

**LEGISLATIVE FISCAL REPORT
2015 BIENNIUM
VOLUME 1 - STATEWIDE PERSPECTIVES
REPORT FROM THE LEGISLATIVE FISCAL DIVISION
TO THE SIXTY-THIRD LEGISLATURE**

June 2013

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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.

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June 2013

Members of the Sixty-third Legislature:
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In accordance with the provisions of Section 5-12-302, MCA, I submit the *Legislative Fiscal Report* for the 2015 biennium. The report provides an overview and details of the 2013 biennium budget for the State of Montana adopted by the Sixty-third Legislature in the 2013 session.

This four-volume report includes

- Volume 1: Statewide Perspectives – This volume provides an overview of the 2015 biennium state budget as well as significant policy addressed by the 2013 Legislature
- Volume 2: Revenue Estimate – This volume provides the legislative revenue estimates and underlying economic assumptions that were included in SJR 2
- Volumes 3 and 4: Agency Budgets – These volumes provide a detailed report of the appropriations for each agency and program contained in the general appropriations act (House Bill 2) and in other legislation

These volumes are intended as a reference document and historical archive of legislative budget action for the use of legislators, the public, and state agencies.

Respectively submitted,

Amy Carlson
Legislative Fiscal Analyst

TABLE OF CONTENTS

Staff Assignments.....	iv
Introduction Volume 1	v
What is Contained In Volumes 2 Through 4?	v

2015 BIENNIUM BUDGET OVERVIEW

Overview	7
Background	7
Strong Ending Fund Balance.....	7
Growing Revenues	7
Budget Challenges.....	8
Legislative Budget for the 2015 Biennium	11
Detail of Ongoing General Fund Increase.....	13
Long-Range Planning.....	15
Water Compacts	15

STATE REVENUE PERSPECTIVES

General Fund Revenue Outlook	25
Revenue and Tax Policy Initiatives.....	33

AN OVERVIEW OF STATE EXPENDITURES

State Expenditures.....	41
Appropriations By Source Of Authority – HB 2.....	43
Language Appropriations in HB 2	50
Appropriations by Source Of Authority – Long Range Planning	51
Appropriations By Source Of Authority – Statutory Appropriations.....	54
Appropriations By Source Of Authority – General Fund Transfers.....	59
Bills Addressing Major Budget Issues	61
SB 175.....	61
Pension Legislation Impacts.....	62
HB 13 – State Employee Pay Plan	64
Wildfire Costs.....	65

OTHER BUDGET ISSUES

Other Budget Issues.....	67
Structural Balance	67
Pending Lawsuits	68
HB 2 Boiler Plate – Vacancy Savings.....	68
Tribal Water Compacts	69

APPENDIX A

Appendix A – Budget Detail	A-1
Elements of the Legislative Budget.....	A-1
Changes in General Fund Ending Fund Balance.....	A-2
Present Law And New Proposals	A-4
Base	A-4
Present Law Adjustments.....	A-5
New Proposals.....	A-8
FTE Changes	A-11
One-Time-Only Expenditures	A-113
Fixed Costs.....	A-16
FY 2013 Supplemental Appropriations.....	A-16

APPENDIX B

Appendix B – Other LFD Budget Reference Documents	B-1
Training Publications	B-1
Fiscal Pocket Guides	B-1
Agency Profiles	B-2
Previous Reports.....	B-2
LFD Website	B-2

REVENUE ESTIMATES – VOLUME 2

Overview	5
Business and Personal Taxes.....	21
Natural Resource Taxes.....	95
Interest Earnings.....	140
Consumption Taxes.....	216
Property Taxes.....	269
Other General Fund Revenue	299

AGENCY BUDGETS – VOLUME 3 THROUGH 4

General Government and Transportation	Section A, Volume 3
Health and Human Services	Section B, Volume 4
Natural Resource and Commerce.....	Section C, Volume 4
Judicial Branch, Law Enforcement and Justice.....	Section D, Volume 4
Education.....	Section E, Volume 4
Long-Range Planning.....	Section F, Volume 4

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INTRODUCTION VOLUME 1

The purpose of this report (Volumes 1 through 4) is to provide legislators and all interested parties with information regarding the fiscal actions of the 2013 Legislature (including both legislation passed and stated legislative intent related to fiscal issues) and the fiscal status of state government through the 2015 biennium. This report seeks to accomplish this by providing an objective perspective on the state's fiscal condition and on the fiscal outcomes of the 2013 regular session. In addition, this report is a reference document for all legislators, as well as an historic record of fiscal decisions, and provides a myriad of information about Montana state government.

Volume 1 is intended to complement Volumes 2 through 4 of the Legislative Fiscal Report – 2015 Biennium, by providing an executive summary and general overview of the budget approved by the legislature. While Volumes 2 through 4 of the Legislative Fiscal Report 2015 biennium describe the detailed results of the 2013 Legislature's actions regarding revenue estimates and expenditures and adopted budgets of state programs, Volume 1 presents a broader fiscal overview and discusses significant fiscal and policy issues that either cut across program or agency lines or do not necessarily fall under the jurisdiction of a single committee of the legislature.

This volume is divided into six parts:

- **2015 Biennium Budget Overview** provides a high-level executive summary
- **Perspectives on the Economy** describes the current outlook for the economy
- **State Revenues Perspectives** provides a review of the revenue projections used to craft the 2015 biennium budget
- **Overview of State Expenditures** provides an overview of the state spending plan for the 2015 biennium
- **Other Budget Issues** includes discussions of significant fiscal issues can be found on page 67 of this volume
- **Appendices A, B, and C** contain information that further defines various aspects of the legislative budget

WHAT IS CONTAINED IN VOLUMES 2 THROUGH 4?

Volume 2

Volume 2 includes a summary and overview of the state's major revenue sources. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. It also describes the legislative actions that affected the various revenue sources.

Volumes 3 and 4

Volumes 3 and 4 offer detailed summaries of each individual agency budget as adopted by the legislature. These volumes feature program-by-program detail, including a summary of legislative intent where appropriate. Agency presentations are grouped in sections corresponding to the appropriations subcommittee that reviewed each agency budget.

- Volume 3 contains:
 - House Bill 2 – General Appropriations Act of 2013
 - Section A – General Government
 - Section B – Health and Human Services

- Volume 4 contains:
 - Section C – Natural Resources and Transportation
 - Section D – Judicial Branch, Law Enforcement, and Justice
 - Section E – Education
 - Section F – Long-Range Planning

The basic structure used for the report is consistent across agencies. Agency budgets are presented in three tiers as required by statute:

- Base budget: the level of ongoing funding spent in FY 2012
- Present law base: the additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature
- New proposals: requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding

Legislators use the base budget as the starting point, then incrementally either add or subtract funds through either present law adjustments or new proposals to arrive at a total approved budget for an agency. These volumes detail an agency's appropriations, both in tables and narrative, and present detailed discussions of present law adjustments, new proposals, and new legislation.

Executive Summary



SUMMARY

BACKGROUND

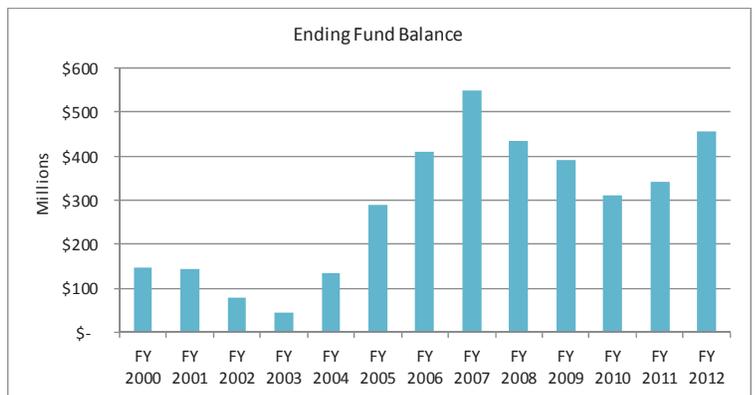
After several years of budget challenges, the 2013 Legislature had the advantage of growing general fund revenue streams and a significant general fund balance. At the same time, there were a number of budget challenges and other pent-up financial demands before the 2013 Legislature, including pensions, employee pay, provider reimbursement rates, and more.

STRONG ENDING FUND BALANCE

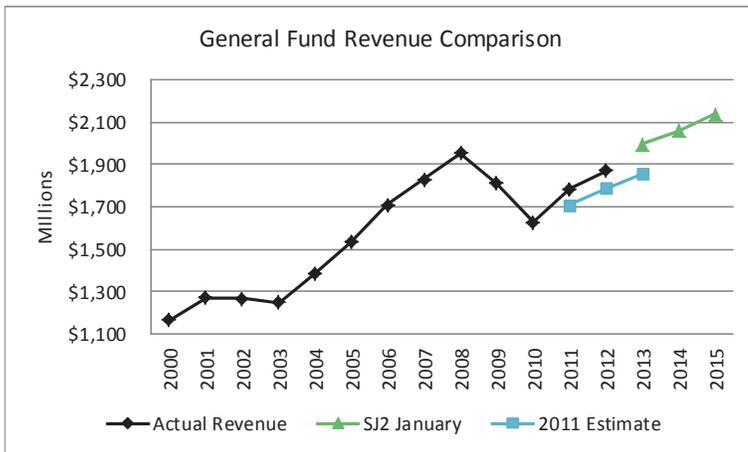
A high level of ending fund balance was available to the legislature. While the 2011 session anticipated an ending fund balance of \$150 million, with approved supplementals and other legislation in the 2013 biennium the ending fund balance is currently anticipated to be well over \$400 million at the end of the 2013 biennium.

GROWING REVENUES

In FY 2009 and FY 2010, state revenues declined two years in a row. While two years ago it appeared these declines had ended, it was not clear how strongly general fund revenues would return. The last two years have brought growth and stability to the general fund revenues. This stability gives confidence that the worst is behind us.



The next two years are anticipated to have continued growth in general fund revenue, although not at the same rate as the past two years. Growth patterns are anticipated to even out to just under the long term growth trend in FY 2014 and FY 2015.



The chart shows the actual revenue collected from FY 2000 to FY 2012. The lower blue line for FY 2011 to FY 2013 shows the revenue anticipated at the end of the 2011 session and the green line shows the revenue estimated for FY 2013 to FY 2015 in SJ 2, the official revenue estimate of the 2013 legislative session.

There is a 15.3% increase in anticipated revenues from the amount projected by the 2011 Legislature for the 2013 biennium to the current anticipated 2015 general fund revenues. The 2013 Legislature had this 15.3% increase in revenues and the strong ending fund balance to respond to the budget challenges described in the pages that follow.

BUDGET CHALLENGES

Pension Funding Shortfall

Over the past several years the unfunded liability of all Montana public pensions in Montana increased to \$4.3 billion. Collectively Montana public employers and employees were making payments on about \$2.0 billion of this liability, while the remaining portion (\$2.3 billion) of this liability needed to be funded or amortized over 30 years as generally recommended by experts. The additional annual funding needed was approximately \$121 million per year. Without measures to close this funding gap, the liabilities were estimated to continue to grow to the point where 39 to 41 years from now there would be no assets to pay required pension payments, and state and local governments would be liable for funding these costs out of current operating expenses.

The legislature adopted legislation to fund the two largest systems' liabilities with a combination of state general fund, state and local employer contribution rate increases, employee contribution increases, and reductions in the inflationary increases in retiree benefits to close this gap. The general fund cost of these proposals is \$127 million in the 2015 biennium, which accounts for 25% of the additional ongoing general fund commitment in the 2015 biennium in comparison to the 2013 biennium. For more detail on pension funding click the following link:

www.leg.mt.gov/content/Publications/fiscal/Vol-1/4-State-Expenditures/Major-Budget-Issues/Pensions.pdf

Personnel and Pay Plan

Employees of the state of Montana have not received an inflationary pay adjustment approved by the legislature in four years. Yet, during this time period many changes have occurred in market conditions and pay approved by the executive. Given the previous increases provided by the executive, the legislature approved a pay increase subject to the priorities set forth in HB 13. The priorities are designed to target the areas of greatest compensation need in state government. The specifics of the pay increase are outlined in the Overview of State Expenditures section.

This pay increase accounts for \$58 million or 11% of the increase in the ongoing biennial general fund increase.

For more detail on pay plan funding use the following link:

www.leg.mt.gov/content/Publications/fiscal/Vol-1/4-State-Expenditures/Major-Budget-Issues/Pay-Plan.pdf

Rates Paid to Private Providers of Services

Some state government services are provided by private entities such as hospitals, nursing homes, private prisons, and other community providers. Similar to pay increases for state employees, private providers of services to citizens of Montana have generally not received an ongoing across the board increase in funding in four years. Governor Bullock

proposed an increase of 2% per year for most providers and statutorily calculated increases for other providers. In addition to accepting these provider pay increases, the legislature authorized select additional rate increases for providers of children's mental health Medicaid services, children's mental health targeted case management, and developmental disabilities services.

Federal Healthcare Reform and Montana's Choices

The federal Patient Protection and Affordable Care Act or ACA included several policy choices that were considered by the legislature. The ACA makes several changes to Medicaid programs that all states are required to implement and includes provisions that allow Montana to opt to expand Medicaid and implement provisions related to the private health insurance market.

- The executive did not request any funding adjustments to HB 2 for the changes to the state Medicaid program that are required by ACA. Some of the changes increase costs, while some reduce costs. The legislature determined that the executive will need to accommodate Medicaid program changes due to ACA within HB 2 and SB 410 appropriations.
- The legislature considered but did not adopt any of several bills to implement the option allowed under ACA to expand Medicaid eligibility for adults who are between the ages of 10 and 64 and who are not disabled or pregnant, and have household income up to 138% of the federal poverty level.

Federal Deficit Reduction

The federal government has deficit reduction requirements that will result in a combination of increased tax collections and decreased spending. Both will impact Montana's budget and economy. The tax changes will slightly decrease Montana's income tax collections as additional federal taxes will be partially deductible from Montana's taxable income. The direct tax impacts from the tax changes are relatively small.

The larger impact on the revenue side will result in changes to the economy from changes to federal tax law and federal direct spending reductions. For these impacts, the LFD revenue estimate relies on IHS Global Insight, the state's economic forecast company. IHS Global Insight estimated changes to the Montana economy were included in the January update of SJ 2.

In addition to tax and direct spending provisions, the deficit reduction requirements contain budget reductions that will impact state agency budgets directly, although during legislative budget deliberations the precise amount of the direct reductions and their impact were not entirely clear. The legislature chose not to backfill any potential reductions in federal money or provide any other means during the interim for replacement of any reduced funding.

Wildfire Funding

Wildfire costs in FY 2013 are expected to reach \$60.3 million, a much higher than the usual level of \$23.8 million per year based on a seven year average. The fire suppression fund established in the 2007 special session has been fully expended and both a supplemental appropriation for the current biennium and additional funds for the next biennium were requested by the executive. The legislature adopted two measures to assist in funding fires in the current and future biennia. HB 3 (the supplemental bill) provided funding for the shortfall in FY 2013. In addition, HB 3 provided approximately \$14.2 million for transfer to the fire suppression fund to use in future biennia. HB 354 provides additional revenues to the fire suppression fund through two mechanisms: 1) reversions (or appropriations that were underspent) in excess of 0.5% of the annual appropriations; and 2) corporate income tax revenues in excess of levels anticipated. For more detail on wildfire funding use the following link:

www.leg.mt.gov/content/Publications/fiscal/Vol-1/4-State-Expenditures/Major-Budget-Issues/Fires.pdf

Energy Development Issues

Local and state governments are being challenged with finding personnel and resources to provide services in the energy development areas of the state. Housing costs have increased dramatically. Water and sewer systems are over their limits. Police, fire, and other public safety systems are stretched. School districts face challenges of quickly expanding enrollments with children from all over the country with varying educational needs. The legislature reviewed many choices this session to address some of these challenges.

Two primary means of funding solutions in these energy development areas were passed by the legislature - one for schools (SB 175) and one for local governments (HB 218). Of these, HB 218, the local government infrastructure bill, was vetoed by the Governor.

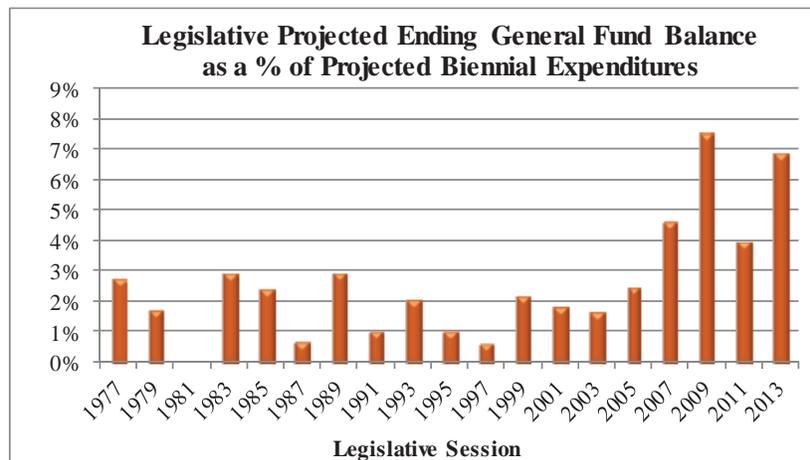
In addition to these two primary bills, HB 6 provided funding for regional water projects. Some of these projects include infrastructure for some areas impacted by energy development. For more detail on funding for energy development areas use following link:

www.leg.mt.gov/content/Publications/fiscal/Vol-1/4-State-Expenditures/Long-Range/Energy.pdf

Managing Budget Volatility

The legislature primarily used the ending fund balance as the means for managing potential budget volatility in either expenditures or revenues. Governor Bullock proposed a structural balance (revenues equal to or exceeding spending) and an ending fund balance of \$300 million. The Governor’s vetoes brought budgets to these levels with the official revenue estimate of the session, SJ 2. While no other revenue estimates passed the legislature, at the end of session the Legislative Fiscal Division and the Governor’s Budget Office had revenue estimates that would have brought the final ending fund balance to approximately \$350 million.

