Section B: Health & Human Services | 0.068 | 0.151 | - | - | -100.0% | -100.0% |
| Section C: Natural Resources & Transp | 1.801 | 2.433 | 0.475 | 0.467 | -77.8% | -85.2% |
| Section D: Judicial Br. Law Enf & Justice | 0.277 | - | 0.046 | 0.064 | -60.2% | -60.2% |
| Section E: Education | <u>0.300</u> | <u>0.300</u> | - | - | -100.0% | -100.0% |
| Subtotal | 10.673 | 8.454 | 0.771 | 0.781 | <u>-91.9%</u> | <u>-93.0%</u> |
| Total before adjustments | 682.809 | 731.814 | 743.078 | 745.715 | 5.2% | |
| Reversions and Other Adjustments (3) | 48.562 | -0.640 | | | | |
| Grand Total | \$731.371 | \$731.175 | \$743.078 | \$745.715 | | 1.8% |

(1) FY 2014 contains actual expenditures as contained in IBARS

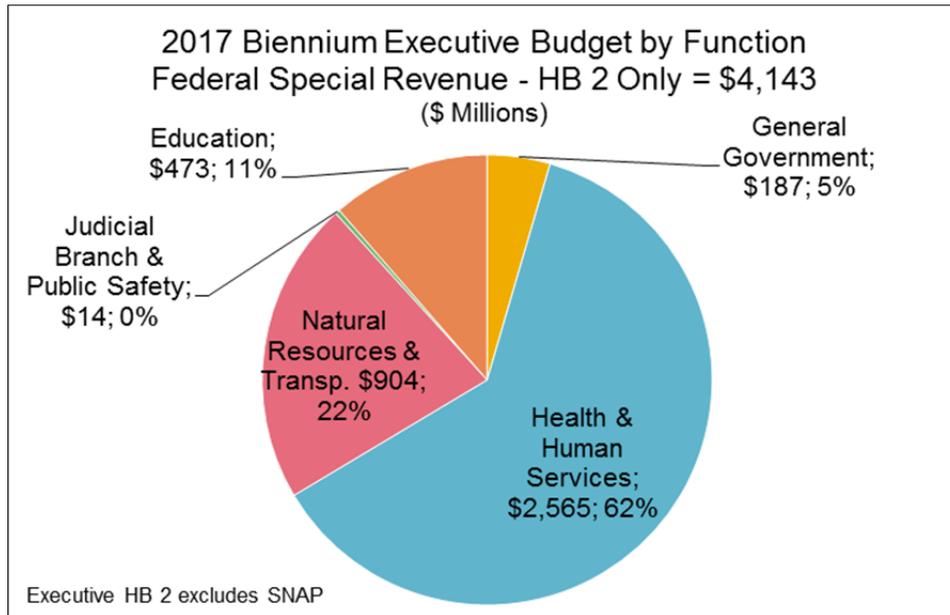
(2) Does not include FY 2015 continuing biennial appropriations and OTO are separated

(3) Under certain laws, agencies have the authority to move appropriations between years. Growth can be greater than the approp to approp comparison when agencies revert (or do not spend) appropriated level of funding in FY 2014.

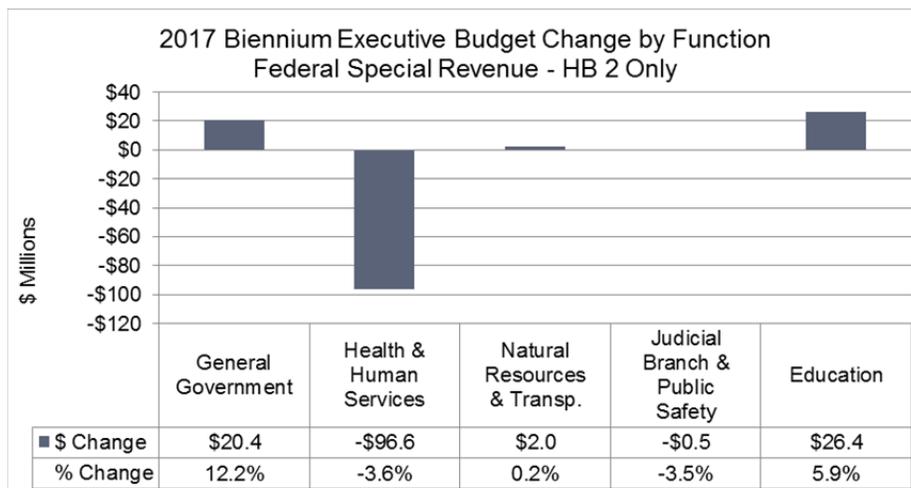
State special revenue new proposals and present law adjustments are discussed in more detail in Volumes 3-6 of the 2017 Biennium LFD Budget Analysis, and are summarized more fully in Appendix B located online. Each of the OTO proposals is explained more fully in Volumes 3-6, along with any analysis comments or issues.

Federal Funds

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. It totals \$4,142.6 million or 42.3% of total proposed expenditures in the 2017 biennium. This figure is the net of the Governor’s proposal to move SNAP benefits from HB 2 to a statutory appropriation. If this proposal was not included, federal funds would comprise 44.3% of proposed expenditures, and would increase by \$315.6 million or 7.5% from actual and appropriated or 4.0% from the previous appropriated level.



The following shows the proposed change in funding compared to the 2015 biennium. Please note that the figure includes the proposed change in SNAP funding, which results in an overall decrease of \$48.3 million or 1.2%. Note that the preliminary Volume 1 compared the FY 2015 including biennial continuing appropriations. In order to tie to the agency tables in Volume 3-6, these charts do not include continuing appropriations. As a result, these percentage increases appear larger than in the preliminary document.



Ongoing Expenditures

The executive proposes multiple increases over numerous agencies, with some offsetting reductions. The major increases include the following:

- Caseload increases in Medicaid and other human services programs such as foster care
- Provider rate and direct care worker wage increases in human services and corrections
- Expanded autism services
- A new proposal for unexploded ordnance in the Department of Military Affairs
- Various increases for the Guaranteed Student Loan Program in the Commissioner of Higher Education
- Federal grant and administrative cost adjustments in various agencies
- A taxiway for the Yellowstone airport
- Annualization of personal services costs, including all stepped in costs of the 2015 biennium pay plan as negotiated by the Governor and elimination of the additional 2% vacancy savings rate adopted by the 2013 Legislature

These increases are partially offset by three major reductions:

- The proposed elimination of the HB 2 appropriation for SNAP (food stamp) benefits and establishment of a statutory appropriation for this purpose
- A reduction in the percentage of Medicaid benefit costs (FMAP) the federal government will pay, requiring the state to pay a higher share
- The budget overestimated the FY 2015 amount of funds the state would receive through the federal MAP-21 program in the Department of Transportation. The 2017 biennium budget is based on the lower estimated revenues primarily in construction

One-Time-Only

The only federally funded OTO appropriation recommended by the Governor is to spend interest income from the Help America Vote Act funds.

The next figure compares federal funds by agency in the proposed 2017 biennium budget to the 2015 biennium. The change in SNAP funding is segregated. The notes preceding the All Funds table apply to this table as well.

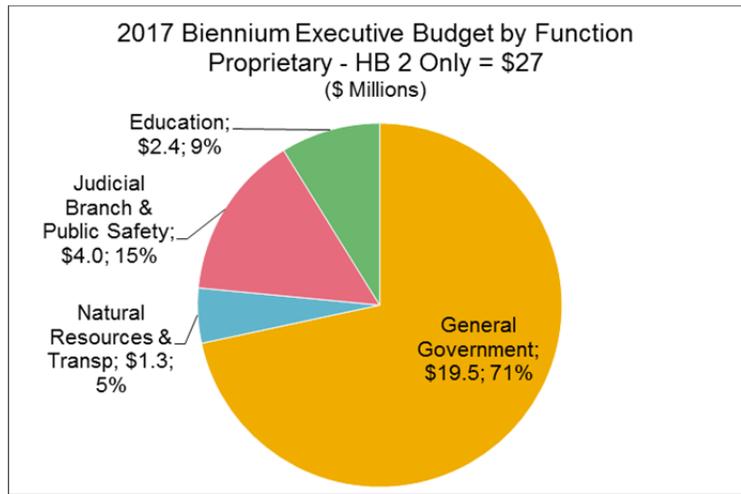
| HB 2 Only - Federal Special Revenue Fund Agency Comparison 2015 versus 2017 Executive Proposed Budget (\$ Millions) | | | | | | |
|---|---------------------|---------------------------------|------------------------------|------------------------------|----------------|-------------------------------|
| | 2014 Actuals (1) | 2015 Executive Budget (2) | 2016 Executive Request | 2017 Executive Request | % Change | Approp to Approp Change |
| Ongoing | | | | | | |
| Section A: General Government | | | | | | |
| 32010 Secretary Of State's Office | \$0.000 | \$0.000 | \$0.000 | \$0.000 | 0.0% | 0.0% |
| 58010 Department Of Revenue | 0.250 | 0.268 | 0.241 | 0.241 | -6.8% | -8.1% |
| 61010 Department Of Administration | 0.019 | 0.947 | 1.558 | 0.101 | 71.7% | -12.4% |
| 65010 Department Of Commerce | 10.538 | 17.881 | 18.294 | 18.102 | 28.1% | 2.5% |
| 66020 Department Of Labor & Industry | 29.792 | 38.225 | 32.850 | 32.863 | -3.4% | -12.7% |
| 67010 Department Of Military Affairs | 32.072 | 36.224 | 41.451 | 41.459 | 21.4% | 12.1% |
| Section B: Health & Human Services | | | | | | |
| 69020 Economic Security Services Branch* | 337.151 | 361.937 | 166.031 | 167.194 | -52.3% | -53.8% |
| 69040 Directors Office | 2.973 | 2.148 | 2.548 | 2.553 | -0.4% | 41.4% |
| 69060 Operations Services Branch | 26.583 | 31.709 | 29.135 | 28.581 | -1.0% | -9.2% |
| 69070 Public Health & Safety | 41.168 | 45.356 | 42.098 | 42.095 | -2.7% | -7.0% |
| 69110 Medicaid And Health Services Branch | 871.067 | 935.354 | 1,011.048 | 1,073.409 | 15.4% | 14.7% |
| Section C: Natural Resources & Transp | | | | | | |
| 52010 Department Of Fish, Wildlife & Parks | 18.429 | 20.062 | 23.029 | 23.033 | 19.7% | 16.4% |
| 53010 Department Of Environmental Quality | 18.184 | 20.927 | 24.282 | 24.286 | 24.2% | 17.7% |
| 54010 Department Of Transportation | 384.042 | 430.585 | 403.019 | 396.151 | -1.9% | -7.1% |
| 56030 Department Of Livestock | 1.379 | 1.447 | 1.766 | 1.766 | 25.0% | 24.1% |
| 57060 Department Of Natural Resources & Cont | 1.876 | 2.000 | 2.268 | 2.271 | 17.1% | 13.8% |
| 62010 Department Of Agriculture | 0.996 | 2.143 | 1.143 | 1.142 | -27.2% | -46.2% |
| Section D: Judicial Br. Law Enf & Justice | | | | | | |
| 21100 Judicial Branch | 0.120 | 0.126 | 0.120 | 0.120 | -2.6% | -3.8% |
| 41070 Crime Control Division | 5.508 | 6.082 | 5.528 | 5.528 | -4.6% | -9.0% |
| 41100 Department Of Justice | 1.087 | 1.149 | 1.152 | 1.152 | 3.0% | 1.4% |
| 42010 Public Service Commission | 0.073 | 0.083 | 0.073 | 0.073 | -6.2% | -6.2% |
| 64010 Department Of Corrections | 0.000 | 0.016 | 0.000 | 0.000 | -97.0% | -98.5% |
| Section E: Education | | | | | | |
| 35010 Office Of Public Instruction | 161.260 | 166.453 | 167.575 | 168.919 | 2.7% | 0.4% |
| 51020 Commissioner Of Higher Ed | 48.858 | 57.175 | 65.507 | 65.487 | 23.5% | 13.9% |
| 51130 School For The Deaf & Blind | 0.069 | 0.072 | 0.069 | 0.069 | -1.8% | -3.6% |
| 51140 Montana Arts Council | 0.698 | 0.713 | 0.715 | 0.707 | 0.9% | 0.0% |
| 51150 Montana State Library | 0.989 | 0.565 | 1.679 | 0.624 | 48.2% | 3.3% |
| 51170 Montana Historical Society | <u>0.736</u> | <u>0.775</u> | <u>0.769</u> | <u>0.769</u> | <u>1.8%</u> | <u>1.3%</u> |
| Subtotal | 1,995.918 | 2,180.422 | 2,043.946 | 2,098.696 | -0.8% | -3.8% |
| One Time Only | | | | | | |
| Section A: General Government | 0.367 | 0.353 | 0.105 | 0.105 | -70.8% | -71.3% |
| Section B: Health & Human Services | 0.053 | 5.765 | - | - | -100.0% | -100.0% |
| Section C: Natural Resources & Transp | 0.045 | 0.047 | - | - | -100.0% | -100.0% |
| Section D: Judicial Br. Law Enf & Justice | - | - | - | - | - | - |
| Section E: Education | <u>0.306</u> | <u>7.869</u> | - | - | <u>-100.0%</u> | <u>-100.0%</u> |
| Subtotal | 0.770 | 14.035 | 0.105 | 0.105 | -98.6% | -99.2% |
| Total Submitted HB 2 Before Adjustments | 1,996.688 | 2,194.456 | 2,044.051 | 2,098.801 | -1.2% | |
| Reversions and Other Adjustments (3) | 140.225 | 2.599 | | | | |
| Total Submitted HB 2 After Adjustments | \$2,136.913 | \$2,197.056 | \$2,044.051 | \$2,098.801 | | -4.4% |
| *SNAP moved to statutory approp | | | 181.958 | 181.958 | | |
| Total Submitted HB 2 with SNAP Before Adjustments | | | 2,226.009 | 2,280.759 | 7.5% | |
| Total Submitted HB 2 with SNAP After Adjustments | | | \$2,226.009 | \$2,280.759 | | 4.0% |
| (1) FY 2014 contains actual expenditures as contained in IBARS | | | | | | |
| (2) Does not include FY 2015 continuing biennial appropriations and OTO are separated | | | | | | |
| (3) Under certain laws, agencies have the authority to move appropriations between years. Growth can be greater than the approp to approp comparison when agencies revert (or do not spend) appropriated level of funding in FY 2014. | | | | | | |

Federally funded new proposals and present law adjustments are discussed in more detail in Volumes 3-6 of the 2017 Biennium LFD Budget Analysis, and are summarized more fully in Appendix B located online.

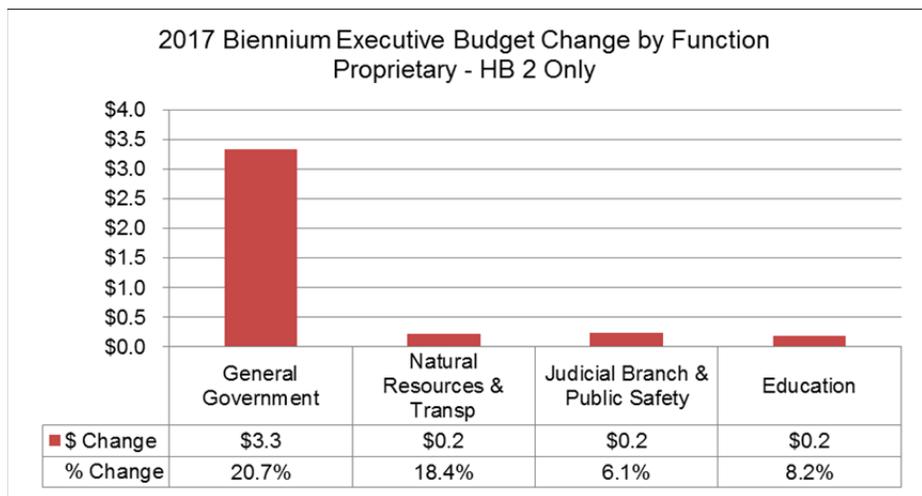
Proprietary

Proprietary funds are designated as either enterprise or internal service funds. Enterprise funds account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e. expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes ([17-2-102, MCA](#)). Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursed basis ([17-2-102, MCA](#)).

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds, which is the great majority, are not reflected in any of the figures. Rather, only those proprietary funds that are appropriated in HB 2 are reflected.



The most significant policy adjustments proposed by the Governor are in the Lottery Division in the Department of Administration for operating costs related to increased sales, and expenses related to gaming systems and terminals.



The next figure compares proprietary funds appropriated in HB 2 in the proposed 2017 biennium budget to the 2015 biennium, by agency.

| HB 2 Only - Proprietary Fund Agency Comparison 2015 versus 2017 Executive Proposed Budget (\$ Millions) | | | | | | |
|---|---------------------|---------------------------------|------------------------------|------------------------------|--------------|-------------------------------|
| | 2014 Actuals (1) | 2015 Executive Budget (2) | 2016 Executive Request | 2017 Executive Request | % Change | Approp to Approp Change |
| <u>Ongoing</u> | | | | | | |
| Section A: General Government | | | | | | |
| 58010 Department Of Revenue | \$2.989 | \$2.965 | \$3.316 | \$3.255 | 10.4% | 8.3% |
| 61010 Department Of Administration | 5.026 | 5.168 | 6.263 | 6.117 | 21.4% | 19.9% |
| Section C: Natural Resources & Transp | | | | | | |
| 62010 Department Of Agriculture | 0.512 | 0.610 | 0.664 | 0.664 | 18.4% | 10.6% |
| Section D: Judicial Br. Law Enf & Justice | | | | | | |
| 41100 Department Of Justice | 1.776 | 1.851 | 1.886 | 1.887 | 4.0% | 3.2% |
| 64010 Department Of Corrections | 0.066 | 0.063 | 0.108 | 0.106 | 65.6% | 65.6% |
| Section E: Education | | | | | | |
| 51020 Commissioner Of Higher Ed | 0.503 | 0.531 | 0.526 | 0.526 | 1.8% | 561.7% |
| 51170 Montana Historical Society | <u>0.573</u> | <u>0.614</u> | <u>0.675</u> | <u>0.675</u> | <u>13.7%</u> | <u>10.6%</u> |
| Subtotal | 11.444 | 11.801 | 13.438 | 13.230 | 14.7% | 17.2% |
| <u>One Time Only</u> | | | | | | |
| Section A: General Government | - | - | 0.534 | - | | |
| Section C: Natural Res & Transp | - | - | - | - | | |
| Section D: Judicial Br. Law Enf & Justice | - | - | - | - | | |
| Section E: Education | - | - | - | - | | |
| Subtotal | - | - | 0.534 | - | | |
| Total before adjustments | 11.444 | 11.801 | 13.972 | 13.230 | 17.0% | |
| Reversions and Other Adjustments (3) | -0.035 | -0.450 | | | | |
| Grand Total | \$11.410 | \$11.351 | \$13.972 | \$13.230 | | 19.5% |
| (1) FY 2014 contains actual expenditures as contained in IBARS | | | | | | |
| (2) Does not include FY 2015 continuing biennial appropriations and OTO are separated | | | | | | |
| (3) Under certain laws, agencies have the authority to move appropriations between years. Growth can be greater than the approp to approp comparison when agencies revert (or do not spend) appropriated level of funding in FY 2014. | | | | | | |

Legislative Options

All of the HB 2 proposals presented by the executive are discussed in detail in Volumes 3-6 of the 2017 Biennium LFD Budget Analysis, including any issues or comments.

Long-Range Planning

The Long-Range Planning Subcommittee (LRP) analyzes and recommends appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology.

Executive Proposal

The Governor's budget proposes total funds spending of \$426.6¹ million for LRP budgets. In the 2017 biennium, the legislature will be considering proposals for eleven LRP programs, eight of which, at a proposed cost of \$391.2 million, are included in the executive's "Build Montana" proposal.

The figure below shows a summary of the proposed appropriations for the LRP programs included in the Governor's budget.

| Long-Range Planning Budget Comparison (millions) | | | | | |
|--|--------|----------------------------|-----------------------|--------------------|----------------------|
| Budget Item | Bill # | Appropriations FY 14-15 | Proposals FY 16-17 | Biennium Change | Biennium % Change |
| | | <u>Approp.</u> | <u>Proposed</u> | | |
| Long-Range Building Program (LRBP) | HB 5 | \$175.6 | \$233.6 | \$58.0 | 33.0% |
| State Building Energy Conservation Program (SBECP) | HB 5 | 3.5 | 2.5 | (1.0) | -28.6% |
| Long-Range Information Technology Program (LRITP) | HB 10 | 20.9 | 20.0 | (0.9) | -4.2% |
| Broadband Infrastructure Development (BbD) | HB 14 | 0.0 | 15.0 | 15.0 | - |
| Treasure State Endowment Program (TSEP) | HB 5 | 35.0 | 27.2 | (7.8) | -22.3% |
| Eastern Montana Grant Program (TSEP-EMGP) | HB 5 | 0.0 | 45.0 | 45.0 | - |
| Treasure State Regional Water Program (TSEPRW) | HB 5 | 17.0 | 3.3 | (13.7) | -80.8% |
| Renewable Resource Grant and Loan Program (RRGL) | HB 5 | 54.2 | 40.4 | (13.8) | -25.4% |
| Reclamation and Development Grant Program (RDGP) | HB 5 | 6.2 | 8.0 | 1.8 | 28.2% |
| Cultural and Aesthetic Grant Program (C&A) | HB 9 | 0.8 | 0.4 | (0.4) | -47.4% |
| Quality Schools Grant Program (QSFP) | HB 5 | 12.4 | 31.2 | 18.8 | 151.6% |
| Total Costs | | \$325.5 | \$426.6 | \$101.1 | 31.0% |
| Capital Projects Fund (Capital) | | \$66.6 | \$15.8 | (\$50.8) | -76.3% |
| General Fund (GF) ¹ | | 11.5 | 12.0 | 0.5 | 4.8% |
| State Special (SS) | | 136.8 | 80.7 | (56.1) | -41.0% |
| Federal Special (FS) | | 26.2 | 20.7 | (5.5) | -20.9% |
| Bonds and Loans (Bonds) | | 24.7 | 227.2 | 202.5 | 819.4% |
| Proprietary Fund (Prop) | | 1.0 | 0.0 | (1.0) | -100.0% |
| Authorization (Author) | | 58.9 | 70.2 | 11.4 | 19.3% |
| Total Funds | | \$325.5 | \$426.6 | \$101.1 | 31.0% |

¹General Funds are transfers to the Long-Range Information Technology Capital Project Funds

The LRBP appropriations would fund the construction of three new buildings, additions and renovations at five state buildings, and a significant reduction of the state's deferred maintenance backlog through the overall budget for building maintenance. New buildings would feature the Montana Heritage Center in Helena. The executive proposal includes investments of \$20.0 million in information technology capital projects, where significant projects for five state agencies will be deliberated by the legislature. Additionally, the executive proposes an investment of \$15.0 million for broadband infrastructure in the state. A significant investment in local government infrastructure is also included in the LRP programs, through the Build Montana program with increases of funding in the various LRP programs that are proposed to be funded with total bond authority of \$227.2 million. For more information on all the LRP programs and projects, refer to Section F of the 2017 Biennium LFD Budget Analysis.

¹ Amounts of the Governor's proposals and Build Montana program include \$70.2 million of "authority" to spend non-state funds for state facilities, which is not an appropriation.

Statutory Appropriations

Statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. Because of this, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. However, all statutory appropriations are available for the legislature to review and change if desired.

Valid statutory appropriations are listed in [17-7-502, MCA](#). The list provides statutory citations for each statutory appropriation. Statutory appropriations are intended for limited situations, and guidelines for the appropriateness of establishing them are specified in [17-1-508, MCA](#). The Legislative Finance Committee periodically reviews statutory appropriations.

Executive Proposal

The following table shows each general fund statutory appropriation estimated by the Legislative Fiscal Division (LFD). The LFD estimates are lower than those of the Office of Budget and Program Planning by \$2.3 million in FY 2016 and \$0.4 million in FY 2017. Higher retirement statutory appropriation projections drive this difference.

Information regarding executive proposals that would impact statutory appropriations can be found in the Other Legislation section of this document.