Historically, projected ending fund balances have varied from nearly zero to as high as 7.7% of biennial spending. The 2015 biennium budget anticipates an ending fund balance of \$297 million, or 6.9% of biennial spending. The following table illustrates the budgeted ending fund balances of the past as a percent of the anticipated expenditures.



Legislatures frequently spend one-time ending fund balances on one-time investments in infrastructure or other projects. For a list of the current biennium one-time investments please see Appendix A.

LEGISLATIVE BUDGET FOR THE 2015 BIENNIUM

The status sheet at the end of session had an ending fund balance anticipated at \$182 million and a negative structural balance of \$20.9 million. However, the Governor vetoed a number of bills that impacted both the overall and structural balances. The following table details the Governor's vetoes. All vetoes that qualified for polling for potential override were upheld by the legislature.

Vetoed Bills--General Fund			
In Millions			
HB0002	General Appropriations Act	Vetoed, line-item	2.621
HB0012	Appropriate funds for provider payments	Vetoed, override attempt failed	6.482
HB0019	Revise penalty and interest provisions related to tax law enforcement	Vetoed, override attempt failed	1.094
HB0218	Require Board of Oil and Gas to administer grant program for oil and gas impacts	Vetoed, override attempt failed	35.318
HB0556	Revise laws related to coal severance tax allocations	Vetoed, override attempt failed	1.322
HB0604	Create Select Committee on Medicaid Innovation, Reform, and Expansion	Vetoed	0.100
HB0633	Provide for an interim select committee on efficiency in government	Vetoed, override attempt failed	0.080
SB0081	Provide tax credits for contributions to scholarship organizations	Vetoed	6.024
SB0114	Eliminate certain charges for motor vehicle registration	Vetoed	4.708
SB0236	Increase coal board funding until June 30, 2019	Vetoed, override attempt failed	3.010
SB0240	Revise taxation of pollution control equipment	Vetoed, override attempt failed	0.157
SB0256	Making FWP liable for private property damages caused by wild buffalo/bison	Vetoed	0.040
SB0265	Extend the reserved water rights compact commission	Vetoed	0.040
SB0282	Generally revise taxation of income, including the corporate license tax	Vetoed	3.685
SB0394	Generally revise income tax laws and decrease taxes	Vetoed	47.003
SB0401	Revise disposition of metalliferous mines license tax	Vetoed, override attempt failed	<u>3.620</u>
Total			\$115.304
HB 5 is not included on the list as the line item veto did not have a monetary impact.			

The final adopted general fund budget included an ending fund balance anticipated at \$297.9 million and a negative structural balance of \$4.55 million. This general fund budget is illustrated on the following page in accordance with the requirements for content and comparison to the previous biennium contained in 17-7-151, MCA.

17-7-151, MCA - General Fund Comparison									
(in Millions)									
	Actual 2012	FY Estimated FY 2013	Legislative FY 2014	Legislative FY 2015	2013 Biennium	2015 Biennium	Biennial \$ Change	Biennial % Change	
Beginning Fund Balance	\$341.88	\$452.37	\$435.00	\$337.87	\$341.88	\$435.00	\$93.12	27.2%	
Revenue									
Legislative Revenue Estimates - SJ 2	1,870.95	1,995.08	2,056.20	2,137.40	3,866.03	4,193.60	327.57	8.5%	
Legislation		0.27	0.13	(0.81)	0.27	(0.68)	(0.95)		
Legislative Prior Year Revenue Adjustments	8.75	-	-	-	-	-	-		
Total Funds Available	2,221.58	2,447.72	\$2,491.33	\$2,474.46	\$4,208.18	4,627.92	419.74	10.0%	
Disbursements									
General Appropriations Act Ongoing	1,577.86	1,628.67	1,734.64	1,786.23	3,206.53	3,520.87	314.34	9.8%	
General Appropriations Act OTO	10.06	13.61	20.80	23.20	23.67	44.00	20.33	85.9%	
Feed Bill (HB 1) Ongoing	1.36	10.06	1.30	11.10	11.41	12.40	0.99	8.7%	
Supplemental Approps (HB 3) Ongoing	-	53.57	-	-	53.57	-	(53.57)	-100.0%	
Supplemental Appropriations (HB 3) OTO	-	65.22	-	-	65.22	-	(65.22)	-100.0%	
Long Range Building (HB 5) OTO	-	-	49.55	-	-	49.55	49.55		
Renewable Resources Grants (HB 6) OTO	-	-	20.47	-	-	20.47	20.47		
Long Range Information Tech (HB 10) OTO	-	-	11.45	-	-	11.45	11.45		
Treasure State Endowment (HB 11) OTO	-	-	10.85	10.85	-	21.70	21.70		
Pay Plan (HB 13) Ongoing	-	-	16.98	41.02	-	58.00	58.00		
Pay Plan (HB 13) OTO	-	-	0.55	0.55	-	1.10	1.10		
K-12 Education Legislation Ongoing	-	-	13.08	14.47	-	27.55	27.55		
K-12 Education Legislation OTO	-	23.25	0.01	0.01	23.25	0.01	(23.24)	-99.9%	
Pension Legislation Ongoing	-	-	62.57	64.20	-	126.77	126.77		
Statutory Appropriations Ongoing	171.23	200.95	199.80	214.10	372.18	413.90	41.72	11.2%	
Statutory Appropriations Bills Ongoing	-	-	(0.03)	5.92	-	5.89	5.89		
Statutory Appropriations Bills OTO	-	-	3.79	-	-	3.79	3.79		
Transfers Ongoing	15.47	15.00	13.48	12.09	30.47	25.57	(4.90)	-16.1%	
Transfers - Legislation OTO	-	13.50	1.08	-	13.50	1.08	(12.42)		
Other Appropriations OTO	3.67	-	0.90	0.89	3.67	1.79	(1.87)	-51.1%	
Reversions	-	(11.10)	(7.82)	(8.05)	(11.10)	(15.87)	(4.77)	42.9%	
Total Disbursements	\$1,779.64	\$2,012.73	\$2,153.46	\$2,176.57	\$3,792.36	\$4,330.03	\$537.67	14.2%	
Fund Balance Adjustment and Prior Year	10.43	-	-	-	10.43	-			
Ending Fund Balance	\$452.37	\$435.00	\$337.87	\$297.89	\$426.24	\$297.89			
Biennial Comparison									
Total Ongoing Spending	1,765.91	1,897.14	2,034.01	2,141.08	3,663.06	4,175.09	512.03	14.0%	
Total OTO Spending	<u>13.72</u>	<u>115.58</u>	<u>119.45</u>	<u>35.50</u>	<u>129.30</u>	<u>154.94</u>	<u>25.64</u>	<u>19.8%</u>	
Total Disbursements	1,779.64	2,012.73	2,153.46	2,176.57	3,792.36	4,330.03	537.67	14.2%	
Total Ongoing Revenue	1,870.95	1,995.35	2,056.26	2,136.52	3,866.03	4,193.46			
Total OTO Revenue	-	-	0.07	0.07	-	0.14			
Structural Balance	\$105.04	\$98.21	\$22.25	(4.56)	\$202.98	\$18.37			

2015 Biennium Ongoing Spending

The increase in ongoing general fund spending as adjusted per MCA 17-7-151 is 14.0%. As show in the preceding pages, a number of significant budget challenges were addressed by the 2013 Legislature. The following table illustrates the primary components of this spending:

2015 Biennial Ongoing General Fund Increase			
Item	Millions	% of Increase	% of 2013 Biennial
Pension Legislation	\$126.8	25%	3.5%
HB 13 Pay plan	58.0	11%	1.6%
K-12 Total	141.5	28%	3.9%
K-12 guarantee account replacement	56.7	11%	1.5%
K-12 increased present law and other	60.1	12%	1.6%
K-12 tax relief (SB 372, SB 96, SB 175)	24.7	5%	0.7%
Tax Relief - entitlement share (2011 SB 372, SB 96)	32.2	6%	0.9%
DPHHS Medicaid, provider rates, and other	84.2	16%	2.3%
Montana University System (\$14 million is replacement)	32.9	6%	0.9%
Other (DOC \$12.6; Justice \$4.8; DOR \$2.0; OPD \$4.2)	<u>37.1</u>	<u>7%</u>	<u>1.0%</u>
Total	\$512.0	100%	14.0%

The following section provides additional detail of each of the components of the increase.

DETAIL OF ONGOING GENERAL FUND INCREASE

K-12 Funding

K-12 funding accounts for over 40% of the total general fund spending in the 2015 biennium.

The increase in ongoing K-12 general fund spending was \$141.5 million or 28% of the total general fund ongoing increase in spending. This is comprised of three major components:

1. A replacement of \$56.7 million of funding that was available in the guarantee account (primarily school trust revenue) in the 2013 biennium that is not anticipated in the 2015 biennium. Since this funding is not anticipated in the 2015 biennium, general fund must be used to replace it.
2. Increased present law and other funding increases comprised \$60.1 million of the total. This includes the present law increases to fund K-12 school district BASE aid and special education factors by 0.89% in FY 2014 and 2.08% in FY 2015, as well as increases contained in SB 175 and all other adjustments.
3. Tax relief distributed \$24.7 million through the school funding formula from SB 372 from the 2011 session, and SB 96 and SB 175 from the 2013 session.

Note in addition to these amounts, K-12 benefits from the general fund spending in the pension legislation. Additional information on school funding begins on page E-1 of Volume 4.

Montana University System Funding -- Tuition

The 2013 Legislature increased general fund appropriations for Montana's postsecondary education institutions and agencies by \$44.2 million for the 2015 biennium. Of this increase, \$11.2 million funds one-time only expenditures,

HB 2 General Fund Increase (in millions)	
State Share Funding for Present Law Adjustments	\$28.2
Ongoing New Programs & Other Program Increases	4.8
Ongoing Expenditures Total	\$33.0
One-Time-Only Expenditures	<u>11.2</u>
Total Increase	\$44.2

leaving \$33.0 million, or 75%, of the general fund biennial increase for ongoing expenditures.

Tuition Cap Agreement (in millions)	
HB 2	
State Share Funding for Present Law Adjustments	\$28.2
Student Assistance Program (OTO)	5.2
WICHE/WWAMI/Dental (OTO)	<u>0.6</u>
HB 2 Total	<u>\$34.0</u>
HB13 Pay Increase for Educational Units	<u>18.7</u>
Total	<u>\$52.7</u>

Most of the \$28.2 million general fund increase for the state share funding of present law adjustments will be allocated to the Montana University System education units to implement a Tuition Cap Agreement reached between the Governor and the Board of Regents and approved by the legislature to freeze resident student tuition rates each year of the 2015 biennium. (At its May 2013 meeting the Board of Regents maintained tuition rates at the prior level.) Included in the agreement in HB 2 is \$5.2 million general fund restored to the Student Assistance Program that was part of a funding switch in the

2011 legislative session and \$0.6 million general fund for inflationary increases in the WICHE/WWAMI/Minnesota Dental program. In addition to HB 2 appropriations, the Tuition Cap Agreement includes HB 13 appropriations for the state share of the educational units’ pay plan costs. The estimated general fund allocation is \$18.7 million for pay raises and increased state contribution toward health insurance premiums. The agreement also commits the Montana University System to incorporating a performance funding component into the allocation model used by the Board of Regents for distributing funds to the MUS education units.

Additional information begins on page E-76 of Volume 4.

Business Equipment Exemption

SB Bill 96 reduces the taxes assessed on class 8 business equipment by providing a tax rate of 1.5% on the first \$6 million of taxable market value and 3% for all taxable market value in excess of \$6 million. The legislation also exempts the first \$100,000 in market value of this property owned by a taxpayer, up from \$20,000. The exemption is available for all owners of class 8 business equipment tax. Reimbursements are provided to the university system, local governments, local schools, and tax increment financing districts from the general fund for reductions in property tax revenue due to the legislation. The net cost of SB 96 is \$18.5 million over the 2015 biennium. A further discussion is in Volume 2.

FY 2013 Supplemental Appropriations

Supplemental appropriations for FY 2013 total \$117.2 million. These supplementals are primarily for: 1) K-12 funding of \$34.7 million, which had been anticipated with the veto of HB 316 after the 2011 session; 2) wildland fire costs of \$50 million, which includes \$14.2 million to replenish the fire suppression fund for future fire costs; and 3) \$13.4 million for half the cost of the Libby asbestos legal settlement. The school funding items of the supplemental have been considered ongoing spending as it is statutorily required. A further discussion is in Appendix A of this volume.

2015 Biennium One-Time-Only Appropriations

The legislature provided a total of \$45.9 million in one-time-only (OTO) general fund appropriations, including \$44 million in HB 2 and an additional \$1.9 million in other legislation. The HB 2 appropriations include \$5.8 million in present law and \$38.2 million in new proposals over a large number of agencies for a number of different purposes. A discussion of all OTO appropriations is included in Appendix A.

The legislature also made a number of general fund transfers for OTO projects, including \$49.55 million for long-range building and maintenance projects. A further discussion is under “General Fund Transfers” and in the Long Range Planning section in the Overview of State Expenditures section of this volume.

Department of Corrections

The Department of Corrections is funded primarily with general fund. The main increases in the Department of Corrections budget are to maintain current programs. The budget addresses average annual offender population increases of 1% and 4.4% for female offenders as well as a 10% annual growth of medical costs. To accommodate these factors, the legislature funded the department at \$21.0 million, or 6.0% higher than the 2013 biennium, to increase staffing by 2.00 FTE and add 10 female pre-release and transitional living beds. When the biennial comparison includes supplemental appropriations in the 2013 biennium and ongoing appropriations only, the increase in the biennium is reduced to \$12.6 million.

In addition to general fund appropriations, SB 410 appropriated \$2.0 million of state special revenue specifically for the department and an unspecified portion of \$7.5 million that will be shared by nine agencies including the department to address operating costs in the 2015 biennium.

Additional information begins on page D-71 of Volume 4.

Office of Public Defender

The legislature increased funding for the Office of Public Defender by \$8.4 million or 18.9% over the previous biennium funding, which included increasing staffing by 8.00 FTE or 3.8% to address double digit growth in cases and factors contributing to high levels of staff turnover. Significant increases also included \$3.7 million to contract for staff augmentation and \$2.6 million to fund a career ladder for attorneys. Like the increases in the Department of Corrections, when the biennial comparison includes supplemental appropriations in the 2013 biennium and ongoing appropriations only, the increase in the biennium is reduced to \$4.2 million.

Additional information begins on page D-62 of Volume 4.

Department of Public Health and Human Services

Health and Human Services programs account for 25% of the total general fund budget. General fund increases \$86.2 million over the biennium for two primary reasons: 1) Medicaid increases in caseload and utilization add \$65 million; and 2) provider rates increase \$17 million. When adjusted to include ongoing appropriations only, this increase is \$84.2 million or 16% of the ongoing general fund biennial increase.

Additional information begins on page B-1 of Volume 3.

Long-Range Planning

The 2013 Legislature approved total one-time spending (appropriations and authorizations) of \$325.5 million for the LRP budgets. The largest source of state funding is general fund at \$103.2 million, taking the form of transfers to the various program funds. In the upcoming biennium, the highest amount of appropriations was provided for the Long-Range Building Program - \$175.6 million (\$116.7 million of state and federal funds).

More information on the LRP programs and projects may be seen in Section F of the 2015 Biennium Legislative Fiscal Report.

Water Compacts

Water compacts are formal agreements for the equitable division and apportionment of waters between the state and the several Indian tribes claiming reserved water rights within the state, and between the state and the federal government claiming non-Indian reserved waters within the state. All compacts must be approved by the legislature and Congress prior to implementation.

The executive proposed HB 629 as a vehicle to adopt the Reserved Water Rights Compact Commission recommendation for settlement of the Confederated Salish and Kootenai Tribes (CSKT) Water Compact, as well as additional funding for the Fort Belknap and Blackfeet compacts. HB 629 was not adopted by the 2013 Legislature. Instead, the legislature provided \$17 million of appropriations in HB 6 toward the state's financial obligation for the

two existing/authorized tribal water compacts: the Fort Belknap Tribal Compact (\$3 million) and the Blackfeet Tribal Compact (\$14 million).

The consequences of the failure of HB 629 are unclear. The Reserved Water Rights Compact Commission plans to issue a report on issues raised during the session to the Water Policy Interim Committee.

State Revenue Perspectives



SUMMARY

This chapter briefly discusses the economic outlook and the major revenue sources for the state of Montana. More detailed data can be found in the *LFD Legislative Fiscal Report 2015 Biennium, Volume 2 – Revenue Estimates*.