General Fund Statutory Appropriation LFD Estimates, 2014-2017
(\$ Millions)

| MCA Cite | Purpose | 2014 (Actual) | 2015 (Estimate) | 2016 (Estimate) | 2017 (Estimate) |
|-----------------------------|--|------------------|--------------------|--------------------|--------------------|
| Retirement | | | | | |
| 15-35-108(9)(a) | Coal Severance to PERS | \$14.745 | \$15.873 | \$16.201 | \$16.605 |
| 15-35-108(9)(b)(v) | Coal Severance to PERS (Interest) | 21.000 | 17.373 | 16.749 | 19.391 |
| 19-3-319 | Local Government Retirement Contribution | 0.952 | 0.990 | 1.030 | 1.071 |
| 19-6-404 | MHP Retirement Transfer | 1.357 | 1.411 | 1.467 | 1.526 |
| 19-6-410 | MHP Supplemental Benefit Retirement Transfer | 0.262 | 0.272 | 0.283 | 0.295 |
| 19-9-702 | Police Retirement Contribution | 13.049 | 13.571 | 14.114 | 14.678 |
| 19-13-604 | Firefighters' Association Contribution | 13.007 | 13.527 | 14.069 | 14.631 |
| 19-17-301 | Volunteer Firefighter Fund Contribution | 1.818 | 1.891 | 1.967 | 2.045 |
| 19-18-512 | Fire Department Relief Association Contribution | 0.368 | 0.383 | 0.399 | 0.414 |
| 19-19-305 | Police (Non-PERS) Retirement Contribution | 0.205 | 0.213 | 0.221 | 0.230 |
| 19-19-506 | Police Officer Pension Supplement Contribution | - | - | - | - |
| 19-20-604 | Teacher's Retirement Supplemental Contribution | 0.821 | 0.854 | 0.888 | 0.923 |
| 19-20-607 | Teachers' Retirement System Contribution | 42.035 | 42.716 | 43.425 | 44.162 |
| 19-21-203 | MUS Retirement Contribution | <u>1.534</u> | <u>1.577</u> | <u>1.655</u> | <u>1.725</u> |
| Subtotal | | 111.152 | 110.651 | 112.466 | 117.698 |
| Economic Development | | | | | |
| 15-35-108(9)(b)(i) | Coal Severance to Cooperative Develop Center | 0.065 | 0.065 | 0.065 | 0.065 |
| 15-35-108(9)(b)(ii) | Coal Severance to Growth Through Ag | 0.587 | 0.625 | 0.625 | 0.625 |
| 15-35-108(9)(b)(iii) | Coal Severance to Research and Commercialization | 1.275 | 1.275 | 1.275 | 1.275 |
| 15-35-108(9)(b)(iv) | Coal Severance to Department of Commerce | 1.097 | 1.100 | 1.100 | 1.100 |
| 15-70-369 | Biodiesel Tax Refunds | - | - | - | - |
| 15-70-601 | Biodiesel Tax Incentives | - | - | - | - |
| Subtotal | | 3.024 | 3.065 | 3.065 | 3.065 |
| Local Assistance | | | | | |
| 7-4-2502 | Payment of County Attorneys | 2.954 | 2.998 | 2.954 | 2.954 |
| 15-1-121 | Local Government Combined Distribution | 118.433 | 126.583 | 130.639 | 134.829 |
| 22-1-327 | State Aid to Public Libraries | - | - | <u>0.396</u> | <u>0.396</u> |
| Subtotal | | 121.387 | 129.581 | 133.989 | 138.178 |
| Other | | | | | |
| 10-1-1202 | National Guard Death Benefit | - | - | - | - |
| 10-3-310 | Incident Response Appropriation | - | - | - | - |
| 10-3-312 | Emergency & Disaster Appropriation | 0.527 | 15.973 | 8.250 | 8.250 |
| 15-1-218 | Out of State Collections | 0.150 | 0.170 | 0.186 | 0.175 |
| 16-11-509 | Tobacco Enforcement | - | - | - | - |
| 17-3-106 | Return of Federal Grant Interest | 0.001 | 0.001 | 0.001 | 0.001 |
| 17-3-106 | Return of Federal Grant Money (GSD Only) | 0.064 | 0.064 | 0.064 | 0.064 |
| 17-3-106 | Return of Federal Grant Money | 0.089 | 0.100 | 0.100 | 0.100 |
| 17-6-101 | Banking Charges | 2.160 | 2.160 | 2.160 | 2.160 |
| 17-7-502(4) | Bond Fees & Costs | <u>16.071</u> | <u>16.458</u> | <u>12.816</u> | <u>12.858</u> |
| Subtotal | | 19.061 | 34.926 | 23.576 | 23.609 |
| Total | | \$254.624 | \$278.224 | \$273.096 | \$282.550 |

General Fund Transfers

The Montana Constitution requires that all money paid out of the state treasury – except interest paid on the public debt – be done with an appropriation. However, the state treasury consists of numerous accounts and with proper legislative authorization money may be transferred from one account to another without an appropriation. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in un-codified legislation) and are not part of the biennial budgeting process. Yet, they impact the amount of money available for the legislature to appropriate for specific programs. The Legislative Finance Committee has approved a policy that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated.

Executive Proposal

The following table shows each general fund non-budget transfers estimated by the Legislative Fiscal Division (LFD). The LFD estimates are lower than those of the Office of Budget and Program Planning (OBPP) by \$132,560 in FY 2016 and \$200,309 in FY 2017.

Two factors drive this difference. First, OBPP estimates an amount of general fund impact for agency non-budgeted activities. By contrast, the LFD assumes that agency non-budgeted general fund activities will net to zero within a fiscal year. This difference results in a higher OBPP number. Second, the LFD projected lower general fund transfers resulting from vehicle fees.

Information regarding executive proposals impacting general fund non-budgeted transfers can be found in the Other Legislation section of this document.

General Fund Non-Budgeted Transfer LFD Estimates, 2014-2017
(\$ Millions)

| MCA Cite | Purpose | 2014 (Actual) | 2015 (Estimate) | 2016 (Estimate) | 2017 (Estimate) |
|------------------------------|--|-----------------|--------------------|-----------------|-----------------|
| Vehicle | | | | | |
| 15-1-122(1) | Adoption services | \$0.059 | \$0.065 | \$0.072 | \$0.079 |
| 15-1-122(2)(a) | Junk vehicles | 1.494 | 1.514 | 1.533 | 1.551 |
| 15-1-122(2)(b) | Noxious weeds | 1.514 | 1.534 | 1.553 | 1.572 |
| 15-1-122(2)(c)(i) | Boat facilities & enforcement, OHV, Parks | 0.464 | 0.471 | 0.476 | 0.482 |
| 15-1-122(2)(c)(ii) | Snowmobiles | 0.101 | 0.102 | 0.104 | 0.105 |
| 15-1-122(2)(c)(iii) | Motorboats | 0.162 | 0.164 | 0.166 | 0.168 |
| 15-1-122(2)(d) | Veterans' Services | 0.617 | 0.625 | 0.633 | 0.640 |
| 15-1-122(2)(d) | Veterans' Cemetery | 0.201 | 0.203 | 0.206 | 0.208 |
| 15-1-122(2)(e) | Senior and people with disabilities transportation | 0.303 | 0.307 | 0.311 | 0.314 |
| 15-1-122(2)(f) | Search & rescue | <u>0.040</u> | <u>0.041</u> | <u>0.041</u> | <u>0.042</u> |
| Subtotal | | 4.956 | 5.026 | 5.095 | 5.160 |
| Other Transfers | | | | | |
| 15-1-122(3) | Livestock loss reduction and mitigation | 0.200 | 0.200 | 0.200 | 0.200 |
| 15-1-123 (5)(b) | Lower business equipment tax (MUS SB96) | 0.450 | 0.141 | - | - |
| 15-1-123 (5)(b) | Lower business equipment tax (MUS) | 0.171 | 0.375 | - | - |
| 17-1-511(2) | Incentives for rural physicians | 0.227 | 0.227 | 0.227 | 0.227 |
| 39-71-2352(6) | Old state fund shortfall | 8.575 | 8.319 | 7.466 | 6.130 |
| 76-13-105 | Wildfire suppression fund | 39.779 | 3.653 | 0.183 | - |
| 77-1-108(5a) | Trust land administration | 0.080 | 0.080 | 0.080 | - |
| 87-2-801(6) | Purple heart free hunting license | 0.000 | 0.040 | 0.040 | 0.040 |
| 87-2-803(12d) | Military free hunting license | <u>0.061</u> | <u>incl. above</u> | - | - |
| Subtotal | | 49.544 | 13.035 | 8.196 | 6.597 |
| Non-Budgeted Activity | | | | | |
| NA | DPHHS Non-budgeted | 0.066 | - | - | - |
| NA | Other Non-budgeted | <u>0.026</u> | - | - | - |
| Subtotal | | 0.040 | - | - | - |
| Total | | \$54.541 | \$18.061 | \$13.291 | \$11.757 |

Other Legislation

Other than HB 2, Long-Range Building, statutory authority, and non-budgeted changes described above, the executive proposes other legislation that would increase general fund by an additional \$128.8 million. The following figure details the amounts by proposal:

| General Fund Proposals - Other Legislation Executive Budget 2017 Biennium (\$ Millions) | |
|---|----------------|
| Proposal | 2017 Biennium |
| HB 1 - Feed Bill | \$10.4 |
| HB 3 - Supplemental Appropriations | 31.6 |
| HB 5 - Build Montana Act | 23.1 |
| HB 13 - Pay Plan | 42.5 |
| HB 13 - PS Contingency | 1.3 |
| HB 14 - Broadband Plan | 1.7 |
| Salish Kootenai Water Compact | 8.0 |
| LC 398 - Water Adjudication | 4.1 |
| LC 631 - Healthy Montana Act | -9.9 |
| LC 717 - Quality Schools Redirect | 13.0 |
| LC 1089 - Safe Child Initiative | 3.0 |
| Grand Total | \$128.8 |
| Transfers included | |

Executive Proposal

- HB 1 Feed bill – The executive assumes \$10.4 million in the feed bill used to fund the operations of the legislature
- HB 3 Supplemental Bill – The Governor proposes that an additional \$31.6 million be provided to the following agencies that anticipate outspending their appropriation authority in FY 2015:
 - \$94,000 Commissioner of Political Practices to hire outside consultants
 - \$9.4 million Office of Public Instruction for BASE-Aid and block grants
 - \$13.4 million Department of Administration for risk management and tort defense
 - \$1.7 million Office of Public Defender for conflict coordinator program and public defender costs
 - \$7.0 million Department of Corrections for secure facilities
- HB 5 Build Montana Act – The executive assumes \$23.1 million in general fund transfers for infrastructure and other projects
- HB 13 Pay plan and contingency – The Governor proposes a state employee pay plan that would provide:
 - \$0.50 increase to the base salary of each employee per year
 - 10% increase in health benefit contribution beginning on January 1, 2016 and an 8% increase on January 1, 2017
 - Contingency fund of \$1.3 for distribution to agencies that cannot meet their vacancy savings targets and provides \$75,000 for training. The executive has indicated that an amendment will be submitted to update the bill to match their balance sheet
- HB 14 Broadband Plan – The executive proposes the issuance of general obligation bonds for the purpose of funding statewide broadband infrastructure development
- Confederated Salish Kootenai Water Compact – the executive proposes to amend HB 2 to include in Department of Natural Resources and Conservation budget
- LC 398 – Water Adjudication – The executive proposes \$4.1 million to fund water adjudication

- LC 631 Healthy Montana Act – The Governor proposes expanding health care coverage to provide certain low income Montanans access to health care services. Please refer to page 4 and 7 for further information on the impact of the Healthy Montana Act
- LC 717 Quality Schools Account Redirect – The Governor proposes that the natural resource development payment from K-12 BASE-Aid be redirected to the school facility and technology account to fund facility improvements. This redirect impacts the general fund by \$13 million
- LC 1089 Safe Child Initiative – The executive proposes to increase funding by \$3 million for services to protect abused and neglected children

References

[The Governor's Budget Highlights Fiscal Years 2016-2017 \(Orange Book\)](#)

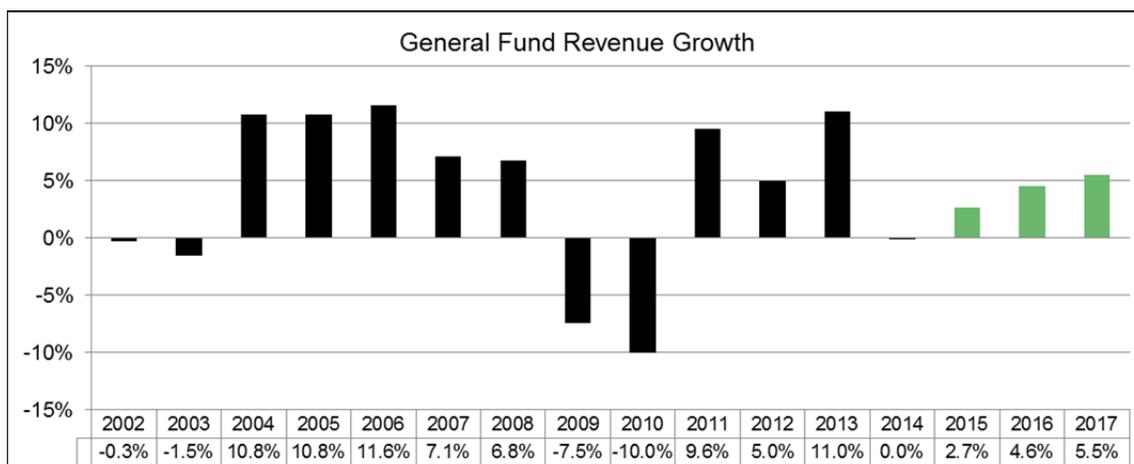
[The Governor's December 15th changes](#)

RISKS AND PRESSURES

This section builds on the previously discussed concept of managing volatility of the general fund through structural balance and ending fund balance. It includes issues of evaluating the inherent risk of the budget adopted and significant other funds' financial health. Financial pressure in other funds could put additional pressure on the general fund, decrease current services, or require additional revenue.