Beginning in 1999, the revenue estimating responsibilities were assigned to the Revenue and Transportation Interim Committee (RTIC). In the past, RTIC has adopted the revenue estimates in November of the year proceeding the next regular session. As a practical matter, RTIC cannot adopt the estimates much earlier than mid-November because the Department of Revenue's income tax data is not available until November 1 (October 15 is the general deadline for taxpayers who requested an extension of time for filing an income tax return).

Staff of the Legislative Fiscal Division and the Governor's Office of Budget and Program Planning each present assumptions and corresponding revenue estimates for RTIC's consideration. In the past, RTIC has initially adopted the revenue estimates of the Legislative Fiscal Division and made changes to those estimates based on information presented by OBPP, economists from the Montana university system, and other experts. Finally, the resolution containing the revenue estimates must be pre-introduced by December 15, 2010 (see Rules of the Montana Legislature, Joint Rules 40-40(5)(a)). The RTIC estimate, as introduced in the Legislature, constituted the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses.

On November 19th, 2012, RTIC met to review and adopt a revenue estimate recommendation, but were unable to agree on the estimate. Therefore, the committee did not introduce a resolution with a revenue estimate. The Rules Committee subsequently met and adopted rules for the 63rd Legislative Session, including a requirement that the chair of the Senate Taxation Committee prepare a revenue estimate to be introduced in the Senate. The rules also provided that the Senate transmit the revenue estimate to the House no later than the 15th legislative day and that the Senate Joint Resolution did not constitute the Legislature's revenue estimate until passed by the House and any House amendments were concurred in by the Senate.

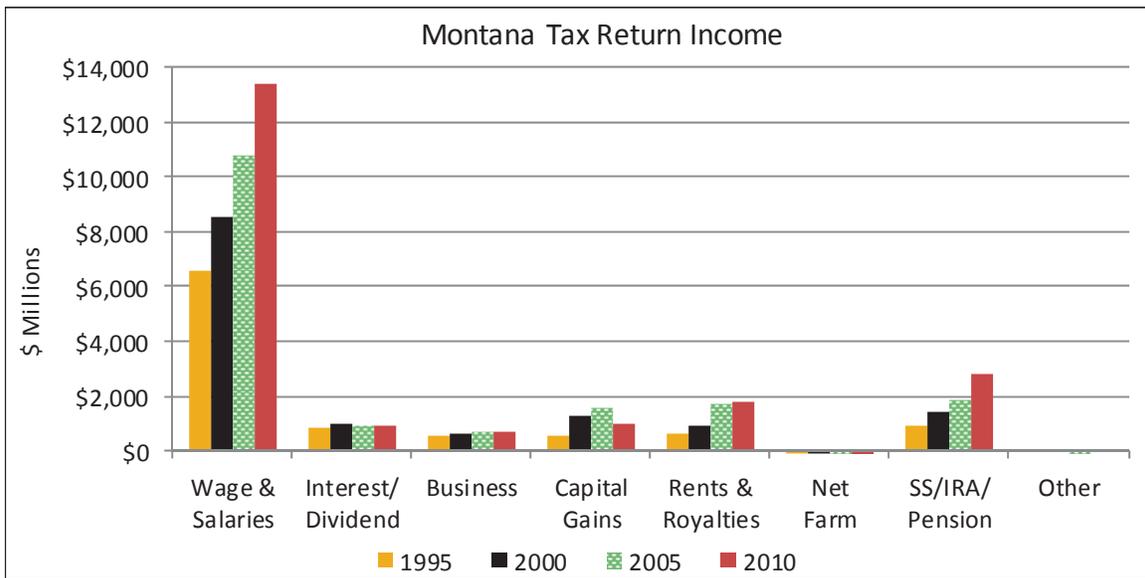
The estimate contained in Senate Joint Resolution 2, along with an initial set of amendments, passed both houses by early February of the 2013 Legislative Session. A revised estimate contained in Senate Joint Resolution 27 was introduced in early April, but failed to pass both houses.

ECONOMIC AND REVENUE OUTLOOK FOR MONTANA

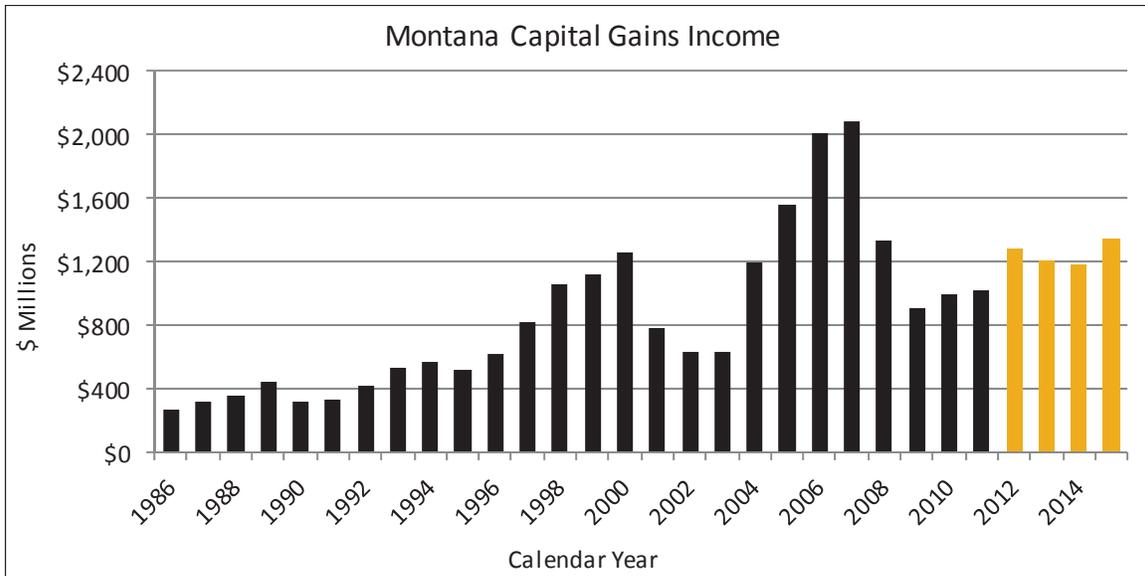
The following section outlines the significant economic factors that drive the general fund revenue in Montana. A recap of the relative value of each revenue stream can be found on page 25 of this document.

Individual Income

The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income, it is the single most important variable to consider in the revenue estimation process. Of the income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 64.9% of total income. In 2011, it contributed 65.6%, or \$14.0 billion. The average compounded growth from 1990 to 2011 is 5.0%.

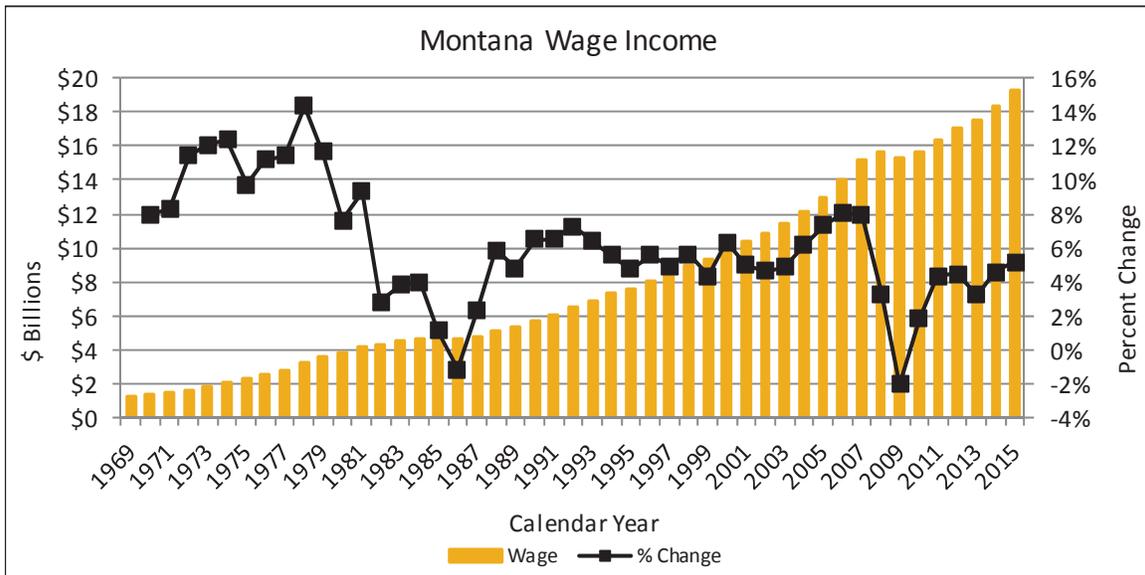


Capital gains income has increased in relative importance over the decade. In 2009, capital gains income declined by almost 32% reaching the amount of \$912 million. Projections based on IHS, Inc. indicators suggest that capital gains income will increase moderately annually between 2012 and 2015.



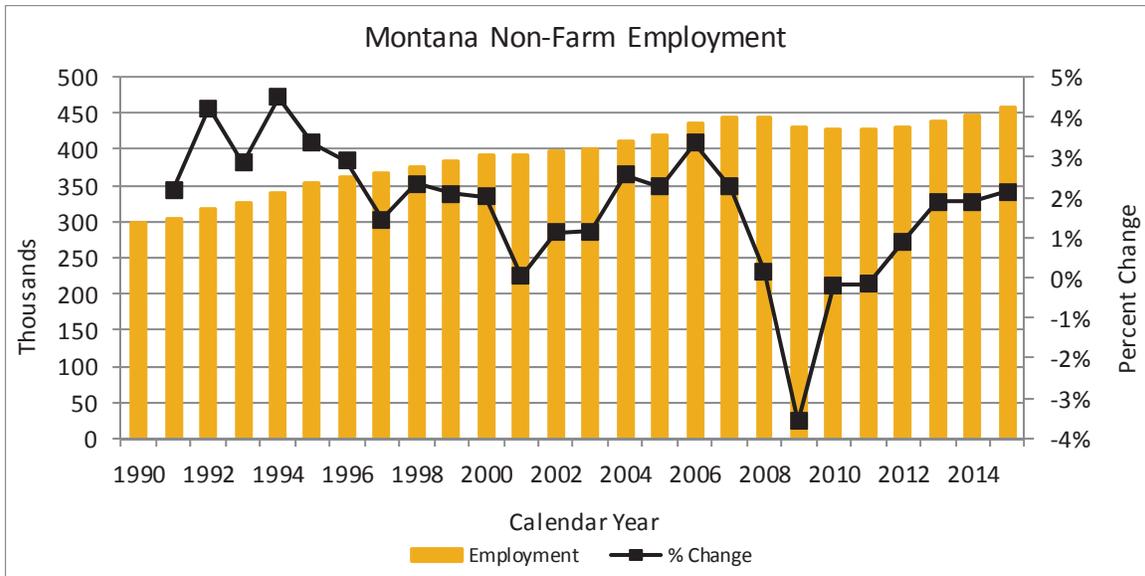
Wages

The average annual growth in Montana wages and salaries income is 5.1% between 1990 and 2011. During the recession, the growth of wages declined sharply to rates of -2.1% and 1.8% in 2010 and 2011 respectively. The growth in wages between 2012 through 2015 is modeled on IHS Montana wage and salary projections. Wage income is expected to increase throughout the forecast period.



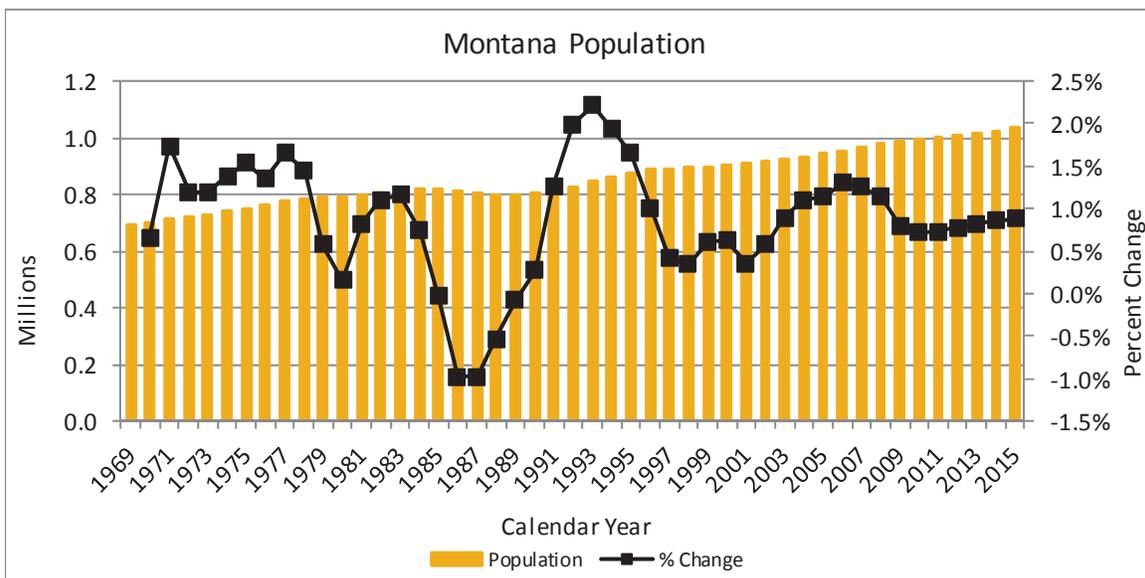
Employment

Average annual growth in total Montana employment between 1990 and 2011 is 1.7%. It is expected that total non-farm employment growth through 2012 will be 0.9%, and continue to grow slowly in the forecast period.



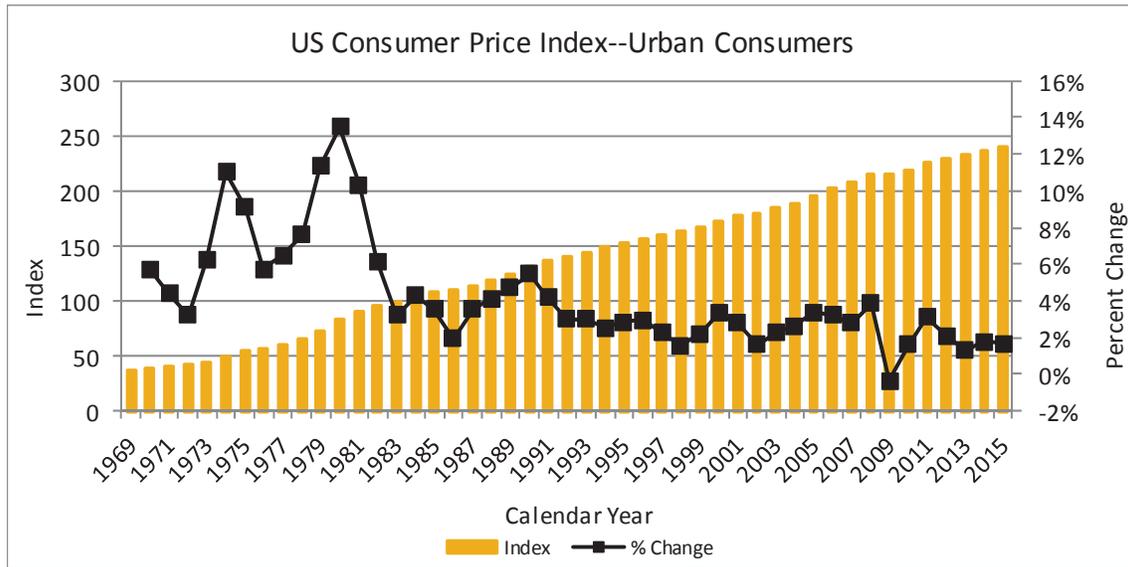
Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. Historic population data is gathered from the U.S. Census department while projections are obtained from IHS. Growth in recent years has been slow, averaging 0.8% growth annually from 2007 to 2010. Growth through the next biennium is expected to continue this trend.



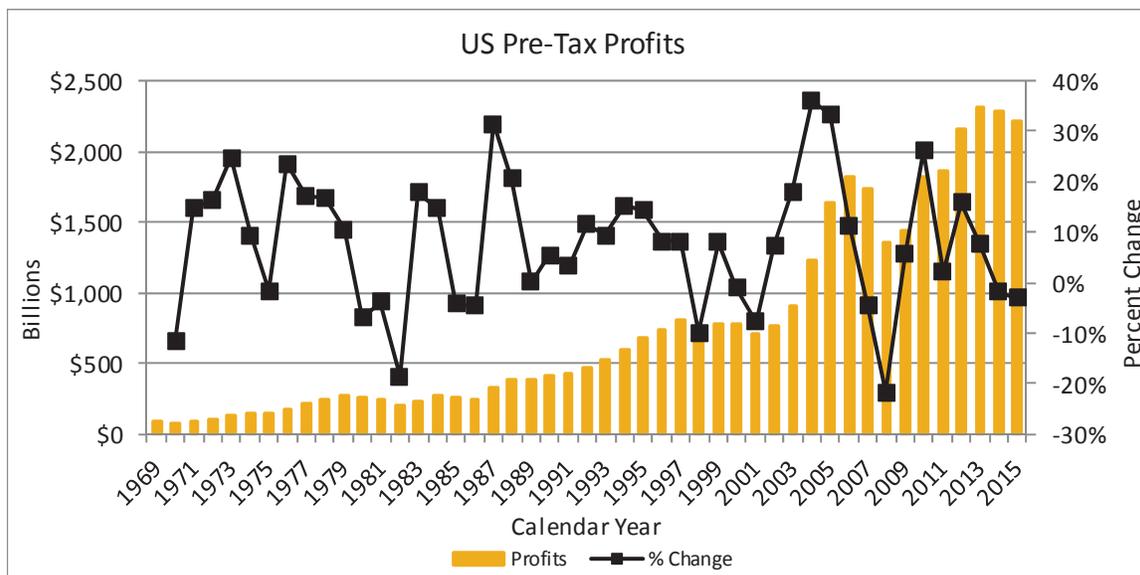
Inflation Rates

The inflation rate is measured by the price change of the Consumer Price Index (CPI) “shopping basket” of goods and services. Since Montana’s individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the historical CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 2.6%. The IHS forecasts suggest inflation will remain low through the forecast biennium.