Revenue Volatility

General fund revenue growth has varied in the past 12 years from +11.6% to -10.0%. Revenue growth contained in HJ 2 ranges from 2.7% to 5.5%. While new statistical techniques are have been implemented to minimize the errors, not enough data exists to calculate prediction intervals from these new techniques. Previous experience is captured in the [Managing Volatility Report](#).



Fire Fund Impact on Inherent Financial Risk

The fire suppression account has an estimated FY 2015 ending fund balance of \$42 million and adequate revenue flows into the fund to maintain this ending fund balance over time. This fund provides a buffer to the general fund from cost shocks due to emergency wildland fire costs. The adjacent table summarizes the anticipated average revenues and expenditures of the fund.

| Biennial Average Revenues and Expenditures Wildland Fire Suppression Fund (in Millions) | |
|---|----------|
| | Biennial |
| Biennial average fire costs | (\$44.5) |
| Biennial allowed expenditures for forest health | (5.0) |
| Biennial transfers from reversions exceeding 0.5% | 53.2 |
| Biennial transfers from Governor's Emergency Statutory Appropriation | 6.5 |
| Potential average biennial growth in fund balance | \$10.2 |

The [Managing Volatility Report](#) demonstrated that while revenue volatility is the most variable source of risk to the general fund, wildland fire is the next largest source of risk to the budget. The biennium with the greatest expenditure shock was the 2007 Biennium and accounted for 2.4% of general fund expenditures, of which 1% was attributed to fire suppression. On average, fire suppression costs account for 62% of the expenditure volatility or about 1% of biennial general fund spending. Removing this 1% risk reduces the maximum amount of ending fund balance needed to manage risk.

Expenditure Estimate Error or Supplemental

Along with the risk that revenue estimates and fire costs can cause financial stress, so can errors in expenditure estimates. Estimates are used to develop several large appropriations; when required expenditures are greater than the appropriations, a shortfall occurs and the agency must request a

supplemental appropriation. Examples of expenditure estimates include caseloads for foster care, Medicaid benefits, Health Montana Kids benefits, prison populations, and student enrollment in school districts.

Pensions

The legislature passed pension funding bills in the 2013 session that included a reduction in the Guaranteed Annual Benefit Adjustment (GABA) for the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS). Since last session, lawsuits have been filed and preliminary injunctions have been granted to at least temporarily eliminate the reductions in the GABA. The June 30, 2014 Actuarial Valuations ([PERS](#) and [TRS](#)) became available in October of 2014. In these studies, the funding levels of both large systems do not exceed the actuarial recommended funding period of 30 years even if the GABA reduction does not occur.

Pension systems in Montana still continue to have significant but declining unfunded liabilities. If the lawsuits succeed, the unfunded liability totals \$3.8 billion. These unfunded liabilities are a legal liability of the state and participating local government employers. The unfunded liabilities as measured by the actuaries of the systems are shown on the right.

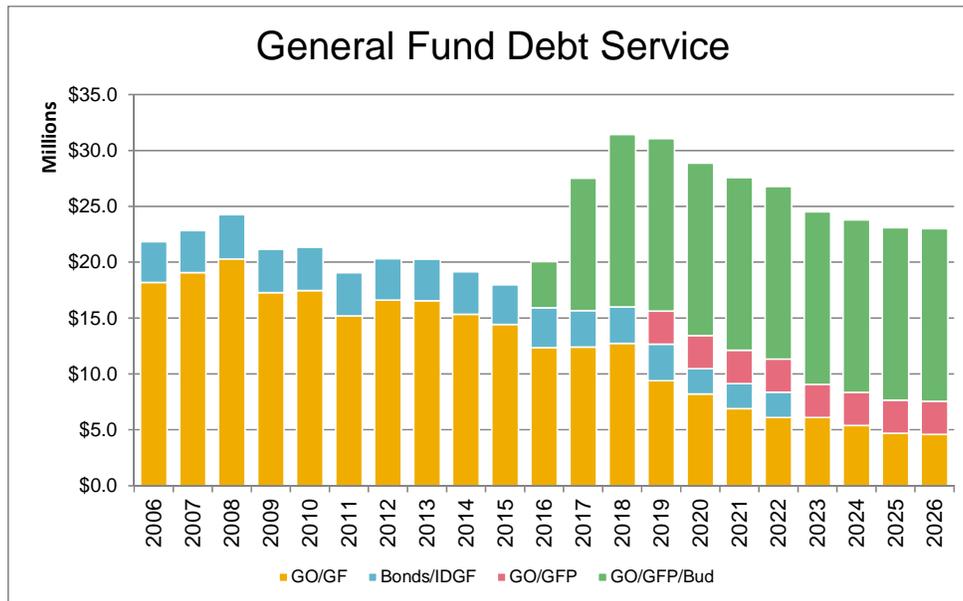
| Montana Pension Systems Valuation June 30, 2014 | | |
|---|--------------|-------------------|
| | Funded Ratio | Years to Amortize |
| Teachers Retirement System (TRS) prior GABA | 65.5% | 28.0 |
| Public Employees Retirement (PERS) prior GABA | 74.4% | 29.3 |
| Judges' Retirement System | 155.1% | - |
| Highway Patrol | 63.9% | 30.3 |
| Sheriffs' Retirement | 81.3% | Does not amortize |
| Game Wardens | 83.7% | Does not amortize |
| Municipal Police Officers | 63.0% | 19.6 |
| Firefighters Unified Retirement System | 71.8% | 11.3 |
| Volunteer Firefighters | 82.4% | 5.1 |

Actuarial analysis includes many assumptions that may or may not hold true in the long run. While annual valuations are a good estimate of current funding condition, if the assumptions do not hold true, the funding condition will change.

Moody's Investor Services studies and compares state liabilities. Montana ranks 20th highest out of 50 in Moody's calculated liabilities as a percent of state government revenues. A summary of the report is available at www.moodys.com or directly at this link: [State pension liability levels improve in FY 2013](#). The full Moody's report is available in the office of the Legislative Fiscal Division.

Debt Service

Like pensions, debt is a long term liability with a payment stream. Outside of pensions, Montana's debt liability is relatively low and unless additional bonds are approved, the payment streams will decrease overtime. According to Standard and Poor's, the state of Montana ranks 48th in their ratings for long-term tax supported debt. The ranking is consistent for total and per-capita debt amounts and as a percentage of personal income and GSP. The following table illustrates current debt service and the Governor's requested budget for debt service.



- Yellow GO/GF – General obligation (GO) bonds paid by the general fund. The bond issues related to this debt service primarily funded the construction of state government buildings
- Blue Bonds/IDGF – This category includes GO bonds and special revenue bonds that are paid indirectly through the general fund. The related bond issues include state building energy conservation bonds and revenue bonds for two of the state's hospitals that offset general fund revenue through institutional reimbursements that would otherwise flow into the general fund.
- Pink GO/GFP – This category includes the projections for debt services costs on authorized but unissued bonds. Included in this category are two issues that cover the state's share of the costs of two tribal compacts, the state's share of the St. Mary's diversion structure repairs, and the remaining authority available for the Montana Heritage Center. For the purpose of this analysis, it is assumed that 20 year bonds would be issued for each of the items in the spring of FY 2017. Given the need for federal action for both the compacts and the St. Mary's project, this schedule may be ahead of actual issuance.
- Green GO/GFP/Bud – This category illustrates the Governor's 2017 biennium budget proposals for general obligation bond issues. This includes an assumption that the \$185.6 million of Build Montana bonds will be issued half in October 2015 and half in October 2016. Additionally, this category includes \$15.0 million of broadband infrastructure bonds that would be issued in October 2015.

In the 2017 biennium, without the executive's bonded budget proposals, the debt service paid directly and indirectly through general fund revenues is expected to average \$15.8 million per year. The Build Montana and broadband infrastructure proposals in the executive budget are estimated to increase the general fund debt service by \$4.1 million in FY 2016 and \$11.8 million in FY 2017. It is expected that the full annual cost of the proposals will be \$15.4 million per year in the future.

Other Fund Balances

Funds outside the general fund may cause pressure on the general fund or other taxes or fees. Examples of other fund pressures include:

- The Water Court state special funding is insufficient to pay for the full adjudication of water rights. The executive proposes to transfer general funds to the adjudication account to cover the shortage of approximately \$4.1 million.
- The General License Account in Fish, Wildlife and Parks is under pressure for funding, the executive proposes to raise hunting and fishing fees by approximately \$6.0 million per year.
- Gas Tax funds that flow into the highway restricted fund are insufficient to support the increasing cost of services, such as highway construction and maintenance and highway patrol, and for the past four years the expenditures from the highway restricted fund have exceeded the revenues going into it. There are currently no executive proposals to address this structural imbalance.

Executive Proposal

Overall, the primary methods the Governor proposes to manage risk are contained in the general fund ending fund balance and structural balance recommendations. The executive budget request includes proposals for additional bonding as shown in the above section on debt service.

The Governor is requesting supplemental appropriations for the 2015 biennium totaling \$31.6 million general fund. Of this amount \$13.4 million is requested to increase the fund balance for the Risk Management and Tort Defense Program.

Legislative Options

The Legislature could maintain higher or lower ending fund balance based on the legislative tolerance for the risk associated with budget volatility. Structural balance of the budget is the general recommendation for budgets. The legislature may wish to contemplate specific consideration of the CHIP FMAP discussed in the introduction relative to structural balance for the 2017 Biennium.

References

A background report on the water adjudication issues is available at the link [Complete Adjudication Report](#) or can be found at www.leg.mt.gov.

Population and Caseloads

Population increases include enrollment adjustments for the Montana University System and K-12 School Districts; prison, parole, and probation estimates; Medicaid, Healthy Montana Kids; and court caseloads. Changes in anticipated population can be reflected in the budget through a variety of ways, including statutory payments, anticipated utilization of services, and staffing and other operating costs. The following chart shows various population and caseload estimates.

| Population and Caseload Increases Comparison 2015 and 2017 Biennia | | | | | | | |
|---|----------------------|---------|---------|---------|---------|--|--|
| Requesting Agency | Purpose | FY 2014 | FY 2015 | FY 2016 | FY 2017 | HB 2 GF | HB 2 All Fund |
| | | | | | | Increase from 2015 Bien. (\$ Millions) | Increase from 2015 Bien. (\$ Millions) |
| Office of Public Instruction* | Enrollment | 148,567 | 149,712 | 149,694 | 149,973 | \$51.0 | \$51.0 |
| Montana University System | Resident Enrollment | 29,969 | 29,969 | 29,969 | 29,969 | 35.7 | 35.7 |
| Department of Corrections** | Probation and Parole | 7,728 | 7,778 | 7,844 | 7,911 | 37.5 | 37.0 |
| | Male Prison Beds | 2,372 | 2,392 | 2,407 | 2,422 | - | - |
| | Female Prison Beds | 209 | 218 | 226 | 235 | - | - |
| | Treatment | 1,011 | 1,044 | 1,075 | 1,107 | - | - |
| Dept. of Health & Human Services | Medicaid | 118,888 | 128,623 | 135,090 | 141,387 | 105.2 | 309.4 |
| | Foster Care/Sub Ado | 4,480 | 4,650 | 4,837 | 5,030 | 4.4 | 6.4 |
| Office of Public Defender** | All Court Cases | 31,705 | 32,256 | 33,406 | 34,391 | 12.8 | 12.9 |
| | Lower Courts | 19,803 | 20,082 | 20,672 | 20,992 | - | - |

*Also includes costs associated with ANB increases, as well as annualization of other session adjustments.
 **Costs are summarized due to overlap among functions and/or reorganizations.