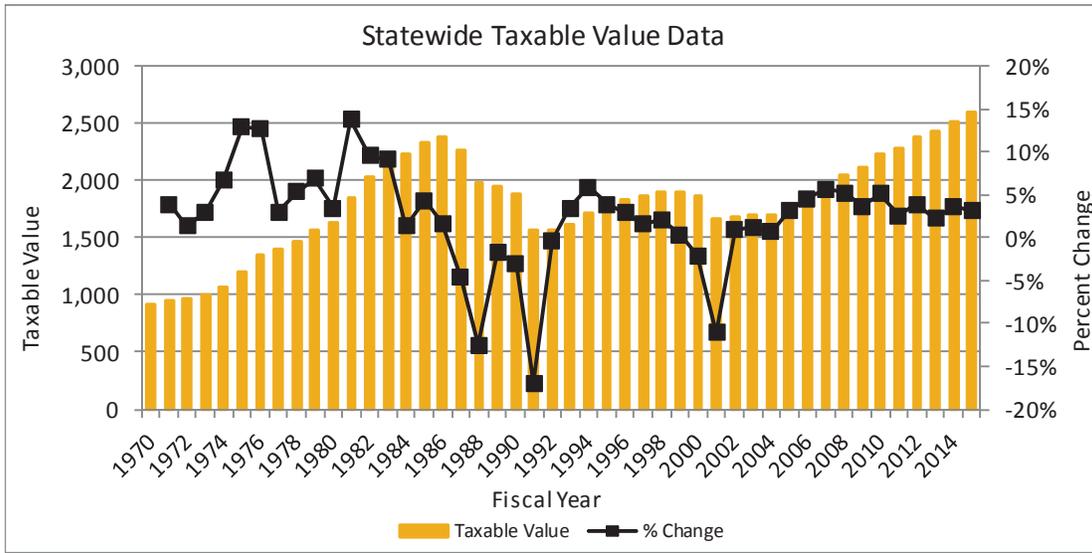
Corporate Profits

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to IHS, between 1990 and 1997, U.S. corporation pre-tax profits increased by an annual average of 10.3%. However, from 1997 through 2001, profits decreased by an average of 3.0%. Between 2006 and 2011, corporate profitability grew an average annual rate of 0.3%. During the forecast period, corporation profits are expected to grow slowly, then decline slightly.

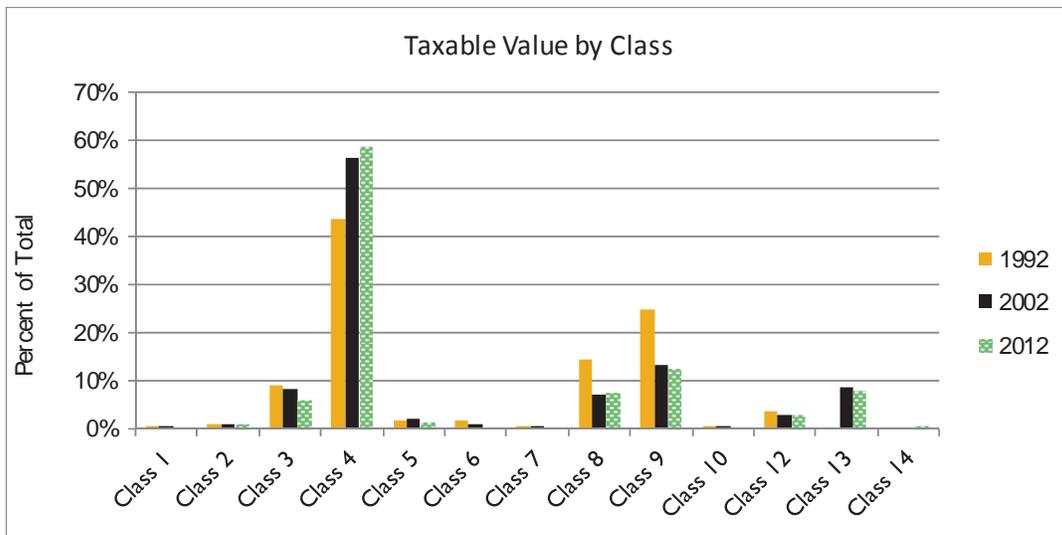


Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. On January 1, 2009, new reappraisal values were placed on residential, commercial, agricultural land and timber land. The 2009 legislature mitigated these increases by continuing to phase in assessed values and providing a schedule over the following six years by which tax rates are decreased and homestead and comstead exemptions are increased. Taxable values are expected to increase throughout the biennium in line with recent historical trends.



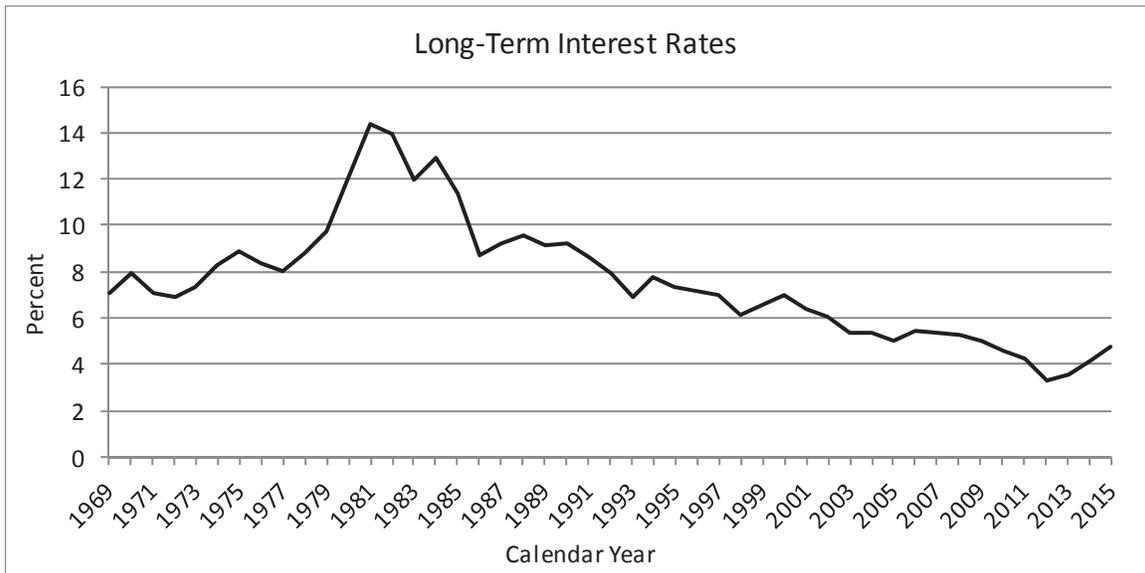
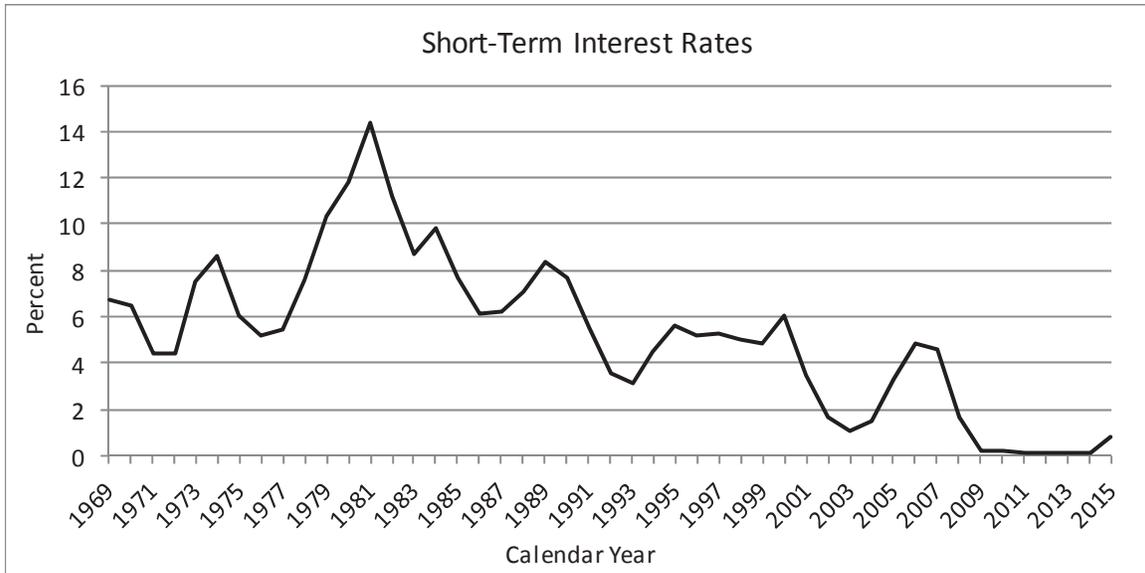
Significant changes have taken place in statewide property values since FY 1998. In that year, 48.0% of total statewide value was in class 4, residential and commercial property, and 11.5% of total value was in class 8, business equipment personal property. In FY 2012, the class 4 taxable value was 58.7% of the total property tax base, while class 8 was only 7.7% of the base. For additional information on the tax classes, please refer to page 272 of Volume 2.



Interest Rates

A large portion of Montana’s revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

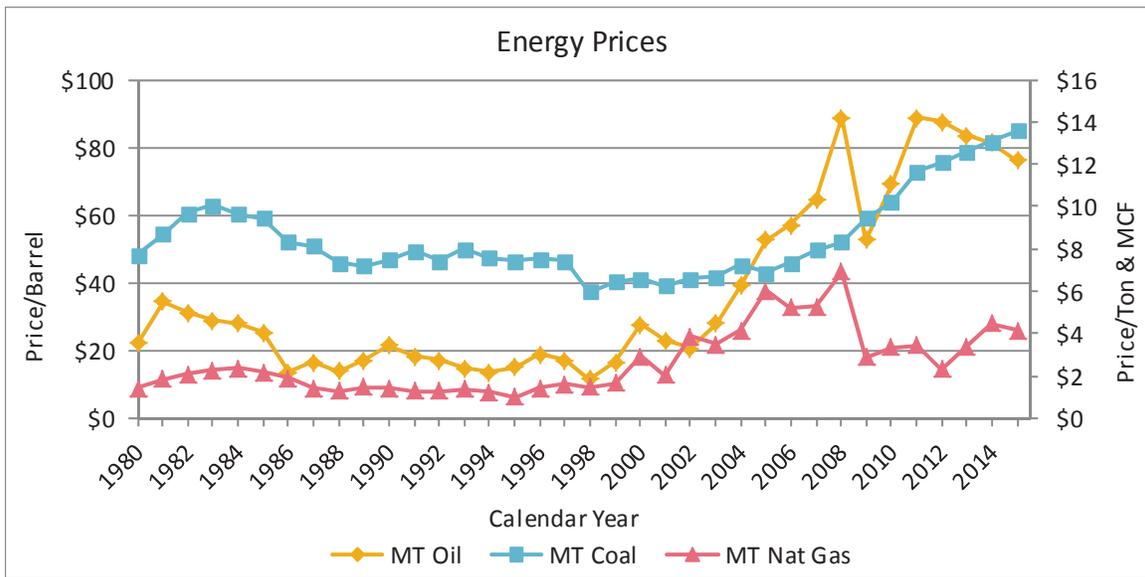
Two types of interest rates, long and short-term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecast rates are obtained from IHS. The fiscal year computation of short-term interest rates reached unprecedented low rate of 0.1% in 2011. The future short-term interest rates are expected to remain at historic lows, while long-term rates are expected to recover slightly through 2015.



Energy Prices and Consumption

West Texas Intermediate (WTI) spot oil prices are a good indicator of Montana oil prices, and are expected to decline slowly throughout the forecast period. Since 2006, oil production has declined but has stabilized at about 6 million barrels per quarter since the first quarter of 2011. That trend is expected to change with a modest improvement in total production through 2015. Montana oil production is expected to increase gradually through 2015.

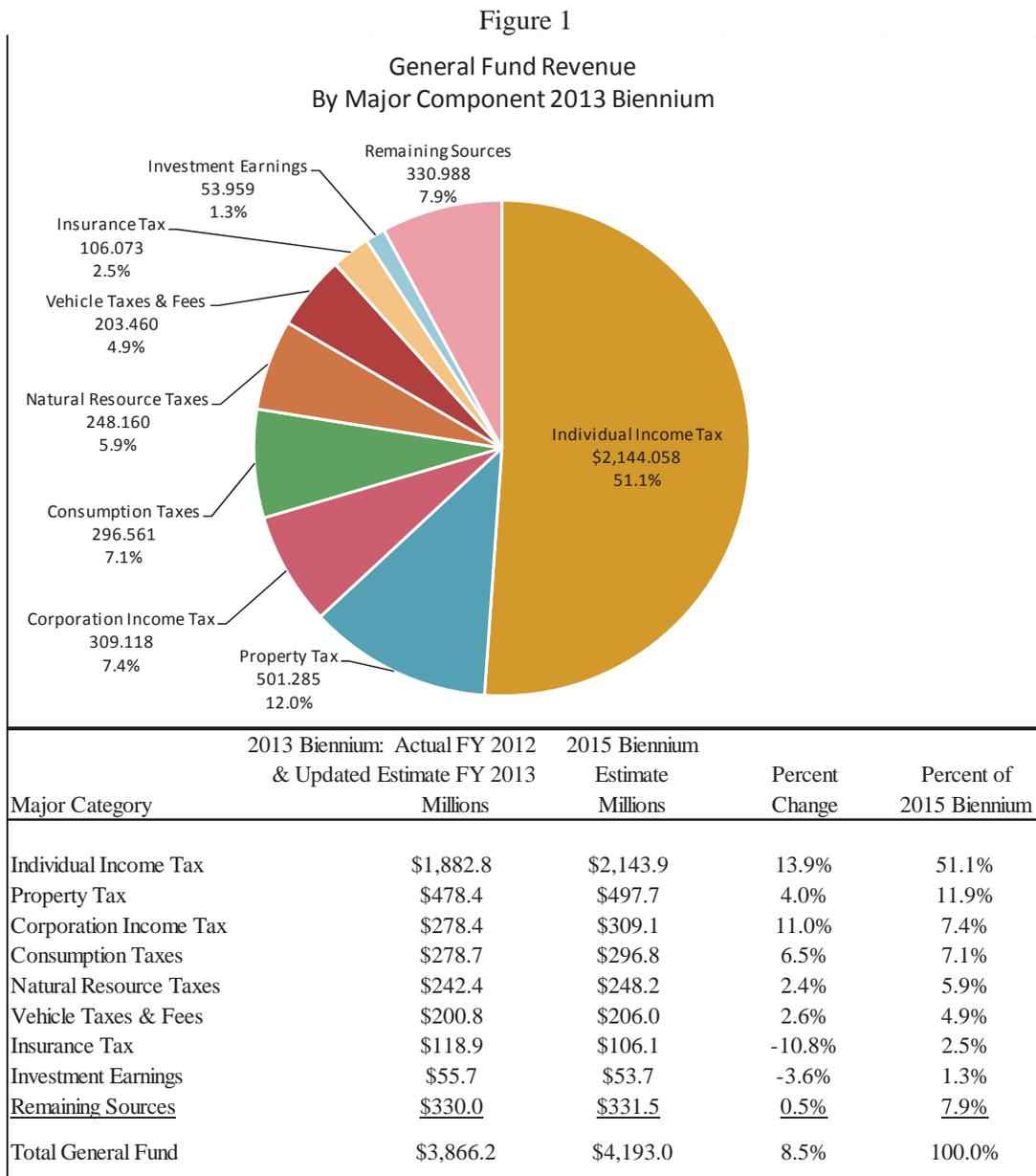
Natural gas production in Montana almost tripled between 1981 and 2007, from 40 million MCF (thousand cubic feet) to 119 million MCF. As in the oil market, new drilling activity was up substantially in 2003 and 2004, but production has started to drop and that trend is expected through 2015. The average price in 2012 is expected to be \$2.67 per MCF. IHS is forecasting a small average growth throughout the forecast period. 2015. Montana prices are expected to follow a similar trend.



GENERAL FUND REVENUE OUTLOOK

The general fund revenue outlook has improved considerably over the past several years. During the 2011 session, the 2013 revenues were anticipated to be \$3.64 billion, the actual revenues for FY 2012 and current SJ 2 estimate for FY 2013 total \$3.87 billion or 6.2% greater than originally anticipated. The current SJ 2 estimate for the 2015 biennium is \$4.19 billion, 15.3% greater than the original estimate for the 2013 biennium.

Figure 1 shows the revenue contribution to the general fund account by the seven largest revenue components for the 2015 biennium, adjusted for enacted legislation. Individual income is largest source, accounting for over 50% of the expected revenue in the 2015 biennium.



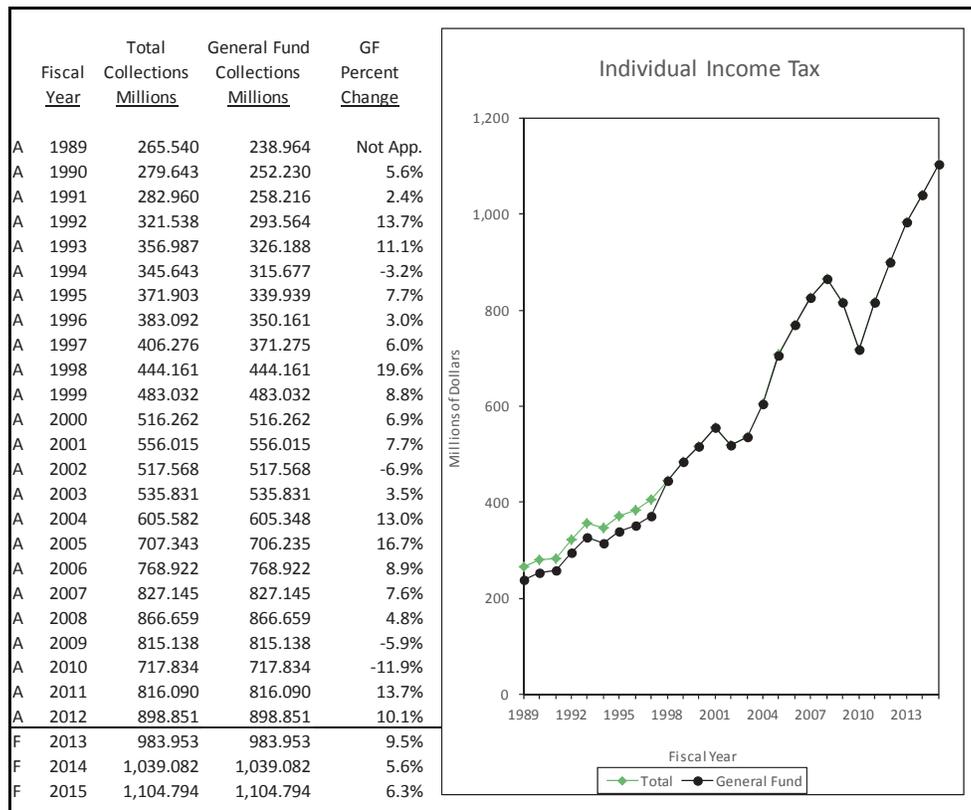
This section presents the details on seven of the major general fund revenue sources that comprise over 80% of total general fund revenue in the 2015 biennium. Additional details of these and other revenue sources, including assumptions and analytical methods used to estimate each source, can be found in the LFD *Legislative Fiscal Report 2015 Biennium, Volume 2 – Revenue Estimates*.

Individual Income Tax

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. 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.

An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all residents. The calendar year state tax liability forecast is developed by applying growth rates to each resident taxpayer’s income and deduction items. Growth rates are calculated for the forecast period and applied to the most recent year of tax return data which is available. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which produces a statewide forecast of individual income tax liability for each year. These forecasts are converted to fiscal year liability and are adjusted for audits, legislative impacts and one-time events.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

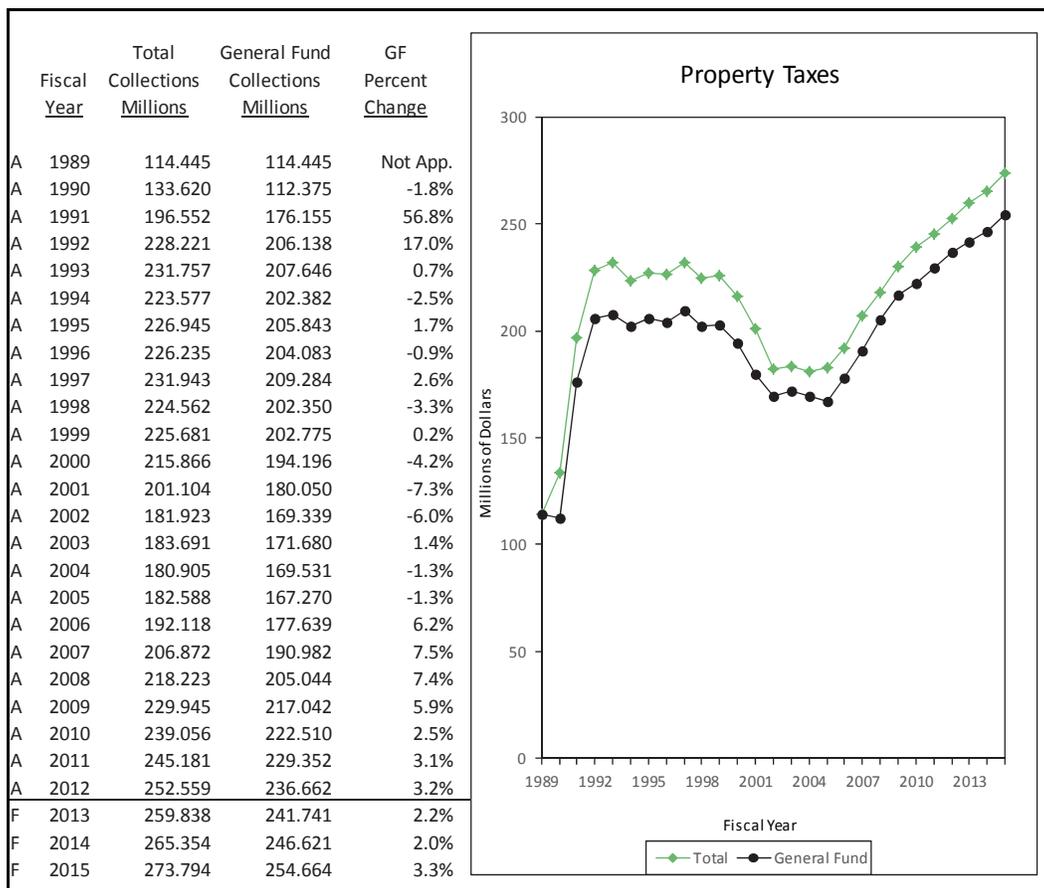


Property Tax

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 college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, and mineral net and gross proceeds. The assessed value of residential and commercial real estate is the market value phased in over the six-year reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. The last reappraisal cycle took effect January 1, 2009.

The latest year for which taxable value by class is available is the base from which future taxable values are derived. Growth rates are applied to the taxable value in each class of property and are generally based on historical growth and on expected changes in tax rates in upcoming fiscal years. Non-levy revenue forecasts are added property tax forecasts. Non-levy revenues come from coal gross proceeds, federal forest receipts and miscellaneous revenue (such as interest on investments, penalty and interest on delinquent taxes).

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

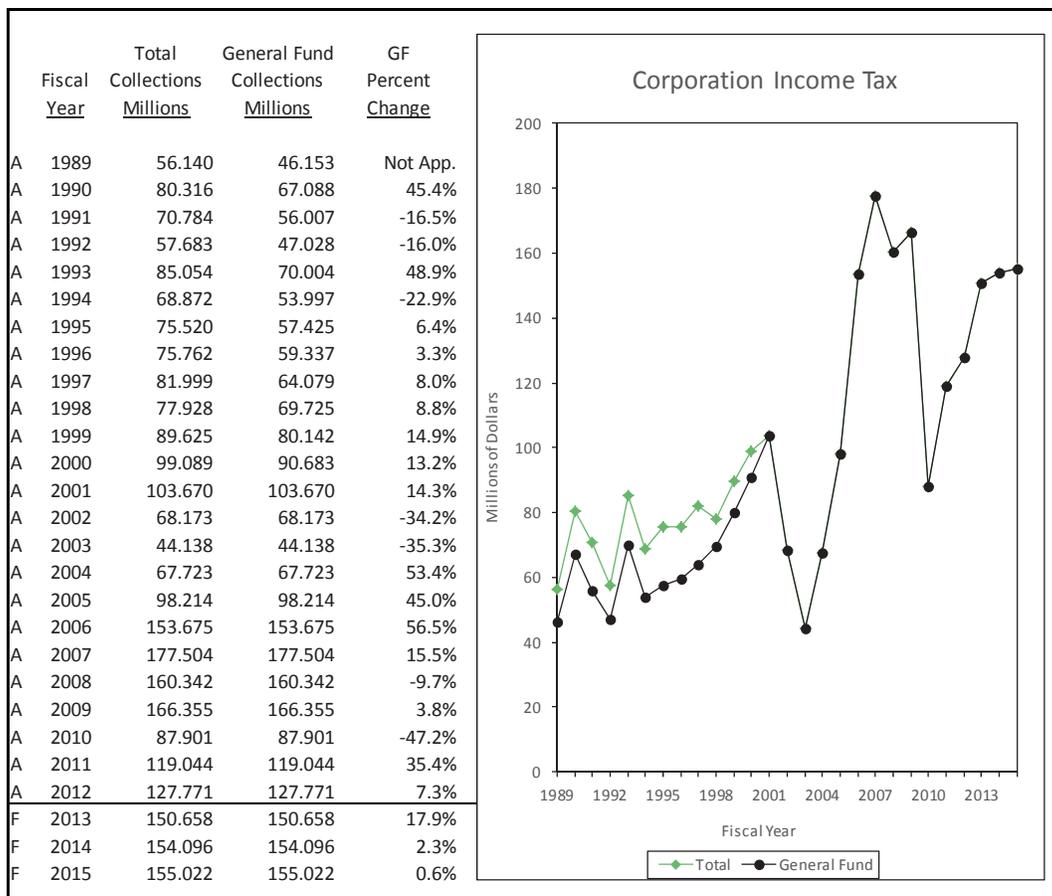


Corporation Income Tax

The corporation income tax is a tax levied against a corporation's net income earned in Montana. Factors that affect corporation license tax receipts include tax credits, audit efforts by the Department of Revenue (DOR), and federal legislation.

DOR now requires industry sector information on the corporate tax returns. Significant work has been done to apply the new sector information to prior years' return data. The result is a sixteen-year history of income and tax liability for each sector. The historical tax liability of each sector is modeled against characteristic national or Montana-specific economic variables from IHS to produce a forecast of calendar year tax liability. Energy related sectors account for nearly half of total tax liability. The underlying volatility of the energy industry is a large contributor to the overall volatility of this tax source.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.



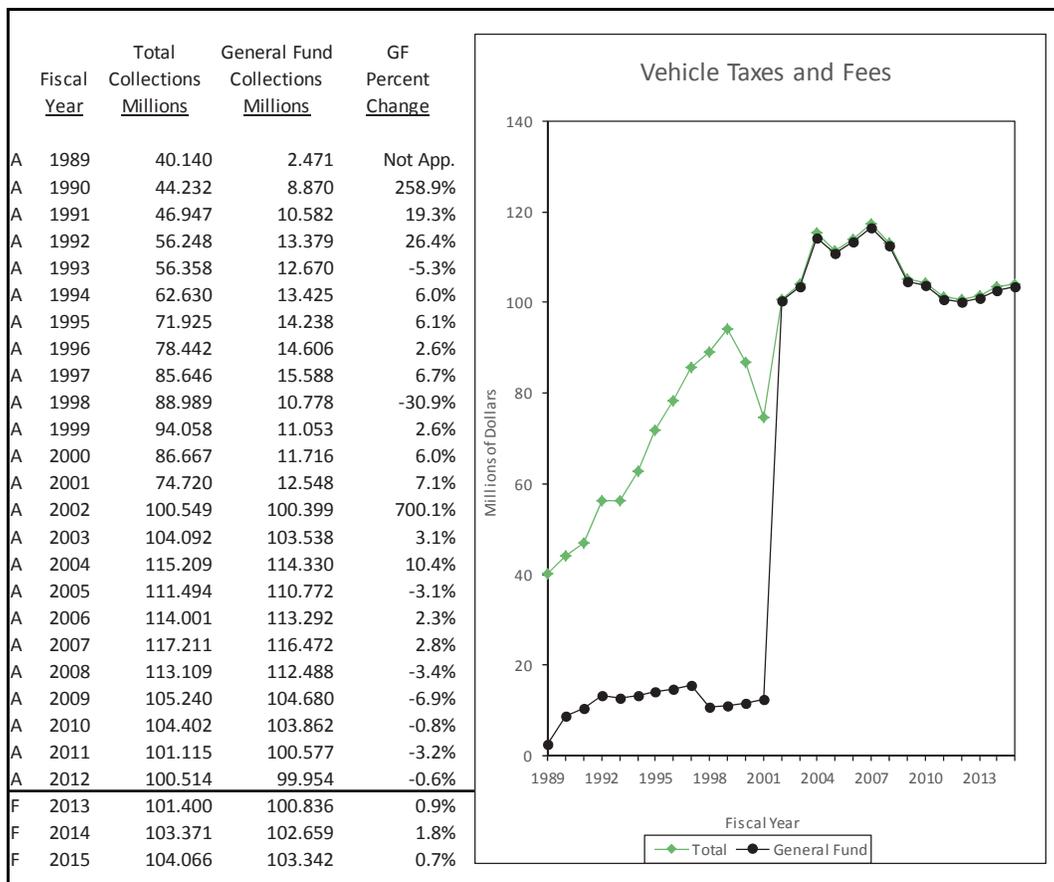
Vehicle Taxes & Fees

Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, and truck tractors having a manufacturer’s rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight.

The state assesses a variety of motor vehicle fees, including fees for the filing of motor vehicle liens, fees for new license plates, title fees, and annual and permanent registration fees. The fees vary according to the type of vehicle and the type of license plate. There are also Gross Vehicle Weight (GVW) fees on trucks and pickups, special fees for senior citizen transportation, veteran services, the highway patrol pension fund, salaries for the highway patrol, motorcycle safety, electronic commerce applications, and an optional \$4 registration fee on light vehicles for state parks and fishing access sites.

With constant fees, the future change in vehicle taxes & fees revenue results from change in the vehicle stock in Montana. Because taxes are directly connected to the number of vehicles in the state, estimates are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are modeled on IHS estimates for the national and Montana-specific vehicle stock and new car sales nationwide. The growth rate is applied to the base year revenues and projected forward at the same rate for the forecast period.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

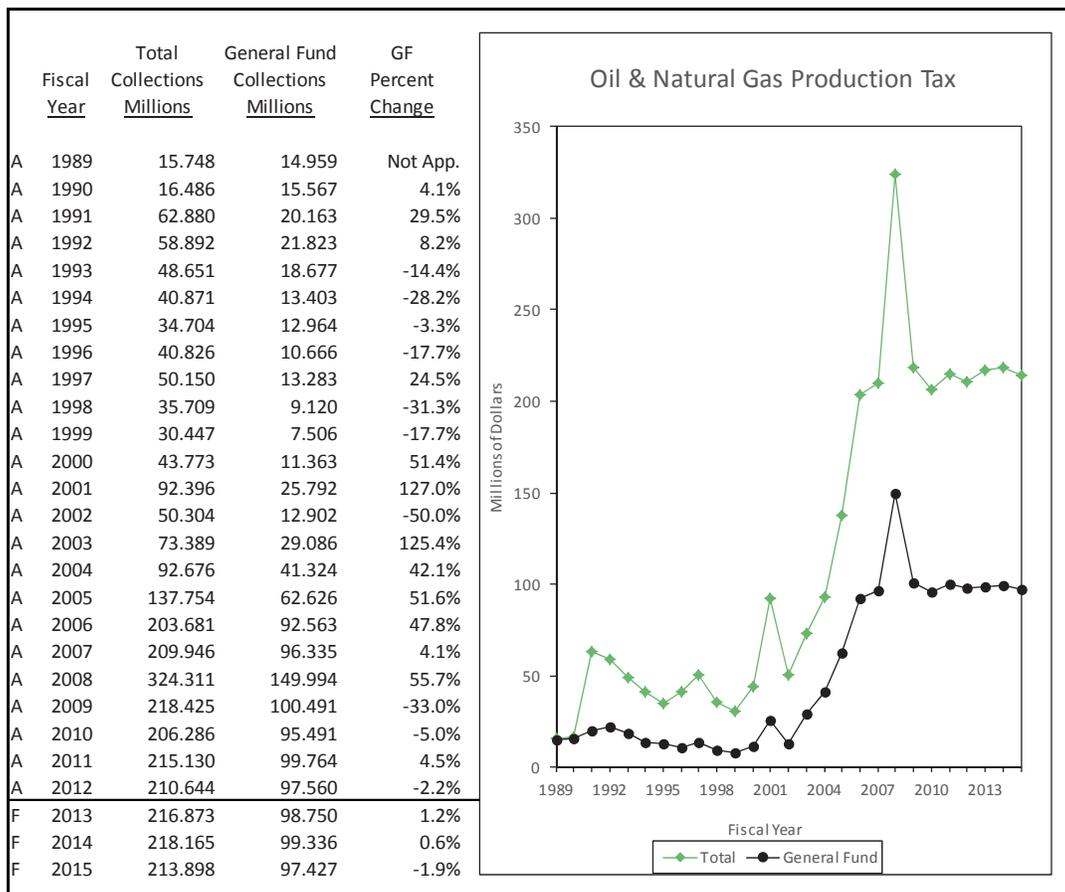


Oil & Natural Gas Production Tax

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production. The oil and natural gas production tax has numerous tax rates depending on several factors. These factors include whether the oil or gas is produced from a stripper well, a stripper incentive well, from a well initially drilled before 1999 or after, from a well newly drilled within the last year or 18 months, and whether the interest being taxed is the working interest or the royalty interest. The Board of Oil and Gas Conservation imposes an additional privilege and license (P & L) tax on all oil and natural gas tax rates.