Executive Proposal

The executive has addressed changes in anticipated population in the following ways:

- Present law adjustments are proposed in Medicaid and other human services expenditures to account for all estimated increases in population and utilization
- With the exception of the community colleges, an anticipated increase in university enrollment does not have a direct correlation to changes in the budget. Rather, for the University of Montana and Montana State University campuses, the executive is requesting various present law increases for personal services, fixed costs, and other adjustments, funded at 46% in FY 2016 and 40% in FY 2017
- The projected increases in caseload in the Office of the Public Defender are primarily reflected in requests to add positions, provide pay adjustments and/or career ladders, and increase funds for contract attorneys
- In corrections, the executive anticipates population growth, but is requesting funds that reflect an emphasis on community based efforts in an attempt to better control those populations. Therefore, the Governor is requesting additional probation and parole officers and only annualizing secure care beds at 2015 biennium contracted levels

Legislative Options

The impact on the proposed budget of these estimates is analyzed separately in each section of the budget, along with any issues or comments. LFD analysts evaluate caseloads on an individual basis and will provide alternative estimates as appropriate to subcommittee members.

Cost Pressures

Cost pressures include increases applied to current services in costs to maintain ongoing services such as personal services; fixed costs and inflation; implementing increases approved by the previous legislature; and new changes in workload and/or utilization, some of which would require legislation to reduce. Cost pressures are also due to new proposals for inflation-like items for providers of services in state government and funding shifts to fund certain present law items with state funds, such as Medicaid share and to ease tuition pressure in the Montana University System (MUS).

Statutory Cost Increases

Personal services: Some cost changes to personal services have been previously approved by the legislature, including health insurance costs that were funded for the second half of FY 2015, longevity increment adjustments, and phased-in employer cost increases for pensions.

Annualizing the FY 2015 Pay Plan Negotiated by the Governor

HB 13 (2013 Session) included an appropriation equivalent to a 3% increase each year (beginning on July 1) and an increase for insurance of 10% each calendar year. The Governor negotiated a pay plan that included a 5% increase in FY 2015, with a delayed implementation date of November 15, 2014. While the cost of the negotiated pay plan was within the HB 13 appropriation for FY 2015, it increases the annualized cost of the pay plan in the 2017 biennium.

2017 Biennium State Employee Pay Plan

State employee pay plans are generally but not always approved by the legislature. In the past ten years, pay plans have ranged from 0% to 3.6% per year for salary increases and 0% to 10% per year for insurance contribution increases. For each 1% per year, the employee pay increase would cost \$12.2 million for the biennium without an increase in health insurance. A 1% per year increase in health insurance would cost \$1.6 million for the biennium. A 3% per year increase in pay would cost an estimated \$36.6 million and a 3% per year increase in health insurance would cost \$4.8 million.

Changes in Federal Medicaid Participation

The federal medical assistance percentage (FMAP) is based on national economic factors and determines how much of Medicaid (and other medical costs) is funded by the federal government and how much by the state. Because Montana's personal income ranking has improved compared to other states, the rate Montana must pay will increase in the 2017 biennium.

2017 Provider Rate Increases

The vast majority of medical and community services administered by the Departments of Public Health and Human Services (DPHHS) and Corrections (DOC) are provided through contracts with private businesses. In some instances, the state agency is the primary or only customer for these services. As business entities or private non-profits, contractors are subject to the same economic conditions as other employers. These businesses traditionally request that the legislature consider rate increases to cover cost growth and to maintain operations.

Other Inflation Increases

Other items are inflated or deflated in the budget from FY 2015. These include statewide adjustments for fixed costs such as insurance and car rental rates, and inflation such as natural gas and electricity.

Add Back Funding for 2% Vacancy Savings Approved for the 2015 Biennium

This item is not inflation or inflation like, but is part of the Governor's recommended personal services budget, and thus included in this section. The 2013 Legislature implemented an additional vacancy savings amount equivalent to removing 2% of the cost to personal services from agency budgets for the 2015 Biennium. If this amount is reinstated into agency budgets additional costs would result in an increase in agency budgets.

Executive Proposal

The Governor has included in his proposed budget:

- All personal services annualized costs, including the Governor's FY 2015 increase, reinstatement of the 2% additional vacancy savings reduction enacted by the 2013 Legislature, and a reduction in FTE included in 2015 biennium HB 2 boilerplate language
- All statutory inflation on K-12 BASE Aid - \$40.1 million general fund
- A 2% per year provider rate increase for the Department of Public Health and Human Services and the Department of Corrections, as well as a direct care worker wage and Shelby prison per diem increases - \$27.9 million general fund, \$75.5 million total funds
- Additional FMAP at the anticipated level - \$21.6 million general fund and \$5.5 million state special revenue, with a corresponding reduction in federal funds
- Inflation/deflation on selected items and increases in fixed costs
- A negotiated pay plan with a 10% increase in health insurance beginning on January 1, 2016 and an 8% increase on January 1, 2017, and a \$0.50/ hour salary increase beginning the first pay period in October - \$44.1 million general fund and \$78.9 million total funds

Legislative Options

Depending on the source of the type of inflationary adjustment, the legislature may have more or fewer options for funding inflation-like items; items that have a statutory connection are the most locked in with fewer choices. These statutory items may require a statutory change, may impinge on long term commitments like school funding, or may require agencies to fund these items at the expense of other services.

Inflation and fixed cost increases are typically determined by the subcommittee that reviews those rates. Most rates are in Section A: General Government.

Provider rate increases are considered new proposals and are largely a budget policy decision of each legislature.

Services or Funding Available in the 2015 Biennium That Sunset in the 2017 Biennium

There were several items funded in the 2015 biennium either on a one-time basis, or the funding and/or statute governing the service will sunset. The 2015 Legislature may consider reinstating some of these one-time only (OTO) or sunset provisions. The following section summarizes these items.

Current Service Level

“Current service level” refers to OTO appropriations provided by the 2013 Legislature that the 2015 Legislature may be under pressure to maintain so that the level of services currently offered by the state will continue. Often these are appropriations that have been funded for several biennia. Alternatively, the legislature may have authorized the appropriation as an OTO in order to trial a new or changed program.

The most significant current service level items, along with the Governor’s proposal, are shown in the following chart.

| Current Service Level Compared to Executive Budget 2017 Biennium (\$ Millions) | | | | |
|--|------------------|---------------|--------------|--|
| Function | Current | Executive | | |
| | Service Level | Budget | Difference | |
| Various Natural Resources, inc. Brucellosis and Aquatic Invasive Species | \$2.7 | \$3.2 | \$0.5 | |
| Maintenance of Common Areas in State Buildings | 2.3 | 4.2 | 1.9 | |
| Montana Digital Academy* | 1.8 | 0.0 | (1.8) | |
| Economic Development in the Department of Commerce | 2.8 | 2.8 | 0.0 | |
| Overtime in DPHHS funded with OTO** | 2.0 | 2.0 | 0.0 | |
| Total | \$11.6 | \$12.2 | \$0.6 | |
| *Executive continues base level of \$2.3 million over the biennium. | | | | |
| **Executive includes funding for all anticipated overtime. | | | | |

Sunset Items

Treasure State Regional Water Program

The Treasure State Regional Water Program was fully funded in the 2013 session to complete project costs for the two federally approved projects. Under current law the program is scheduled to sunset June 30, 2016. Beginning in July 1, 2016 (FY 2017), revenue that would have flowed into the Treasure State Regional Water Trust will flow into the main body of the trust, and the interest that would have gone to Treasure State Regional projects will now flow to the general fund. In FY 2017, the additional general fund revenue anticipated from this flow is \$3.0 million. Federal approval is being sought for two additional projects. There is currently no funding source that would be targeted for these projects should they be approved, and the Governor has not proposed that statute be changed to continue diversion of any funds.

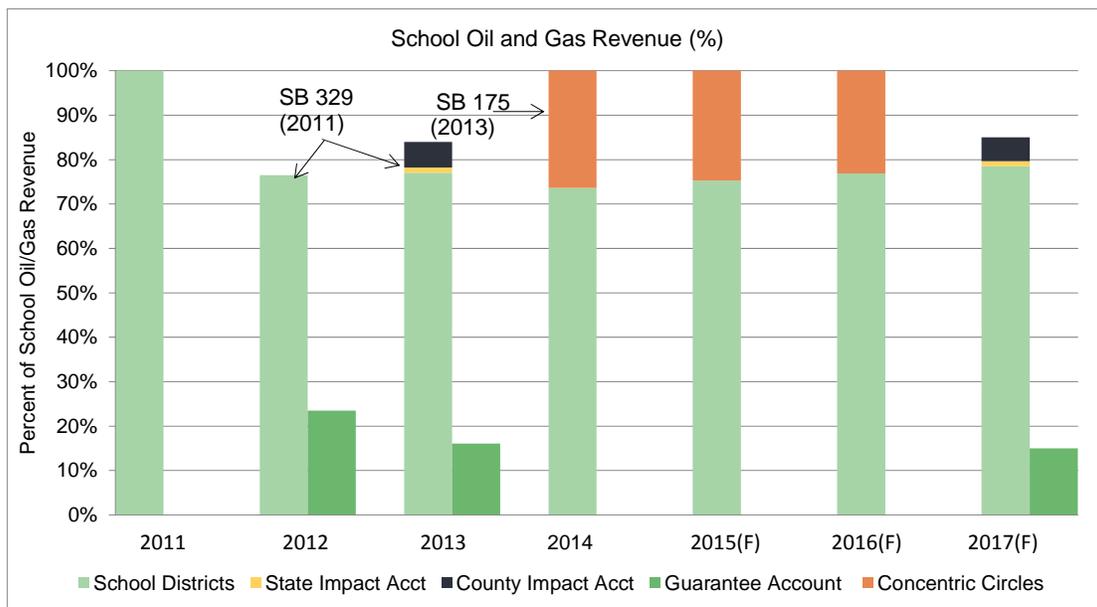
Concentric Circles

Concentric circles is part of the current method of distributing oil and natural gas production tax (ONG tax) to school districts. It essentially diverts money from school districts that have met maximum funding thresholds to nearby school districts that may be affected by oil and natural gas production. This provision sunsets after FY 2016. In FY 2017, these funds will be distributed to the guarantee account and are estimated to reduce general fund spending by \$5.2 million.

The recent history of these funds can be demonstrated as follows:

- Prior to FY 2012 school districts with oil and gas wells within their boundaries received 100% of the statutory distribution of oil and gas taxes.
- In the 2011 Session, SB 329 capped the amount of oil and gas tax revenue districts could retain to 130% of the school district's maximum budget. Revenue beyond the cap flowed as follows: (1) 5% to a state school oil and natural gas impact account; (2) 25% to a county school oil and natural gas impact fund, to provide revenue schools that were not receiving oil and gas taxes but were being affected by oil and natural gas production, and (3) 70% to the guarantee account which offsets state general fund costs.
- In the 2013 Session, SB 175 temporarily changed the allocation in order to divert a greater portion of oil and gas taxes, above school district thresholds, to nearby school districts that have not yet met the thresholds. This provision sunsets after FY 2016 at which time the distribution returns to be similar to the provisions provided by SB 329 in FY 2013.

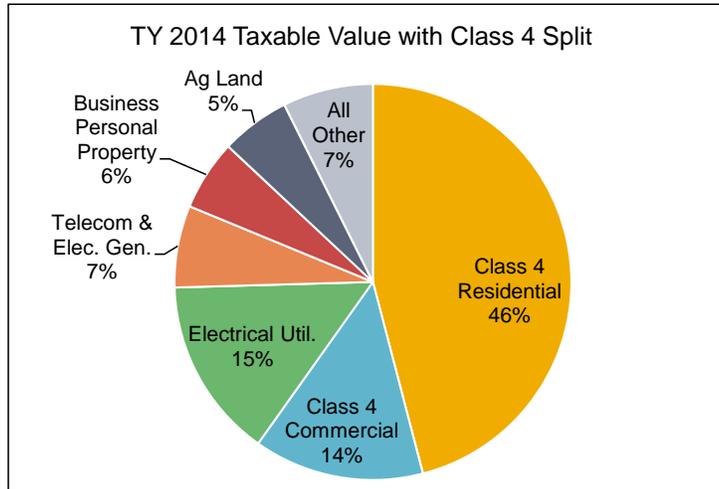
The chart below displays how that money is allocated on a percentage basis in order to see the effects of the distribution. It is anticipated that school districts impacted by the sunset may request a change to current law so that these funds return these districts.



Property Reappraisal Mitigation

Agricultural land (Class 3), timber land (Class 10), and residential and commercial land (Class 4) values are reappraised every six years; all other property classes are reappraised annually. Large increases in property valuation that may occur over a six year reappraisal cycle can put pressure on the legislature to mitigate the tax effects of the valuation increases.