Data from the Board of Oil and Gas Conservation are used extensively to isolate monthly historical production of oil and natural gas by field and by individual well; these resulting decline curves are used to forecast future production by well. IHS provides future estimates of West Texas Intermediate oil and national well head natural gas prices. Production, price, value, and revenue collections are provided on a quarterly basis by DOR.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

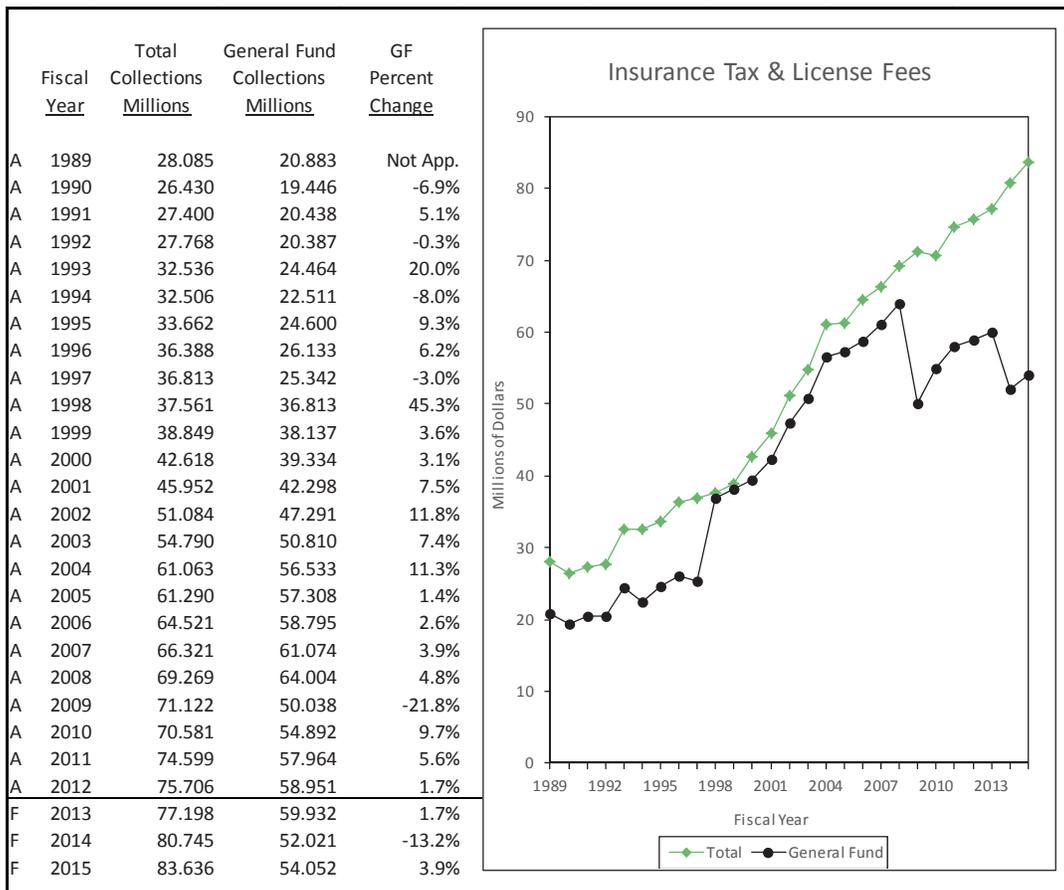


Insurance Tax

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Various insurance and license fees are also collected.

Total premium taxes are modeled against long-term interest rates, housing starts and the S&P 500 index. Because offsets and refunds can vary substantially, they are added to the amounts shown on the state accounting system to more accurately reflect total taxes. From the estimated amounts, offsets and refunds as estimated by the State Auditor’s Office are subtracted to produce the amount of net premium taxes expected to be received by the state.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

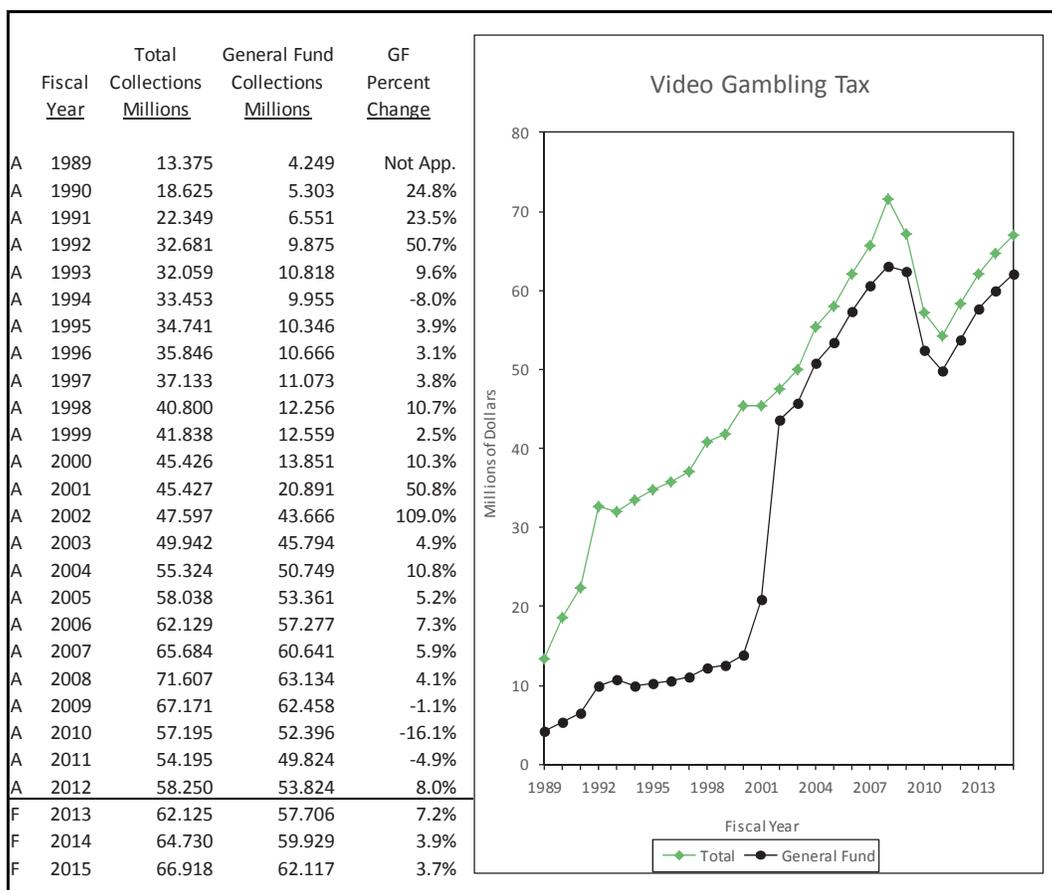


Video Gambling Taxes

Video gambling income is derived from two sources: license fees and video gambling taxes. There are three types of license fees that generate revenue; fees paid by operators for video gambling machines, fees paid by operators for non-video games such as poker, and annual fees for the right to assemble, produce, or manufacture video gambling machines or associated equipment. The video gambling tax is paid by licensed video gambling machine operators. License holders are charged a tax of 15.0% of the gross income (defined as net of payouts) from each licensed video gambling machine. The Department of Justice (DOJ) issues video gambling licenses and permits and collects the fees and taxes.

Historic and current revenue collections are modeled against Montana population and personal income to forecast per capita video gambling machine gross income.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.



All Remaining General Fund Revenue

The remaining 2013 biennium general fund revenue sources constitute 14.6% of the total. For detailed information on all the remaining general fund and selected state special revenue sources, see the LFD *Legislative Fiscal Analysis 2015 Biennium, Volume 2 – Revenue Estimates*.

REVENUE AND TAX POLICY INITIATIVES

Revenue and Tax Policy Changes

Figure 2 shows the total general fund revenue impacts of legislation enacted by the 63rd Legislature. Figure 3 shows the revised general fund revenue estimates by source which is the sum of SJ 2 estimates and all enacted legislation impacts. These revised estimates are used to determine the overall financial condition of the general fund for the 2015 biennium.

Figure 2

General Fund Revenue by Major Source -- Legislation Passed by 63rd Legislature			
General Revenue Impact (\$ Millions)			
Revenue Source	FY 2013	FY 2014	FY 2015
Individual Income Tax	\$0.000	(\$0.078)	(\$0.104)
Property Tax	0.000	(1.334)	(2.248)
Corporation Tax	0.000	0.000	0.000
Vehicle Taxes & Fees	0.003	1.223	1.214
Oil Severance Tax	0.000	0.000	0.000
Insurance Tax	0.000	0.000	0.000
Video Gaming Tax	0.000	0.000	0.000
All Remaining Sources	0.269	0.322	0.329
Total Estimated General Fund Impact	\$0.272	\$0.133	(\$0.809)

Figure 3

Senate Joint Resolution 2 Plus Legislation Impacts							
General Fund Revenue Estimates							
(\$ Millions)							
Source of Revenue	Actual FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 12-13	Estimated FY 14-15	Cumulative % of Total
Large Sources							
Individual Income Tax	\$898.851	\$983.953	\$1,039.082	\$1,104.794	\$1,882.804	\$2,143.876	51.1%
Property Tax	236.662	241.741	245.287	252.416	478.403	497.703	63.0%
Corporation Income Tax	127.771	150.658	154.096	155.022	278.429	309.118	70.4%
Vehicle Taxes & Fees	99.954	100.836	102.659	103.342	200.790	206.002	75.3%
Oil & Natural Gas Production Tax	97.560	98.750	99.336	97.427	196.310	196.763	80.0%
Insurance Tax & License Fees	58.951	59.932	52.021	54.052	118.883	106.073	82.5%
Video Gambling Tax	53.824	57.706	59.929	62.117	111.530	122.046	85.4%
Other Business Taxes							
Driver's License Fee	4.369	3.867	4.435	3.969	8.236	8.403	85.6%
Estate Tax	0.060	-	-	-	0.060	-	85.6%
Investment License Fee	6.961	7.210	7.457	7.714	14.171	15.171	86.0%
Lodging Facility Use Tax	15.606	17.314	18.365	19.477	32.920	37.842	86.9%
Public Contractors Tax	(3.042)	1.140	3.259	3.259	(1.902)	6.518	87.0%
Railroad Car Tax	2.273	2.157	2.320	2.437	4.430	4.757	87.2%
Rental Car Sales Tax	3.420	3.539	3.632	3.744	6.959	7.376	87.3%
Telecommunications Excise Tax	21.459	22.606	23.236	23.823	44.065	47.059	88.5%
Other Natural Resource Taxes							
Coal Severance Tax	12.350	12.864	14.857	15.906	25.214	30.763	89.2%
Electrical Energy Tax	4.481	4.442	4.521	4.565	8.923	9.086	89.4%
Metalliferous Mines Tax	10.010	10.904	10.595	10.039	20.914	20.634	89.9%
US Mineral Royalty	31.057	36.989	30.953	29.009	68.046	59.962	91.3%
Wholesale Energy Tax	3.427	4.038	4.140	4.217	7.465	8.357	91.5%
Other Interest Earnings							
Coal Trust Interest	25.840	24.451	24.354	24.262	50.291	48.616	92.7%
Treasury Cash Account Interest	2.654	2.779	2.346	2.778	5.433	5.124	92.8%
Other Consumption Taxes							
Beer Tax	2.956	3.052	3.067	3.085	6.008	6.152	93.0%
Cigarette Tax	31.483	30.991	30.433	29.499	62.474	59.932	94.4%
Liquor Excise & License Tax	17.037	18.206	19.284	20.431	35.243	39.715	95.3%
Liquor Profits	9.500	10.604	11.080	11.760	20.104	22.839	95.9%
Lottery Profits	13.061	14.477	14.342	15.076	27.538	29.418	96.6%
Tobacco Tax	5.709	5.821	6.005	6.197	11.530	12.202	96.9%
Wine Tax	2.104	2.144	2.218	2.291	4.248	4.509	97.0%
Other Sources							
All Other Revenue	47.258	32.864	32.548	32.856	80.123	65.404	98.5%
Highway Patrol Fines	4.385	4.427	4.467	4.508	8.812	8.975	98.8%
Nursing Facilities Fee	5.077	4.876	4.740	4.603	9.953	9.343	99.0%
Public Institution Reimbursements	14.562	16.332	17.802	18.440	30.894	36.243	99.8%
Tobacco Settlement	3.322	3.552	3.519	3.486	6.874	7.005	100.0%
Total General Fund	\$1,870.954	\$1,995.222	\$2,056.385	\$2,136.601	\$3,866.176	\$4,192.986	100.0%

Figure 4 shows the revenue impacts of legislation enacted by the 63rd Legislature summarized by bill number. For the three-year period, FY 2013 through 2015, total general fund revenues were decreased by \$0.4 million. Figure 4 also summarizes the total revenue impacts for all funds for the same period.

Figure 4

		Impact of Enacted Legislation by Bill Number General Fund & Total Funds (\$ Millions)				
Bill No	Short Title	General Fund	General Fund	General Fund	3-Year	3-Year
		FY 2013	FY 2014	FY 2015	General Fund	Total Funds
HB0006	Renewable resource grants	\$0.000	\$0.000	\$0.000	\$0.000	\$37.724
HB0010	Long-range information technology appropriations	-	-	-	-	-
HB0011	Treasure state endowment program	-	-	-	-	21.700
HB0016	Revise involuntary commitment and emergency detention laws	-	0.139	0.139	0.279	0.279
HB0037	Allow temporary leasing of water rights	-	-	-	-	0.020
HB0039	Revise school finance laws to correct implementation problems	-	-	-	-	-
HB0073	Revise wolf hunting laws	-	-	-	-	0.189
HB0081	Revise securities restitution assistance fund laws	(0.272)	(0.272)	(0.272)	(0.817)	-
HB0089	Allow de minimus refund of abandoned property or closed estates	-	(0.005)	(0.005)	(0.011)	(0.011)
HB0095	Require contributions on working retiree compensation	-	-	-	-	-
HB0141	Revise gambling control laws	-	-	-	-	0.754
HB0163	Eliminate trophy fees for mountain lions	-	-	-	-	(0.040)
HB0170	Authorize a 3-day nonresident upland bird license	-	-	-	-	0.197
HB0189	Revise hail insurance maximum	-	-	-	-	-
HB0250	Require navigator, insurance producer certification for exchanges	-	-	-	-	0.008
HB0256	Revise landowner notification requirements under MFSA	-	-	-	-	0.068
HB0273	Remove sunset on allowing nonresidents to hunt with sponsor or family	-	-	-	-	0.132
HB0274	Revise laws related to licensing of outfitters and guides	-	-	-	-	(0.050)
HB0336	Generally revise highway patrol retirement system laws	-	-	-	-	-
HB0354	Establish a wildfire project suppression fund	-	-	-	-	1.000
HB0355	Eliminate the 5-year look back for alcohol and drug driving offenses	0.042	0.246	0.246	0.533	0.533
HB0377	Increase contributions and funding for TRS, revise GABA	-	-	-	-	-
HB0401	Revising certain hunting license application fees	-	-	-	-	2.519
HB0402	License and regulate wineries selling and shipping wine directly to MT consumers	-	(0.008)	0.017	0.009	0.009
HB0403	Revising fees collected by district court clerks	-	-	-	-	0.029
HB0414	Permit registration of motor vehicle to those having interest in real property	-	1.243	1.243	2.486	2.765
HB0444	Provide tax credit for access to state lands	-	-	(0.015)	(0.015)	(0.015)
HB0454	Provide funding for PERS defined benefit plan, revise GABA	-	-	-	-	-
HB0498	Generally revise state issued id requirements	-	0.092	0.100	0.192	0.192
HB0524	Removing grocery, pharmacy requirement on off-premises beer, wine license	-	0.103	0.141	0.244	0.244
HB0545	Allow employer to fund total cost of qualifying employee's health insurance	-	-	(0.010)	(0.010)	(0.010)
HB0559	Generally revise motor vehicle laws	0.003	0.032	0.023	0.058	0.067
HB0591	Increase the fees for licensing of commodity weighing devices	-	-	-	-	0.245
HB0605	Generally revise resort district laws	-	0.000	0.000	0.001	0.001
HB0607	Expand electronic title, lien filing, and registration pilot program	-	-	-	-	0.020
HB0626	Increase percentage of motor vehicle revenue for veterans' accounts	-	-	-	-	0.346
SB0047	Revise mine safety training and inspections laws	-	-	-	-	0.160
SB0096	Lower the business and equipment tax	-	(1.331)	(2.245)	(3.576)	(3.576)
SB0117	Allow deductions for other state college savings plans	-	(0.078)	(0.079)	(0.157)	(0.157)
SB0123	Provide for hunters against hunger	-	-	-	-	0.293
SB0136	Revise veterans home loan program laws	-	(0.070)	(0.149)	(0.220)	(0.220)
SB0162	Transfer hail insurance program from D of Revenue to the D of Agriculture	-	(0.007)	(0.007)	(0.014)	(0.194)
SB0175	Generally revise public education funding	-	-	-	-	45.900
SB0178	Allow FWP to retain percentage of Class B-10 license fee when portion returned	-	-	-	-	0.096
SB0183	Revise licensing laws regarding military service experience	-	-	-	-	0.006
SB0215	Move board of horseracing to the department of commerce	-	-	-	-	-
SB0226	Revise laws relating to dyed diesel and vehicles dedicated to animal husbandry	-	-	-	-	(0.025)
SB0231	Revise tax exemption laws regarding tribal recreational property	-	(0.003)	(0.003)	(0.006)	(0.006)
SB0264	Revise laws related to portable electronics insurance	-	-	-	-	0.012
SB0275	Revise driver license laws related to veteran status	-	0.048	0.048	0.095	0.104
SB0280	Allow mediation for dispute of property valuation	-	0.002	0.017	0.019	0.019
SB0355	Water court review of claims exempt from filing	-	-	-	-	1.200
SB0364	Generally revise laws related to solid waste management	-	-	-	-	0.025
SB0369	Revise state cabin site leasing laws	-	-	-	-	0.188
SB0392	Increase authority of commissioner of political practices for noncompliance	-	0.002	0.002	0.005	0.005
SB0410	Authorizing transfers to implement provisions of House Bill 2	0.500	-	-	0.500	14.000
Total Impact		\$0.272	\$0.133	(\$0.809)	(\$0.404)	\$126.743

General Fund Revenue Bill Highlights

A complete summary of each general fund and selected non-general fund revenue sources can be found in “*Volume 2 – Revenue Estimates*.” Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, distribution mechanisms, and other useful information. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue. It should be noted that the revenue projection figures and graphs in the *LFD Legislative Fiscal Report 2015 Biennium, Volume 2 – Revenue Estimates* are based on SJ 2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption figures reflect only assumptions pertinent to the SJ 2 revenue estimates and have not been updated for the impacts of enacted legislation.