Statewide mitigation of property values is often used to keep the total property tax class revenue neutral while property values increase. When revenue estimates were produced for the [2017 Biennium Outlook](#), there was only very preliminary reappraisal data which suggested reappraisal effects of around \$6.2 million for Class 3 and 4 in FY 2016. It is important to note that reductions in taxable value are phased out completely in the first year. However, increases in taxable value are phased in over a six year period.



Due to Class 3, Class 4, and Class 10 all dropping in taxable value the first year, the reappraisal is expected to decrease state-wide tax collections by \$8.5 million in FY 2016 and \$6.5 million in FY 2017 as compared to no reappraisal. It is unusual that property drops in value, but this will likely put less pressure on mitigation efforts than in past reappraisal cycles.

Executive Proposal

The executive currently has no cost associated with the reappraisal mitigation proposal.

Legislative Options

Reappraisal mitigation can be in different forms; some examples include [HB 658](#) which mitigated reappraisal during the 2009 session, as well as other mitigation proposals from the [2009 session](#), and [SB 461](#) which mitigated reappraisal in the 2003 session.

References

Department of Revenue [2014 Property Reappraisal Presentation](#) to RTIC

Previous Issues Anticipated to be Discussed Again

Local Government Infrastructure

During the 2013 Session local government infrastructure was a significant issue with several funding bills. The legislature passed one of these infrastructure bills: HB 218, which was vetoed by the Governor. In the interim, the Legislative Finance Committee has considered various components that could be used in a program that would fund local infrastructure based on need and community ability to pay.

Executive Proposal

Gov. Bullock proposes HB 5 (commonly referred to as the Build Montana Act), which includes proposed expenditures for eastern Montana infrastructure. The Governor proposes expending over \$300 million using both cash and bond proceeds for the entire Build Montana Act. The portion of the bill focused on this issue is \$45 million in grants to Eastern Montana communities impacted by oil and gas development.

Legislative Options

The Legislative Finance Committee studied options for statewide infrastructure funding for local governments. The following linked reports summarize the options evaluated and are also available at www.leg.mt.gov/css/fiscal:

- [Local Government Economic Impacts Defined](#)
- [Measurement Criteria](#)

References

[HB 218 \(2013 Session\)](#)

[Governor Bullock's 2016-2017 Budget Highlights \(Orange Book\)](#)

Water Compacts

During the 2013 Session, the Confederated Salish and Kootenai Tribes water compact did not pass the legislature. The 2013 Session's state cost to this compact was \$55 million and relied on funding from bonds which required a 2/3 vote.

Executive Proposal

At the time of this writing, no water compact legislation was included in the Governor's budget.

Legislative Options

The legislature could choose to pass or not pass the water compacts. Funding for the compacts could come from a one-time appropriation, a payment stream into an escrow account, or bonding.

References

[HB 629 \(2013 Session\)](#)

[Technical review of proposed CSKT water rights settlement for the Water Policy Interim Committee](#)

Medicaid Expansion

In the 2013 Session, the Governor proposed expanding the population eligible for Medicaid as allowed by the Federal Affordable Care Act. This proposal did not pass the legislature.

Executive Proposal

The Governor has proposed LC631 (commonly referred to as Healthy Montana Act), which proposes to expand Medicaid coverage to approximately 70,000 Montanans.

Legislative Options

Many options exist for expanding Medicaid and several options were considered last session including those listed under references.

References

Links to primary 2013 Session bills:

- [HB 458 – Rep Noonan](#)
- [HB 590 – Rep Hunter](#) (Governor's proposal)
- [SB 393 – Sen Kaufmann](#)
- [SB 395 – Sen Wanzenried](#)

Individual Income Tax Simplification

Several individual income tax simplification bills were introduced and debated in the 2013 Session. SB 282 (2013 Session) made it through the legislative process; however, it was ultimately vetoed by the governor. There appears to be a continued high level of interest in simplifying Montana's individual income tax structure.

Executive Proposal

The executive did not propose an income tax simplification bill.

Legislative Options

There have been a variety of approaches to simplification. These approaches usually involve some combination of eliminating various additions, reductions, deductions and credits; changing the income starting point; allowing for joint taxpayer income brackets; and adjusting the rates. Complicating factors may arise by requiring certain outcomes, such as overall revenue neutrality or minimal tax shifting between taxpayers.

References

2013 Session simplification bills:

- [HB 532 – Rep. Hollandsworth](#)
- [HB 581 – Rep. Hansen](#)
- [SB 282 – Sen. Tutvedt](#)

2013 Session Quick Notes: summary document of key elements of the bills

- [HB 532 Quick Note](#)
- [HB 581 Quick Note](#)
- [SB 282 Quick Note](#)

EXECUTIVE BUDGET

Executive Proposal

The executive general fund budget based on the revenues forecast by the Office of Budget and Program Planning includes a positive structural balance and a \$300.3 million ending fund balance. The general fund balance sheet below summarizes the proposed budget.

| General Fund Balance Sheet | | | | |
|---|------------------|------------------|------------------|------------------|
| Governor's Budget Proposal | | | | |
| (\$ Millions) | | | | |
| | Actual | Current | Proposed | |
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
| Beginning Fund Balance | \$537.6 | \$428.5 | \$344.9 | \$283.5 |
| Governor's Revenue Estimate | 2,077.0 | 2,143.8 | 2,294.0 | 2,433.8 |
| Governor's Revenue Legislation | | | | (0.8) |
| Total Available Funds | \$2,614.6 | \$2,572.4 | \$2,639.0 | \$2,716.4 |
| Ongoing Appropriations and Transfers | | | | |
| Previously authorized items | | | | |
| Statutory and non-budgeted transfers, continue | \$270.9 | \$291.3 | \$288.3 | \$294.5 |
| HB 2 Ongoing: 2017 Biennium Governor's Budget from IBARS | | | | |
| Section A: General Government | 82.6 | 88.5 | 96.7 | 96.1 |
| Section B: Health and Human Services* | 445.9 | 469.1 | 526.9 | 563.0 |
| Section C: Natural Resources | 30.9 | 32.4 | 39.5 | 39.4 |
| Section D: Public Safety | 276.2 | 283.2 | 320.0 | 321.6 |
| Section E: Education | 927.9 | 972.2 | 1,037.7 | 1,048.0 |
| HB 2 Subtotal | 1,763.5 | 1,845.4 | 2,020.7 | 2,068.1 |
| Governor's legislation recommendations | | | | |
| HB 13: Pay plan for state employees | | | 12.514 | 29.974 |
| Other legislation included in Governor's Budget* | | | (15.239) | 0.635 |
| Assumptions | | | | |
| HB 1 Feed Bill estimate | | 11.1 | 1.593 | 11.411 |
| Reversions | | (6.7) | (7.088) | (7.270) |
| One-Time Appropriations and Transfers | | | | |
| Previously authorized | 135.5 | 28.9 | 9.900 | - |
| HB 2: 2017 Biennium Governor's Budget | 20.6 | 25.9 | 23.157 | 18.364 |
| Governor's one-time recommendations | | 31.6 | 21.671 | 0.396 |
| Total Expenditures | \$2,190.6 | \$2,227.4 | \$2,355.5 | \$2,416.1 |
| Adjustments | 4.5 | | | |
| Ending Fund Balance | \$428.5 | \$344.9 | \$283.5 | \$300.3 |
| Structural Balance Calculation | | | | |
| Ongoing Revenues | 2,077.0 | 2,143.8 | 2,294.0 | 2,433.0 |
| Ongoing Expenditures | 2,034.4 | 2,141.0 | 2,300.8 | 2,397.3 |
| Structural Balance (CHIP FMAP savings assumed ongoing) | \$42.6 | \$2.8 | (\$6.8) | \$35.6 |
| Structural Balance (CHIP FMAP savings assumed OTO) | \$42.6 | \$2.8 | (\$27.4) | \$6.1 |

*CHIP FMAP adjustment is included in the proposed legislation line

Several key assumptions are made in the Governor's proposed general fund. First the CHIP FMAP change is assumed to be a new proposal attributed to the Governor's proposal for Healthy Montanans. In addition, this FMAP change is assumed to be of a one-time nature. While there is no federal guarantee of the higher FMAP rate indefinitely, the increased federal match will be available for at least four federal fiscal years from October 1 of 2015 to September 30, 2019. This assumption is a key assumption that the legislature will need to consider. The Legislative Finance Committee leadership will establish the rules for the session general fund status sheet and the calculations of this item for the 2015 Legislature.

The Governor's revenue estimates are \$154 million higher than the revenue estimates contained in HJ 2. The lower HJ 2 estimates include \$9.7 million lower corporation tax estimates in FY 2015 which lowers the transfer needed to the fire fund required from HB 354 of the 2013 session.

Legislative Options

The following general fund balance sheet updates the Governor's proposed budget with HJ 2 revenues, the LFD estimates of statutory appropriations and non-budgeted transfers, and adjusts the new legislation and present law HB 2 budgets to account for the CHIP FMAP being included in present law as discussed in the introduction. Values in this table have been updated to the Governor's December 15 budget revisions.

| General Fund Balance Sheet | | | | |
|---|-------------------|--------------------|-----------------------------|------------------|
| Governor's Budget Proposal with HJ 2 Revenue, LFD Statutory, CHIP, and Transfer Estimates | | | | |
| in millions | | | | |
| | Actual FY 2014 | Current FY 2015 | Proposed FY 2016 FY 2017 | |
| Beginning Fund Balance | \$537.6 | \$428.5 | \$332.8 | \$216.6 |
| RTIC HJ 2 Revenue Estimates | 2,077.0 | 2,133.0 | 2,230.7 | 2,353.5 |
| Governor's Revenue Legislation | | | | (0.8) |
| Total Available Funds | \$2,614.6 | \$2,561.6 | \$2,563.5 | \$2,569.4 |
| Ongoing Appropriations and Transfers | | | | |
| Previously authorized items | | | | |
| Statutory and non-budgeted transfers, continue | \$270.9 | \$292.6 | \$289.3 | \$295.6 |
| HB 2 Ongoing: 2017 Biennium Governor's Budget from IBARS | | | | |
| Section A: General Government | 82.6 | 88.5 | 96.7 | 96.1 |
| Section B: Health and Human Services** | 445.9 | 469.1 | 506.4 | 533.8 |
| Section C: Natural Resources | 30.9 | 32.4 | 39.5 | 39.4 |
| Section D: Public Safety | 276.2 | 283.2 | 320.0 | 321.6 |
| Section E: Education | 927.9 | 972.2 | 1,037.7 | 1,048.0 |
| HB 2 Subtotal | 1,763.5 | 1,845.4 | 2,000.2 | 2,038.9 |
| Governor's legislation recommendations | | | | |
| HB 13: Pay plan for state employees | | | 12.5 | 30.0 |
| Other legislation included in Governor's Budget** | | | 5.3 | 29.8 |
| Assumptions | | | | |
| HB 1 Feed Bill estimate | | 11.1 | 1.6 | 11.0 |
| Reversions | | (6.7) | (7.1) | (7.3) |
| One-Time Appropriations and Transfers | | | | |
| Previously authorized | 135.5 | 28.9 | 0.2 | |
| HB 2: 2017 Biennium Governor's Budget | 20.6 | 25.9 | 23.2 | 18.4 |
| Governor's one-time recommendations | | 31.6 | 21.7 | 0.4 |
| Total Expenditures | \$2,190.6 | \$2,228.8 | \$2,346.9 | \$2,416.7 |
| Adjustments | 4.5 | | | |
| Ending Fund Balance | \$428.5 | \$332.8 | \$216.6 | \$152.6 |
| Structural Balance Calculation | | | | |
| Ongoing Revenues | 2,077.0 | 2,133.0 | 2,230.7 | 2,353.5 |
| Ongoing Expenditures | 2,034.4 | 2,142.4 | 2,301.9 | 2,398.0 |
| Structural Balance (CHIP FMAP savings assumed ongoing) | \$42.6 | (\$9.4) | (\$71.1) | (\$44.5) |
| Structural Balance (CHIP FMAP savings assumed OTO) | \$42.6 | (\$9.4) | (\$91.6) | (\$73.7) |

**CHIP FMAP change has been included in the HB 2 Section B budget assumptions as present law

References

Details to the Governor's Budget recommendations are at this link [2017 Biennium Executive Budget](#) or can be found at www.budget.mt.gov.

BIENNIAL COMPARISON OF THE GOVERNOR'S BUDGET

Statute 17-7-151, MCA defines how the biennial comparison of the executive or legislative budget growth should be measured. The Legislative Finance Committee (LFC) reviewed this definition and considered options for updating current statute. Two reports were presented to the LFC to evaluate these definitions; links to these reports is included in the References section below. The analysis shown below considers a strict interpretation of statute as defined in the March of 2014 report to the LFC.