The following is a brief summary of each enacted bill that impacts general fund and selected non-general fund sources estimated by the legislature. Included in each summary is the particular revenue sources affected.

House Bill 16 – Affects general fund revenue source: “Public Institution Reimbursements.” This bill revises involuntary commitment and emergency detention laws, which will increase the number of emergency detentions and admissions to the Montana State Hospital.

House Bill 39 – The legislation changes the distribution of school district unreserved fund balances to the state and counties. Monies that are allocated to the State School Oil and Gas Impact Account and the County School Oil and Gas Impact Fund under current law will be allocated to the School Facility and Technology Account under HB 39. There is no impact on the state general fund.

House Bill 81 – Affects general fund revenue source: “All Other Revenue.” This legislation requires 4.5% of total fees collected annually under 30-10-209 (1)(a), MCA, to be deposited into the securities restitution fund instead of the general fund.

House Bill 89 – Affects general fund revenue source: “All Other Revenue.” The legislation provides for a refund of unclaimed property of \$2,000 or less on a closed estate, regardless of the value of the estate, without having to reopen it. The legislation is effective October 1, 2013.

House Bill 141 – Affects general fund revenue source: “Video Gambling Tax.” Adjusts fees associated with video gambling machines and card tournaments. The largest impact comes from additional fees for video gambling machines of \$20, \$15, \$10, or \$5 depending on how many quarters of the year the machine is registered for. There are also fee adjustments for live card tournaments which results in a much smaller increase in revenue. The video gambling machine fee adjustment is effective July 1, 2013. Changes to the card tournament fees become effective October 1, 2013.

House Bill 250 – Affects general fund revenue source: “Insurance Tax & License Fees.” This legislation provides for a navigator to be certified under the authority of the insurance commissioner. Fees would be collected by the State Auditor’s Office for such certification.

House Bill 355 – Affects general fund revenue source: “All Other Revenue.” This legislation changes the look-back window currently used to determine if a person is subject to enhanced criminal penalties and driver licensing sanctions for a second or subsequent driving under the influence or excessive blood alcohol (DUI/BAC) conviction from 5 years to 20 years. The change will increase the number of offenders subject to enhanced penalties.

House Bill 402 – Affects general fund revenue source: “Liquor Profits.” This bill creates a direct shipment endorsement for wineries licensed or registered in Montana, which allows the winery to sell and ship up to 18 9-liter

cases of wine annually to an individual for personal use. The bill also eliminates the wine, and combined beer and wine connoisseur's license.

House Bill 414 – Affects general fund revenue sources: “Motor Vehicle Fee and Vehicle Tax.” This bill allows for individuals who have an abode in Montana, but are not considered Montana residents, to title and register their vehicles in Montana. The change affects both vehicle taxes and motor vehicle fees.

House Bill 444 – Affects general fund revenue source: “Individual Income Tax.” This legislation provides an individual income tax credit of \$500 (not to exceed \$2,000) for qualified access to state land that was previously inaccessible to the public, starting in calendar year 2014.

House Bill 498 – Affects general fund revenue source: “All Other Revenue.” The legislation changes the expiration or term of a state-issued identification card based upon the age of an applicant which increases general fund revenue. It also changes the fees charged for an identification card to a per year fee based on the expiration date of the card. Revenue increases \$92,400 in FY 2014 and \$99,672 in FY 2015 for a biennial total of \$192,072. The legislation is effective July 1, 2013.

House Bill 524 – Affects general fund revenue source: “Liquor Profits.” This legislation eliminates the requirement that a retail licensee selling beer or wine for off-premise consumption be operated as a bona fide grocery store or a drugstore licensed as a pharmacy. It allows any entity that receives approval from local building, health, or fire officials to be licensed to sell beer or wine for off-premise consumption.

House Bill 545 – Affects general fund revenue source: “Individual Income Tax.” This bill allows employers to pay all or a portion of qualified employees' disability insurance coverage if the employer does not offer group health insurance or the cost of the employer offered health insurance exceeds 9.5% of the employee's household income. The bill also excludes the employer-paid premium from adjusted gross income.

House Bill 559 – Affects general fund revenue source: “Motor Vehicle Fee and Vehicle Tax.” This bill has several provisions that affect both vehicle taxes and motor vehicle fees:

- Allows vehicles with collegiate plates to be registered permanently, if they meet the age standard
- Allows motor homes that register permanently to bear generic specialty or collegiate plates
- Removes the termination date (January 1, 2015) for the use of past standard license plate designs, and on the option to reuse plate numbers on new issue plates
- Eliminates the requirement for the use of a county number prefix on small license plates
- Clarifies penalties for speed limit violations in special speed limit zones

House Bill 605 – Affects general fund revenue source: “All Other Revenue.” The legislation provides a process for annexation of property into a resort area district, requires a proposal for annexation and a \$250 review fee to be submitted to the Department of Commerce for designation as a resort area, and requires an election in the area proposed to be annexed. General fund revenue increases \$250 in FY 2014 and \$250 in FY 2015 for a biennial total of \$500. The legislation is effective on passage and approval.

House Bill 607 – Affects general fund revenue source: “Motor Vehicle Fee.” This legislation allows for an optional expedited title service for a \$50 fee.

Senate Bill 96 – Affects general fund revenue source: “Property Tax.” The legislation reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$6 million of taxable market value and 3% for all taxable market value in excess of \$6 million. The legislation also exempts the first \$100,000 in market value of this property owned by a taxpayer, up from \$20,000. The exemption is available for all owners of class 8 business

equipment tax. Reimbursements are provided to the university system, local governments, local schools, and TIFs from the general fund for reductions in property tax revenue due to the legislation. The net cost of SB 96 is \$18.5 million over the 2015 biennium.

Senate Bill 108 – Affects general fund revenue source: “Individual Income Tax.” This bill would extend the sunset date for the charitable endowment credit from the end of CY 2013 to the end of CY 2019. *The revenue estimate contained in SJR 2 did not include a revenue impact from expiration of the credit, so the revenue impact of this bill is already assumed in both the OBPP and LFD revenue estimates.*

Senate Bill 117 – Affects general fund revenue source: “Individual Income Tax.” This bill would expand the Family Education Savings Account exemption to include deposits to out-of-state accounts

Senate Bill 136 – Affects general fund revenue source: “Coal Trust Interest.” The legislation provides for an additional \$15 million from the permanent coal tax trust fund to fund loans to first-time eligible veteran home buyers. The money is from investments by the Board of Investments from the permanent coal tax trust fund. The program is administered by the Board of Housing. Interest earned from the permanent fund investments and deposited to the general fund is reduced after the bill becomes effective July 1, 2013.

Senate Bill 162 – Affects general fund revenue source: “All Other Revenue.” The legislation transfers the administrative responsibilities of collecting hail insurance fees, previously administered by the Department of Revenue, to the Department of Agriculture. The legislation caps the Department of Agriculture’s transfer to the general fund at \$100,000. The transfer would decrease by \$6,854 in each fiscal year for a total decrease of \$13,708 for the 2015 biennium. The legislation is effective January 1, 2014.

Senate Bill 175 – This legislation revises K-12 funding and the funding formula. This bill redirects a portion of the oil and natural gas production tax revenue to a newly created state special fund, but has no effect on general fund revenue.

Senate Bill 226 – Affects general fund revenue source: “Diesel Tax.” This bill allows the use of dyed (non-taxed) fuel to be used in a motor vehicle that has been equipped with a permanently affixed feed-delivery box, used exclusively for the feeding of livestock.

Senate Bill 231 – Affects general fund revenue source: “Property Tax.” This bill allows for an abatement equal to 15% of the taxable value of class 4 residential property with gray water systems built after June 30, 2011. This abatement will last 10 years. Under previous law, class 4 residential property with a gray water system is be taxed like other residential property. The abatement is assumed to apply to property assessed beginning January 1, 2012, and paying property taxes in FY 2013. There are expected to be up to ten applications for property tax abatements for gray water systems each year. The 15% abatement will reduce taxable value for the average household by \$475. This will reduce general fund revenue (the 95 mills and the 1.5 mills) by \$450 in FY 2013, by \$900 in FY 2014 and by \$1,350 in FY 2015. The abatements would reduce 6-mill special revenue by \$30 in FY 2013, \$60 in FY 2014, and \$90 in FY 2015.

Senate Bill 275 – Affects general fund revenue sources: “Driver's License Fee” and “All Other Revenue.” The legislation provides for Montana residents who have a veteran status, upon providing documentation of such status, to be provided a driver’s license or identification card that shall include the word “veteran” on the face of the card. For those who add “veteran” to an identification card within the first two years, additional general fund revenue would \$2,120 for FY 2014 and \$2,120 for FY 2015 for a biennial total of \$4,240. The legislation is effective January 1, 2014.

Senate Bill 280 – Affects general fund revenue source: “All Other Revenue.” The legislation allows owners of property to enter into mediation with the Department of Revenue. The mediation is non-binding and the cost must be split between the taxpayer and the Department of Revenue. The taxpayer must pay a \$100 fee for a request for mediation. General fund revenue increases \$1,500 in FY 2014 and \$17,400 in FY 2015 for a biennial total of \$18,900.

The legislation is effective on passage and approval with the section containing the mediation and \$100 fee effective January 1, 2015.

Senate Bill 369 – Affects general fund revenue sources: “Capital Land Grant Interest and Income” and “Common School Interest and Income.” The legislation requires the Board of Land Commissioners to sell the cabin and home sites on school trust lands by July 2035. Distributable revenue from common school trust lands is deposited to the guarantee account and used to fund schools.

Senate Bill 392 – Affects general fund revenue source: “All Other Revenue.” The legislation provides for an expedited process to resolve formal complaints alleging violations of 13-35-225(1) and (2), MCA (election materials not to be anonymous). Potential fines of up to \$500 or three times the amount of the unlawful contributions or expenditures, whichever is greater, increase general fund revenue by a small amount in the 2015 biennium. The legislation applies to proceedings begun on or after October 1, 2013.

Senate Bill 410 – Affects general fund revenue source: “All Other Revenue.” By July 1, 2013, the legislation requires the state treasurer to transfer \$500,000 from the central stores account within the internal service fund to the general fund. The legislation is effective on passage and approval and terminates June 30, 2015.

Language appropriations from other sources total \$18.3 million in four agencies: 1) Office of Public Instruction; 2) Commissioner of Higher Education; 3) Natural Resources and Conservation; and 4) DPHHS. Specifics of these language appropriations can be found in the narratives for each agency in Volumes 3 and 4 of the LFD 2015 Biennium Fiscal Report.

APPROPRIATIONS BY SOURCE OF AUTHORITY – LONG RANGE PLANNING

The Long-Range Planning Subcommittee (LRP) analyzes and recommends appropriations and grant authorizations for capital projects to the legislature. 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. More information related to the LRP budgets is found in Volume 4 Section F of the Legislative Fiscal Report.

LRP Budgets

The Sixty-third Legislature approved total funds spending of \$325.5 million for the LRP budgets. For the 2015 biennium, the legislature appropriated funds for nine programs. The LRP programs include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state owned lands and buildings
- State Building Energy Conservation Program (SBECP) – energy efficiency improvements to state owned buildings
- Long-Range Information Technology Program (LRITP) – major information technology build out and upgrade
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program (TSEPRW) – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program (RRGL) – water conservation grants and loans to local governments
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program (C&S) – arts and historical grants
- Quality School Facility Grants Program (Quality Schools) – grants for major maintenance of K-12 school facilities

The following provides a summary of the legislative appropriations for the LRP programs.

Long-Range Planning Budgets 2015 Biennium (in Millions)									
Program/ Bill	Apropriations				Non-Appropriations				General Fund Transfers
	Capital Project	State Special	Federal Special	Bonds/ Loans	Prop.	Authoriz.	Total	% Total	
LRBP (HB 5)	\$60.6	\$29.4	\$26.1	\$0.0	\$0.6	\$58.9	\$175.6	53.9%	\$49.6
SBCEP (HB 5)		3.5					3.5	1.1%	0.0
LRITP (HB 10)	17.4	3.1			0.4		20.8	6.4%	11.5
TSEP (HB 11)		35.0					35.0	10.7%	13.3
TSEPRW (HB 11)		17.0					17.0	5.2%	8.4
RRGL (HB 6 and 8)		29.5		24.7			54.2	16.6%	20.5
RDGP (HB 7)		6.2					6.2	1.9%	0.0
C&A (HB 9)		0.8					0.8	0.2%	
Quality Schools (HB 15)		12.4					12.4	3.8%	
Grand Total	<u>\$78.1</u>	<u>\$136.8</u>	<u>\$26.1</u>	<u>\$24.7</u>	<u>\$1.0</u>	<u>\$58.9</u>	<u>\$325.5</u>		<u>\$103.2</u>

As noted on the table above, expenditures from the columns titled Prop. (proprietary) and Authoriz. (authorizations) are not technically appropriations. Funding from non-budgeted proprietary funds (enterprise) funds does not require appropriation. Authorizations refer to non-state funds, typically university funds and donations. These items are shown on the table given that statute requires capital building projects with costs in excess of \$150,000 must be authorized by the legislature in the Long-Range Building Program.

Legislative Action

Total legislative appropriations and authorizations for the LRP budgets are \$325.5 million. This is a 129% increase from the LRP budgets in the 2013 biennium and 9% lower than the executive budget proposal. There is no general fund appropriated in any of the LRP programs, however the legislature transferred \$103.2 million from the general fund into the various LRP funds, as seen in the figure above. The purposes and associated amounts of the general fund transfers include:

- Funding state building construction projects with cash - \$49.6 million
- Funding state information technology projects - \$11.5 million
- Expanding funding for local government infrastructure projects - \$25.1 million
- Funding the state's obligation for tribal water compacts - \$17.0 million

The LRP budgets contain a number of significant appropriations. Several highlights of the LRP budget include:

- Ten new building construction projects (LRBP-HB 5)
- A state information technology security project (LRITP-HB 10)
- Fully funding the state share of the Dry Prairie and North Central regional water projects (TSEPRW-HB 11)
- Providing an affordable loan for the local share of the Dry Prairie and North Central regional water projects (RRGL-HB 8)
- Final deposits for the state obligation of the Ft. Belknap and Blackfoot tribal water compacts (RRGL-HB 6)

Eastern Montana Infrastructure

Local governments in proximity to the Bakken oil fields are struggling to provide the infrastructure and services needed for the growing populations that accompany oil and gas development. Populations grow as workers migrate to the area to find employment, causing serious impacts on local government infrastructure and services. Counties in the region have experienced inadequacies in water and wastewater infrastructure, roads and bridges, school facilities, housing, and law and healthcare services. All of these services come with significant costs. The costs of improvements to infrastructure and ongoing provision of public services generally exceeds the normal funding available to local governments.

To help local governments mitigate the increased demand for services, the Sixty-third Legislature passed HB 218, which would have provided \$35.0 million for grants to local governments in oil and gas development impacted areas (from FY 2013 through FY 2015). The legislation created a short-term grant program, structured similar to the

Treasure State Endowment Program (TSEP) and administered by the Department of Commerce. The legislation defined and targeted oil impact areas and the project eligibility for grants. The new program would have supported TSEP type infrastructure projects (water, wastewater, bridges) by providing grants for local government roads and buildings, along with limited grant funding for law enforcement, fire, emergency, and public health and welfare services. Ultimately, the Governor vetoed HB 218 and the legislature did not override the veto in polling.