Key factors of this definition are: 1) it includes the five major fund types considered each session and 2) it removes transfers in order to not count expenditures twice. As shown in the table on the following page, the December 15th Governor's Budget recommendations demonstrate a 14.7% increase in anticipates expenditures of state resources.

A couple of items to consider in evaluating the budget growth:

The largest single proposal in the Governor's Budget is the Healthy Montana Program. Without this large expansion of Medicaid eligibility and other components of this program, the growth in the biennium would be 9.0% increase of state resources.

The executive recommends moving Supplemental Nutrition Assistance Program (SNAP) from HB 2 to a statutory appropriation. In total there is no impact to the biennial comparison from this change as the appropriation moves from the HB 2 line to the statutory line.

References

Reports to the Legislative Finance Committee in 2014:

March Report

http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_March/biennial-comparison.pdf

September Report

http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_Sept/BudgetComparisonsdm.pdf

| Biennial Budget Comparison Strict March 2014 Method 17-7-151 | | | | |
|---|-----------------|----------------|------------------|------------------|
| In millions | | | | |
| Fiscal Year | 2014 Actuals | 2015 Approp | 2016 Proposed | 2017 Proposed |
| Appropriations HB 2 includes other bills in HB 2 base | | | | |
| General Fund | 1,782.4 | 1,870.4 | 2,043.9 | 2,086.4 |
| State Special Revenue Fund | 682.7 | 763.7 | 743.1 | 745.7 |
| Federal Special Revenue (note SNAP) | 1,998.1 | 2,259.3 | 2,043.9 | 2,098.8 |
| Appropriated Proprietary Fund | 10.3 | 11.4 | 14.0 | 13.2 |
| <i>Subtotal HB 2</i> | <i>4,473.6</i> | <i>4,904.8</i> | <i>4,844.9</i> | <i>4,944.2</i> |
| Transfers HB 2 MUS transfers not subtracted | (19.6) | (22.1) | (17.7) | (17.7) |
| Net Subtotal HB 2 | 4,454.0 | 4,882.7 | 4,827.2 | 4,926.5 |
| Appropriations Statutory | | | | |
| General Fund | 254.4 | 264.6 | 267.2 | 274.7 |
| State Special Revenue Fund | 277.7 | 285.1 | 249.6 | 259.7 |
| Federal Special Revenue (note SNAP) | 38.1 | 39.2 | 217.3 | 217.2 |
| Capital Projects Fund | 0.4 | 0.4 | 0.4 | 0.4 |
| Appropriated Proprietary Fund | 35.7 | 44.6 | 45.5 | 48.0 |
| Transfers statutory (pension transfers subtracted) | (77.4) | (76.6) | (69.8) | (69.9) |
| Net Subtotal Statutory | 528.9 | 557.2 | 710.2 | 730.0 |
| Other Bill Appropriations (not including non-budgeted transfers and Medicaid expansion) | | | | |
| General Fund | 2.9 | 2.0 | 22.7 | 32.1 |
| State Special Revenue Fund | 78.7 | 99.6 | 96.0 | 15.3 |
| Federal Special Revenue | 20.3 | 32.8 | 25.3 | 10.7 |
| Capital Projects Fund | 19.0 | 21.3 | 243.0 | - |
| Appropriated Proprietary Fund | 0.7 | - | 0.1 | 0.3 |
| Transfers | (36.5) | (3.4) | | |
| Net Subtotal Other Bill Appropriations | 85.1 | 152.4 | 387.1 | 58.4 |
| Healthy Montanans (includes Medicaid expansion and present law CHIP FMAP change) | | | | |
| General Fund | | | (30.7) | (28.9) |
| Federal Special Revenue | | | 300.3 | 383.1 |
| Healthy Montana subtotal | | | 269.6 | 354.2 |
| Language appropriations (mostly budgeted proprietary) | | | | |
| General Fund | - | - | 0.1 | 0.1 |
| State Special Revenue Fund | 2.0 | 4.4 | 3.7 | 3.7 |
| Federal Special Revenue | 0.0 | 0.4 | 3.6 | 3.6 |
| Appropriated Proprietary Fund | 105.9 | 130.0 | 138.0 | 145.0 |
| Language appropriations transfers | (35.3) | (43.3) | (46.0) | (48.3) |
| Net Subtotal Language Appropriations | 72.6 | 91.4 | 99.3 | 104.0 |
| Other appropriations | | | | |
| Long Range Building Appropriations | | 257.8 | | |
| Appropriation Transfers | | 58.8 | | |
| Totals not including transfers | 5,140.6 | 6,000.3 | 6,293.5 | 6,173.2 |
| Estimated Reversion (12.6% w/cont, 4.4%w/o cont.) | - | (755.4) | (278.2) | (273.0) |
| Total Comparable | 5,140.6 | 5,244.9 | 6,015.3 | 5,900.1 |
| Biennial Total Appropriations | | 10,385.5 | | 11,915.4 |
| Biennial increase | | | | 14.7% |
| Non-comparable | | | | |
| Budget Amendments & Carryforward | 121.6 | 324.9 | - | - |
| Added Authority (HB1 & Supplemental) | 1.5 | 1.8 | - | - |
| Special Session | - | - | - | - |
| Emergency | 20.3 | 17.1 | 8.3 | 8.3 |
| Total Non-Comparable | 143.4 | 343.9 | 8.3 | 8.3 |
| Note: the executive recommends moving SNAP from HB 2 to statutory appropriation | | | | |

The FY 2014 HB 2 actuals vary slightly to the values in the State Expenditure section due to technical reasons. FY 2015 Appropriations in this comparison, by definition include continuing appropriations and are materially different than the values in the State Expenditure section.

APPENDIX B - FTE CHANGES

FTE, or full-time-equivalent, is used to account for full and part-time employees of state government. The legislature does not appropriate FTE per se, but instead uses FTE and its individual attributes such as salary and benefits to build the personal services budget. The FTE are also used to indicate which FTE can be used to build the base budget in the next biennium.

The 2015 biennium HB 2 boilerplate included language that FTE established in the 2015 biennium should reflect the personal services budget, which included a 4% vacancy savings reduction. The executive did not reduce FTE in the 2015 biennium to implement this language. Instead, the executive has reduced FTE in most agencies in the proposed 2017 biennium budget. The following figure shows the base FY 2014 and appropriated FY 2015 FTE as they appear in the executive budget, and the boilerplate language reductions taken by the executive. The Legislative and Judicial Branches were exempt, as were any agencies that had been exempt from vacancy savings due to either size or statutory exemption.

| Executive Budget FTE Removed for HB 2 Boilerplate 2015 Biennium | | | | | |
|--|----------------------|----------------------|----------------------------|---------------------|---------------------|
| Section/Agency | Executive FY 2014 | Executive FY 2015 | Removed for Boilerplate | New Base FY 2014 | New Base FY 2015 |
| Section A | | | | | |
| State Auditor | 87.80 | 87.80 | 3.26 | 84.54 | 84.54 |
| Revenue | 670.28 | 670.28 | 24.72 | 645.56 | 645.56 |
| Administration | 149.13 | 149.13 | 6.21 | 142.92 | 142.92 |
| Commerce | 49.25 | 49.25 | 2.21 | 47.04 | 47.04 |
| Labor and Industry | 751.58 | 751.58 | 30.02 | 721.56 | 721.56 |
| Military Affairs | 199.21 | 199.21 | 4.50 | 194.71 | 194.71 |
| Section B | | | | | |
| Public Health and Human Services | 2,923.58 | 2,923.58 | 68.79 | 2,854.79 | 2854.79 |
| Section C | | | | | |
| Fish, Wildlife, and Parks | 701.28 | 701.28 | 20.52 | 680.76 | 680.76 |
| Environmental Quality | 383.47 | 383.47 | 17.92 | 365.55 | 365.55 |
| Transportation | 2,129.26 | 2,129.26 | 78.99 | 2,050.27 | 2050.27 |
| Livestock | 138.47 | 138.47 | 5.85 | 132.62 | 132.62 |
| Natural Resources and Conservation | 542.78 | 542.78 | 18.92 | 523.86 | 523.86 |
| Agriculture | 118.53 | 118.53 | 3.79 | 114.74 | 114.74 |
| Section D | | | | | |
| Justice | 771.85 | 771.85 | 18.41 | 753.44 | 753.44 |
| Public Service Commission | 40.00 | 40.00 | 1.56 | 38.44 | 38.44 |
| Office of the Public Defender | 217.50 | 217.50 | 8.96 | 208.54 | 208.54 |
| Corrections | 1,281.89 | 1,281.89 | 16.87 | 1,265.02 | 1265.02 |
| Section E | | | | | |
| Office of Public Instruction | 163.35 | 163.35 | 6.81 | 156.54 | 156.54 |
| Commissioner of Higher Education | 93.88 | 93.88 | 3.98 | 89.90 | 89.9 |
| State Library | 30.75 | 30.75 | 1.29 | 29.46 | 29.46 |
| Historical Society | <u>60.83</u> | <u>60.83</u> | <u>2.44</u> | 58.39 | 58.39 |
| Total | <u>11,504.67</u> | <u>11,504.67</u> | <u>346.02</u> | <u>11,158.65</u> | <u>\$ 11,158.65</u> |

EXECUTIVE PROPOSAL

The following figure shows the increase requested by the executive from the FY 2014 minus the executive boilerplate implementation. This adjustment was made in order to show the policy areas where the executive has requested a change in total FTE. The executive would add 195.17 FTE in FY 2017 compared to FY 2015, with over 93% of the net increase in five agencies. The reduction in the Department of Labor and Industry is due to a reorganization that would move positions funded in HB 2 to a non-HB 2 proprietary fund.

| Section/Agency | FY 15 - 17 | | | | |
|--|---------------------|---------------------|----------------------|----------------------|-----------------|
| | New Base FY 2014 | New Base FY 2015 | Executive FY 2016 | Executive FY 2017 | Total Change |
| Section A | | | | | |
| Legislative Branch** | 134.22 | 139.39 | 133.22 | 138.39 | (1.00) |
| Consumer Counsel | 5.54 | 5.54 | 5.54 | 5.54 | 0.00 |
| Governor's Office | 58.07 | 58.07 | 58.07 | 58.07 | 0.00 |
| Secretary of State* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Commissioner of Political Practices | 6.00 | 6.00 | 7.00 | 7.00 | 1.00 |
| State Auditor | 84.54 | 84.54 | 80.54 | 80.54 | (4.00) |
| Revenue | 645.56 | 645.56 | 651.55 | 651.55 | 5.99 |
| Administration* | 142.92 | 142.92 | 143.42 | 143.42 | 0.50 |
| Commerce* | 47.04 | 47.04 | 52.04 | 52.04 | 5.00 |
| Labor and Industry | 721.56 | 721.56 | 688.56 | 688.56 | (33.00) |
| Military Affairs | 194.71 | 194.71 | 200.21 | 200.21 | 5.50 |
| Section B | | | | | |
| Public Health and Human Services | 2,854.79 | 2,854.79 | 2,872.80 | 2,945.49 | 90.70 |
| Section C | | | | | |
| Fish, Wildlife, and Parks | 680.76 | 680.76 | 694.62 | 694.08 | 13.32 |
| Environmental Quality | 365.55 | 365.55 | 365.55 | 365.55 | 0.00 |
| Transportation | 2,050.27 | 2,050.27 | 2,062.32 | 2,062.32 | 12.05 |
| Livestock | 132.62 | 132.62 | 139.12 | 139.12 | 6.50 |
| Natural Resources and Conservation | 523.86 | 523.86 | 526.36 | 526.36 | 2.50 |
| Agriculture | 114.74 | 114.74 | 114.74 | 114.74 | 0.00 |
| Section D | | | | | |
| Judicial Branch | 422.58 | 422.58 | 433.58 | 433.58 | 11.00 |
| Board of Crime Control | 17.50 | 17.50 | 17.50 | 17.50 | 0.00 |
| Justice | 753.44 | 753.44 | 759.44 | 759.42 | 5.98 |
| Public Service Commission | 38.44 | 38.44 | 38.44 | 38.44 | 0.00 |
| Office of the Public Defender | 208.54 | 208.54 | 256.00 | 256.00 | 47.46 |
| Corrections | 1,265.02 | 1,265.02 | 1,283.52 | 1,283.52 | 18.50 |
| Section E | | | | | |
| Office of Public Instruction | 156.54 | 156.54 | 162.71 | 162.71 | 6.17 |
| Board of Public Education | 4.00 | 4.00 | 3.00 | 3.00 | (1.00) |
| School for the Deaf and Blind | 88.61 | 88.61 | 88.61 | 88.61 | 0.00 |
| Commissioner of Higher Education*** | 89.90 | 89.90 | 89.90 | 89.90 | 0.00 |
| Arts Council | 7.00 | 7.00 | 7.00 | 7.00 | 0.00 |
| State Library | 29.46 | 29.46 | 30.46 | 30.46 | 1.00 |
| Historical Society | 58.39 | 58.39 | 59.39 | 59.39 | <u>1.00</u> |
| Total | <u>11,902.17</u> | <u>11,907.34</u> | <u>12,025.21</u> | <u>12,102.51</u> | <u>195.17</u> |
| *The Office of the Secretary of State and a significant number of Department of Administration and Department of Commerce staff are funded with proprietary funds that are not included in HB 2. | | | | | |
| **FY 2017 includes session staff. | | | | | |
| ***Includes only staff within the Office of the Commissioner of Higher Education. | | | | | |

Among the major changes for significant proposed policy actions are the following:

- DPHHS – “First Step” initiatives and other mental health proposals in FY 2017, and make permanent modified positions added during the interim to assist Offices of Public Assistance
- Office of the Public Defender – Make modified positions added in the interim permanent and additional staff to address workload issue, and reverse the reduction taken to implement the HB 2 boilerplate language
- Corrections – Additional probation and parole officers
- Fish, Wildlife, and Parks – Staff to implement the proposed sage grouse function
- Judicial Branch – Court Help program

LEGISLATIVE OPTIONS

The 2015 LFD Budget Analysis contains a more detailed description of each of the proposed changes to FTE included in the personal services funding in the executive budget, with associated comments or issues.

REFERENCES

<http://leg.mt.gov/fbp-2017.asp>

APPENDIX B – ONE-TIME-ONLY EXPENDITURE PROPOSALS

The executive recommends that \$41.5 million general fund be appropriated in HB 2 on a one-time-only (OTO) basis in the 2017 biennium. The executive is also requesting OTO funds in other legislation totaling \$16.1 million, including:

- o HB 10 Long Range Information Technology - \$12.0 million cash transfer for a portion of a total \$20.0 million for projects
- o HB 13 Pay Plan bill - \$1.275 million for a contingency fund and training. The remaining funding in the bill would be ongoing

A detailed description of the LRIT projects is provided in section F of the budget analysis located here: http://leg.mt.gov/content/Publications/fiscal/BA-2017/section_f/lrbp.pdf

The pay plan is discussed in the expenditure section of the report under Other Legislation.

EXECUTIVE PROPOSAL

The following figure details the general fund OTOs proposed by the executive in HB 2.

| One-Time-Only Expenditure Proposals Executive Budget - General Fund 2017 Biennium | | |
|---|------------------|---------------------|
| HB 2 | Present Law | New Proposals |
| Legislative Branch | | |
| Carbon Dioxide Subcommittee | | 9,610 |
| State Auditor | | |
| Insure Montana | | 4,769,387 |
| Revenue | | |
| Fiscal Note Overtime | 70,000 | |
| Commerce | | |
| Native American Language | | 1,500,000 |
| Enhance Economic Development | | 5,500,000 |
| DPHHS | | |
| Child Care STARS to Quality | | 2,400,000 |
| AMDD Suicide Mortality Review Team | 67,000 | |
| Suicide Prevention Grants | | 500,000 |
| DEQ | | |
| Zortman Landusky Additional | | 500,000 |
| DNRC | | |
| Sage Grouse Conservation Fund | | 10,000,000 |
| Water Resources Database | 126,000 | |
| Justice | | |
| Montana v Wyoming Litigation | | 500,000 |
| CSKT Water Litigation | | 500,000 |
| Commissioner of Higher Education | | |
| Research to Improve Montana's Economy | | 15,000,000 |
| MSDB | | |
| Upgrade Software | 25,000 | |
| Extra-Curricular Compensation | 53,876 | |
| Total by DP Type | <u>\$341,876</u> | <u>\$41,178,997</u> |

LEGISLATIVE OPTIONS

Additional discussion of each proposal can be found in the narratives for the individual agencies listed, along with any LFD analyst comments and/or options.

REFERENCES

<http://leg.mt.gov/fbp-2017.asp>

APPENDIX B - FY 2015 SUPPLEMENTAL REQUESTS

EXECUTIVE PROPOSAL

The executive is requesting \$31.6 million general fund in the 2015 biennium as supplemental funding. The figure shows supplemental appropriations since the 2001 biennium. The amount requested is slightly less than the average for the time period. However, please note that, unlike most other biennia, there are no fire costs in the 2015 biennium total, as these costs were entirely funded with the fire suppression fund¹.

The following details the FY 2015 executive request. The figure is followed by a brief description of each. A further discussion of each supplemental request is included in the individual agency narratives in the 2017 Biennium Legislative Fiscal Division Budget Analysis.

| General Fund Supplementals 2001 to 2015 | |
|--|----------|
| Biennium | Millions |
| 2001 | \$68.2 |
| 2003 | 12.5 |
| 2005 | 12.7 |
| 2007 | 76.4 |
| 2009 | 3.5 |
| 2011 | 2.9 |
| 2013 | 123.6 |
| 2015 | 31.6 |

| HB 3 Supplemental Appropriations Request Executive Budget - 2015 Biennium | | | | |
|--|----------------------------|-------------------|-------------------|-------------------|
| Agency/Purpose | General Fund | State | | |
| | | Special Funds | Federal Funds | Proprietary Funds |
| Commissioner of Political Practices | | | | |
| Litigation and Investigation | \$94,000 | - | - | - |
| Office of Public Instruction | | | | |
| Base Aid | 9,000,000 | | | |
| Block Grants | 400,000 | | | |
| Department of Administration | | | | |
| Risk Management and Tort Defense | 13,400,000 | | | |
| Office of the Public Defender | | | | |
| Public Defender | 100,000 | | | |
| Conflict Coordinator Program | 1,600,000 | | | |
| Department of Corrections | | | | |
| Secure Facilities | <u>7,000,000</u> | | | |
| Total | <u>\$31,594,000</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

- Commissioner of Political Practices – The executive requests funds to hire additional consultants to provide forensic accountant services and legal consultation
- Office of Public Instruction – The executive request consists of two parts:
 - The 2015 biennium budgeted appropriation was underestimated for BASE-Aid and the executive requests \$9.0 million for the shortfall
 - \$400,000 for block grants shortages that occurred in the 2015 biennium
- Department of Administration – The State of Montana has a self-funded property and casualty insurance program administered by the Department of Administration. The executive is requesting funds to help replenish the fund, which was depleted owing to a large payout to settle the Libby asbestos lawsuit

The 2013 legislature created a [fire suppression fund](#) to provide for wildfire costs.

- Office of the Public Defender – The executive is requesting funding for statewide caseload growth for two functions in the office: Public Defender and Conflict Coordinator
- Department of Corrections – The executive is requesting funding to offset anticipated shortages associated with county jail holds that are nearly double the budgeted amount

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.

Adjusted Base – The base budget, the level of funding authorized by the previous legislature, modified by annualization of personal services costs, inflationary or deflationary factors, changes in fixed costs, etc.

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. In HB 2, it can be split between years, but still be biennial if so indicated.

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. A line item appropriation highlights certain appropriation and ensures that it 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 year 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
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in a state facility. ADP is equivalent to one person served 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 for on-going spending, such as one-time appropriations and supplementals.

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.

Benefits and Claims – A category of expenditure that accounts for provision of direct financial assistance or provision of services to specific individuals. Persons must meet eligibility criteria such as income limits and end of disability to receive services.

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 Governor's 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. FY 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 (fiscal year).

Grants – An expenditure category used to account for the payment by a government entity to an 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.

Non-budgeted Transfer – Funds moved from one account to another in the state accounting system based upon statutory authority but not by appropriation in the General Appropriations Act (HB 2).

Off base – The accounting term “off base” refers to one-time-only spending and non-budgeted items like inventory adjustments.

Operating Expenses – All 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

| | | | |
|----------|---|-------|--|
| AES | Agricultural Experiment Station | HSRA | Highways Special Revenue Account |
| ACA | Affordable Care Act | I&I | Interest and Income |
| ADP | Average Daily Population | IT | Information Technology |
| AMDD | Addictive & Mental Disorders Division | ITSD | Information Technology Services Division |
| ANB | Average Number Belonging (K-12 education) | LAD | Legislative Audit Division |
| ARM | Administrative Rules of Montana | LEPO | Legislative Environmental Policy Office |
| ARRA | American Recovery and Reinvestment Act | LFA | Legislative Fiscal Analyst |
| BASE Aid | Base Amount for School Equity Aid | LFC | Legislative Finance Committee |
| BPE | Board of Public Education | LFD | Legislative Fiscal Division |
| C&A | Cultural and Aesthetic (Trust) | LRBP | Long-Range Building Program |
| CC | Community Colleges | LRITP | Long-Range Information Technology Program |
| CES | Cooperative Extension Service | LRP | Long-Range Planning |
| CHE | Commissioner of Higher Education | LSD | Legislative Services Division |
| CHIP | Children's Health Insurance Program (also SCHIP) | MAC | Montana Arts Council |
| CIO | Chief Information Officer | MBARS | Montana Budgeting, Analysis, and Reporting System |
| COPP | Commissioner of Political Practices | MBCC | Montana Board of Crime Control |
| COT | College of Technology, followed by campus designation | MBMG | Montana Bureau of Mines and Geology |
| CPI | Consumer Price Index | MCA | Montana Code Annotated |
| DEQ | Department of Environmental Quality | MCHA | Montana Comprehensive Health Association |
| MA | Department of Military Affairs | MDC | Montana Developmental Center |
| DNRC | Department of Natural Resources and Conservation | MDT | Montana Department of Transportation |
| DOA | Department of Administration | MHP | Montana Highway Patrol |
| DOAg | Department of Agriculture | MHS | Montana Historical Society |
| DOC | Department of Commerce | MSDB | Montana School for the Deaf and Blind |
| DOC | Department of Corrections | MSF | Montana State Fund |
| DOJ | Department of Justice | MSL | Montana State Library |
| DOLI | Department of Labor and Industry | MSP | Montana State Prison |
| DOR | Department of Revenue | MSU | Montana State University, followed by campus designation, i.e. MSU – Bozeman |
| DOT | Department of Transportation | MUS | Montana University System |
| DP | Decision Package | MWP | Montana Women's Prison |
| DPHHS | Department of Public Health and Human Services | NP | New Proposal |
| ES | Extension Service | OBPP | Office of Budget and Program Planning (Governor's Office) |
| FCES | Forestry and Conservation Experiment Station | OCHE | Office of the Commissioner of Higher Education |
| FMAP | Federal Medical Assistance Percentage (Medicaid match rate) | OPI | Office of Public Instruction |
| FSR | Federal Special Revenue | OTO | One-Time-Only |
| FSTS | Fire Services Training School | PERS | Public Employees Retirement System |
| FTE | Full-Time Equivalent | PL | Present Law |
| FWP | Department of Fish, Wildlife, and Parks | PPACA | Patient Protection and Affordable Care Act (Federal Health Care Reform) |
| FFY | Federal Fiscal Year | PSC | Public Service Commission |
| FY | Fiscal Year | PSR | Public Service Regulation |
| FYE | Fiscal Year End | QSFP | Quality School Facilities Program |
| GAAP | Generally Accepted Accounting Principles | RDGP | Reclamation and Development Grant Program |
| GF | General Fund | RIGWA | Resource Indemnity and Groundwater Assessment Tax |
| GSL | Guaranteed Student Loan | RIT | Resource Indemnity Trust |
| GTB | Guaranteed Tax Base | RRGL | Renewable Resource Grant & Loan Program |
| HB | House Bill | | |
| HAC | House Appropriations Committee | | |
| HMK | Healthy Montana Kids | | |
| HRD | Health Resources Division | | |

| | |
|------------|--|
| RTIC | Revenue & Transportation Interim Committee |
| SA | Statutory Appropriation |
| SABHRS | Statewide Accounting, Budgeting, and Human Resources System |
| SAFETEA-LU | Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users |
| SAO | State Auditor's Office |
| SAVA | State Administration & Veterans' Affairs Interim Committee |
| SB | Senate Bill |
| SBCEP | State Building Energy Conservation Program |
| SF&C | Senate Finance and Claims Committee |
| SLTC | Senior & Long-Term Care Division |
| SOS | Secretary of State |
| SSR | State Special Revenue |
| SWPLA | Statewide Present Law Adjustment |
| TANF | Temporary Assistance for Needy Families |
| TRS | Teachers' Retirement System |
| TSEP | Treasure State Endowment Program |
| TESPRW | Treasure State Endowment Program Regional Water Systems |
| UM | University of Montana, followed by campus designation, i.e. UM – Missoula |