\$15.3 million of infrastructure project funding was specifically provided for seven Eastern Montana counties, including Custer, Dawson, Fallon, Powder River, Richland, Roosevelt, and Sheridan Counties, through Long-Range Planning (LRP) programs. Infrastructure projects include water, wastewater, and irrigation system improvements; school facility upgrades; land and streambed reclamation; and a study of the impacts of oil and gas development on the state's waters. While most of the funding shown below is provided to local governments in the form of grants, \$6.0 million is a loan to the Dry Prairie regional water authority. The funding by LRP program is shown in the figure below:

Long Range Planning Eastern Montana Project Funding		
Program	Projects	Funding
Quality School Facilities	2	\$236,380
Reclamation & Development Grants	3	727,377
Renewable Resource Grants & Loans	9	6,800,000
Treasure State Endowment	4	2,500,000
Treasure State Endowment Regional Water	<u>1</u>	<u>5,000,000</u>
Total	19	<u>\$15,263,757</u>

While the funding from LRP programs will provide assistance to local governments in Eastern Montana, the need for infrastructure and services improvements will, in many cases, remain unmet in the near future. The 2015 Legislature will almost certainly face the need for funding assistance again in the next session. Until then, there are options for the financing of urgent water/waste water infrastructure projects with low interest loans offered through the revolving loan programs co-administered by the Department of Environmental Quality and the Department of Natural Resources and Conservation. For more information on HB 218 and the various grant programs mentioned above, refer to the Volume 4, Long-Range Planning section of the fiscal report.

The following shows appropriations by funding source and recipient.

HB 13 by Funding Type and Entity 2015 Biennium					
Entity	---2015 Biennium ---				
	General Fund	State Special	Federal	Proprietary	Total
Legislative Branch	\$1,206,510	\$195,320	\$0	\$0	\$1,401,830
Consumer Counsel	0	70,215	0	0	70,215
Judicial Branch	3,220,459	187,881	6,829	0	3,415,169
Executive Branch	30,000,442	26,955,020	20,338,046	7,314,638	84,608,146
University System	<u>23,572,589</u>	<u>14,076</u>	<u>598,867</u>	<u>9,152</u>	<u>24,194,684</u>
Appropriations for Pay and Insurance	\$58,000,000	\$27,422,512	\$20,943,742	\$7,323,789	\$113,690,044
Contingency Funds	\$1,100,000	\$600,000	\$125,000	\$25,000	\$1,850,000
Total	<u>\$59,100,000</u>	<u>\$28,022,512</u>	<u>\$21,068,742</u>	<u>\$7,348,789</u>	<u>\$115,540,043</u>

The legislation also requires that future compensation plans for state employees be based on an analysis and comparison of the municipal and state government labor markets in North Dakota, South Dakota, Idaho and Wyoming and mandates the Department of Administration to conduct the market comparison and to provide its analysis to the Office of Budget and Program Planning as a part of preparing the state budget.

The following link includes a table that shows the appropriation by year, by recipient:
www.leg.mt.gov/content/Publications/fiscal/FR-2015/Additional-Data-Tables/HB13-Costs.pdf

WILDFIRE COSTS

Montana had a severe 2012-2013 fire season. As a result, a large supplemental was appropriated to pay the fire suppression costs determined to be the responsibility of the state. The following figure shows the total current and projected fire suppression costs to the end of FY 2013, and how those costs were funded. As shown, the total is \$60.3 million, of which all but \$10.0 million is the responsibility of the state.

Fire Suppression Costs and Sources of Funding FY 2013	
Total Actual and Projected Fire Costs	FY 2013
Other Parties Responsibility	\$10,006,875
State Responsibility	<u>50,251,567</u>
Total	\$60,258,442
Method of Funding State Responsibility	
Fire Suppression Fund*	4,100,000
Governor's Emergency Fund	10,368,145
Supplemental Appropriation**	<u>35,783,422</u>
Total	<u>\$50,251,567</u>
*Total amount available in FY 2013 prior to replenishment by HB 354.	
**Total appropriation in HB 3 was \$50 million, with the additional funds transferred to the fire suppression fund in FY 2014.	

- The legislature took two major actions to address future fire costs:
- Appropriated more general fund for fire suppression in HB 3 than was necessary to pay current and projected 2013 biennium fire costs, with the unobligated balance transferred to the fire suppression fund. As of this writing, the amount to be transferred is estimated at \$14.2 million of the \$50 million appropriated in HB 3. It should be noted that as of this writing the remainder of FY 2013 fire costs is estimated, and could be higher
- Enacted HB 354, which transfers the following potential funding sources to the fire suppression fund:
 - Any unencumbered and unexpended funds from the Governor’s emergency statutory appropriation at the end of the biennium
 - Any unencumbered and unexpended general fund reversions in excess of 0.5% of total general fund appropriations each fiscal year as long as no reductions are required as provided in MCA 17-7-140
 - Any corporate license tax collected in excess of the revenue estimate each fiscal year through FY 2015

The following table shows each of the funding sources and the anticipated amounts as of May 2013.

Sources of Funding for Fire Suppression Fund 2015 Biennium	
Sources	2015 Biennium
Excess Supplemental Appropriation*	\$14,216,578
HB 354	
Excess Corporate License over Revenue Estimate	46,900,000
Excess Governor's Emergency Fund	-
Reversions over 0.5%	<u>1,000,000</u>
Total	<u>\$62,116,578</u>
*No estimates at this time.	

As of this writing, both corporate license tax revenues and reversions appear stronger than estimated during the legislative session. The fire suppression fund is capped at \$100 million and statutorily appropriated to the Department of Natural Resources and Conservation.

A further discussion is in the narrative for the Department of Natural Resources and Conservation, located at the following address:

<http://www.leg.mt.gov/content/Publications/fiscal/FR-2015/Section%20C/5706-summary.pdf>

legislation related to GABA adjustments provide a long-term solution that positions the pension systems to reasonably manage investment risks moving forward – so that the systems can maintain better financial footing by reducing the likelihood of insolvency reoccurring.

Future legislatures, along with interim SAVA and LFC, will have the task of continuing to monitor the financial health of all eight state pension systems and continue to verify and improve upon the work done by the 2013 Legislature.

HB 13 – STATE EMPLOYEE PAY PLAN

The legislature appropriated \$59.1 million general fund (\$115.5 million total funds) in the 2015 biennium for a state employee pay plan. The plan consists of three parts:

- 1) An increase in the base pay of each state employee;
- 2) An increased insurance contribution; and
- 3) Contingency funds for both the executive and legislative branches to be used when an agency cannot meet its vacancy savings requirement.

The following shows the total biennial appropriations by component of the pay plan.

HB 13 by Component 2015 Biennium					
Component	General Fund	State Special	Federal Special	Proprietary	Total Funds
Pay Increase	\$42,001,497	\$19,867,804	\$15,990,445	\$7,150,943	\$85,010,689
Benefits Contribution Increase	15,998,503	7,554,708	4,953,297	172,847	28,679,355
Contingency Funds	<u>1,100,000</u>	<u>600,000</u>	<u>125,000</u>	<u>25,000</u>	<u>1,850,000</u>
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Instead of prescribing a set percentage of salary increase as proposed in the Governor’s budget, HB 13 provided the executive, judicial, and legislative branches the authority to determine the amount of each employee’s increase with “particular attention to the lower pay bands and those who did not receive a base pay increase” since July 1, 2011. In addition, the legislature increased the state’s monthly contribution for employee health insurance premiums from \$733 to \$806 starting in July 2013 for university system employees and January 2014 for other state employees, and \$887 for the following year.

The following shows appropriations by funding source and recipient.

HB 13 by Funding Type and Entity 2015 Biennium					
Entity	---2015 Biennium ---				
	General Fund	State Special	Federal	Proprietary	Total
Legislative Branch	\$1,206,510	\$195,320	\$0	\$0	\$1,401,830
Consumer Counsel	0	70,215	0	0	70,215
Judicial Branch	3,220,459	187,881	6,829	0	3,415,169
Executive Branch	30,000,442	26,955,020	20,338,046	7,314,638	84,608,146
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- Counts students three times per year compared with two times under previous law
- Pays state share for anticipated unusual enrollment increases from one year to the next of at least 4% or 40 students
- Shares excess oil and gas retained by state with districts that have enrollment impacts but no direct oil and gas revenue
- Starting in FY 2015 creates a natural resource development payment
- Caps the amount of interest and income in the guarantee account that may be used for direct state aid; 50% of excess I&I is reserved for appropriation in the following session and 50% is distributed to school districts on quality educator basis to be used for maintenance and repairs
- Allows districts to sell revenue bonds backed by oil and gas revenue
- Appropriates \$25.8 million for aspects of the bill except the change to the basic entitlements
- Transfers \$22.9 million from the state general fund ending fund balance in FY 2013 to a new state special account; half of that is transferred each year to the guarantee account to pay for the increase in the basic entitlement
- Appropriates \$22.3 million in excess oil and gas revenue from a new oil and gas distribution account to pay for districts that are eligible because of oil and gas development impacts but that have no or little oil and gas revenues

A table comparing K-12 education funding between biennia is discussed earlier in this chapter.

PENSION LEGISLATION IMPACTS

Coming into the 2013 legislative session five of Montana's eight public pension systems were experiencing significant funding shortfalls due to a combination of a prolonged period of low investment earnings and the lack of past legislative actions to sufficiently increase state, employee, or employer contribution levels in times of extended economic downturn. In total, the state's public pensions were facing a combined unfunded liability of \$4.3 billion with existing employer and employee contributions amortizing about \$2.0 billion of the liability, leaving a \$2.3 billion shortfall to be addressed by lawmakers if the systems were to be made actuarially sound as required by the Montana Constitution.

As of June 30, 2012, the actuarially-determined Annual Required Contribution (ARC) to amortize the unfunded liabilities for all five troubled systems over a 30-year period was approximately \$112 million per year higher than the current level of contributions to the systems. This annual shortfall was projected to increase over \$121 million by the beginning of the next biennium.

Legislative proposals

A number of bills were presented to the 2013 Legislature related to pension system reform including proposals by the outgoing Governor, various legislators, Teachers' Retirement System, Public Employees' Retirement System, and various stakeholder groups. Leadership of the 2013 Legislature created a Joint Select Committee on Pensions, and referred all major pension reform legislation to this select committee for hearings and debate. House and Senate State Administration committees participated in a number of joint hearings with the Joint Select Committee on Pensions, in addition to dealing with the balance of the pension bills to be considered by the legislature.

Specifically related to pension legislation were 56 bill draft requests, 35 bills introduced, and ultimately 13 bills approved by the 2013 Legislature and signed by the Governor. The end result of the legislative session was adoption of two major pieces of legislation to fund the two largest systems' liabilities, HB 377 (TRS) and HB 454 (PERS), along with a handful of other smaller bills aimed at pension system tweaks and general housekeeping.

Major pension legislation

Montana's two largest public pension systems, the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS), are responsible for over 90% of the State's funding shortfall. The 2013 Legislature adopted legislation to fund these two largest systems' liabilities with a combination of state general fund, state and local employer contributions, employee contribution increases, and reducing the automatic inflationary increases in retiree benefits. The annual general fund cost of these proposals is just less than \$64 million per year.

HB 377 was adopted to address the Teachers' Retirement System funding shortfall. HB 377 provides for additional funding of \$25 million annually from the state general fund, \$14.7 million one-time-only from school district retirement reserves, a 1.0% supplemental contribution from active members, and a 1.0% employer supplemental contribution in FY 2014 increasing by 0.1% each year thereafter for 10 years. In addition, HB 377 creates a second tier of benefits for members hired after July 1, 2013, which reduces the employer's normal cost rate, requires members to work longer before they are eligible for benefits, and reduces benefits for most new hires. The total impact to the state general fund as a result of HB 377 is estimated between \$27-28 million per year.

In addition to increasing contributions into the system to pay off the unfunded liability, HB 377 has provisions to reduce the automatic inflationary increases in retiree benefits (GABA) in certain circumstances. The legislation requires the TRS Board to suspend up to 1.0% of the 1.5% GABA for both tier 1 and tier 2 members if the system's funded ratio is less than 90%, or if granting full GABA results in the funded ratio being less than 90%.

The Unfunded Actuarial Accrued Liability (UAAL) of TRS is projected to be reduced from "Does Not Amortize" (DNA) to 22.0 years as a result of HB 377.

HB 454 was adopted to address the Public Employees' Retirement system funding shortfall. HB 454 provides additional funding of \$15-16 million annually from coal severance tax revenues, \$21 million annually from coal trust interest, a 1% supplemental contribution from active members with hire dates prior to July 1, 2011, and a 1.0% employer supplemental contribution in FY 2014 increasing by 0.1% each year thereafter for 10 years. The total impact to the state general fund as a result of HB 454 is estimated between \$36-37 million per year.

In addition to increasing contributions into the system to pay off the unfunded liability, HB 454 permanently revises the GABA for active and retired members to a maximum of 1.5%, with reductions below 1.5% in certain circumstances. If the systems funded ratio is less than 90% the GABA would be reduced by 0.1% for every 2% below the 90% funded level; and if the amortization period is 40 years or greater the GABA would be reduced to 0.0%.

The Unfunded Actuarial Accrued Liability (UAAL) of PERS is projected to be reduced from "Does Not Amortize" (DNA) to 15.2 years as a result of HB 454.

Other pension legislation

A number of other bills were passed which were intended to provide minor system improvements to various public employee retirement systems. Although a couple of the bills closed loopholes that may decrease future system liabilities, generally they are estimated to have little or no immediate fiscal impact and are more "housekeeping" in nature. Following is a listing of those bills, along with the bill's short title that generally describes the bill's purpose or objective:

- HB 53– Revise State Administration and Veteran Affairs statutory duties
- HB 54– Revise Teachers' Retirement System administrative and tax qualification laws
- HB 78– Clarify break in service requirements for postretirement employment under TRS
- HB 91– Modify and expand public employee 457 deferred compensation program
- HB 95– Require contributions on working retiree compensation
- HB 97– Cap highest/final average compensation in MPERA retirement systems
- HB 105– Generally revise MPERA retirement system laws concerning plan administration
- HB 320– Change name of optional retirement system
- HB 461– Increase pension for certain volunteer firefighters
- SB 245– Revise reference to financial investment by fire relief associations

What will future legislatures face?

The 2013 legislative session made significant strides towards actuarially funding the state's two major pension systems through a combination of increasing contributions into the system, decreasing future benefits to be paid from the system, and changing pension offerings to new employees. Based upon analysis provided by the system actuaries, both TRS and PERS are projected to be on the path of actuarial soundness. Additionally, provisions within the adopted

legislation related to GABA adjustments provide a long-term solution that positions the pension systems to reasonably manage investment risks moving forward – so that the systems can maintain better financial footing by reducing the likelihood of insolvency reoccurring.

Future legislatures, along with interim SAVA and LFC, will have the task of continuing to monitor the financial health of all eight state pension systems and continue to verify and improve upon the work done by the 2013 Legislature.

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The legislature appropriated \$59.1 million general fund (\$115.5 million total funds) in the 2015 biennium for a state employee pay plan. The plan consists of three parts:

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Language appropriations from other sources total \$18.3 million in four agencies: 1) Office of Public Instruction; 2) Commissioner of Higher Education; 3) Natural Resources and Conservation; and 4) DPHHS. Specifics of these language appropriations can be found in the narratives for each agency in Volumes 3 and 4 of the LFD 2015 Biennium Fiscal Report.

APPROPRIATIONS BY SOURCE OF AUTHORITY – LONG RANGE PLANNING

The Long-Range Planning Subcommittee (LRP) analyzes and recommends appropriations and grant authorizations for capital projects to the legislature. 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. More information related to the LRP budgets is found in Volume 4 Section F of the Legislative Fiscal Report.

LRP Budgets

The Sixty-third Legislature approved total funds spending of \$325.5 million for the LRP budgets. For the 2015 biennium, the legislature appropriated funds for nine programs. The LRP programs include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state owned lands and buildings
- State Building Energy Conservation Program (SBECP) – energy efficiency improvements to state owned buildings
- Long-Range Information Technology Program (LRITP) – major information technology build out and upgrade
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program (TSEPRW) – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program (RRGL) – water conservation grants and loans to local governments
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program (C&S) – arts and historical grants
- Quality School Facility Grants Program (Quality Schools) – grants for major maintenance of K-12 school facilities

The following provides a summary of the legislative appropriations for the LRP programs.

Long-Range Planning Budgets 2015 Biennium (in Millions)									
Program/ Bill	Apropriations				Non-Appropriations				General Fund Transfers
	Capital Project	State Special	Federal Special	Bonds/ Loans	Prop.	Authoriz.	Total	% Total	
LRBP (HB 5)	\$60.6	\$29.4	\$26.1	\$0.0	\$0.6	\$58.9	\$175.6	53.9%	\$49.6
SBCEP (HB 5)		3.5					3.5	1.1%	0.0
LRITP (HB 10)	17.4	3.1			0.4		20.8	6.4%	11.5
TSEP (HB 11)		35.0					35.0	10.7%	13.3
TSEPRW (HB 11)		17.0					17.0	5.2%	8.4
RRGL (HB 6 and 8)		29.5		24.7			54.2	16.6%	20.5
RDGP (HB 7)		6.2					6.2	1.9%	0.0
C&A (HB 9)		0.8					0.8	0.2%	
Quality Schools (HB 15)		12.4					12.4	3.8%	
Grand Total	<u>\$78.1</u>	<u>\$136.8</u>	<u>\$26.1</u>	<u>\$24.7</u>	<u>\$1.0</u>	<u>\$58.9</u>	<u>\$325.5</u>		<u>\$103.2</u>

As noted on the table above, expenditures from the columns titled Prop. (proprietary) and Authoriz. (authorizations) are not technically appropriations. Funding from non-budgeted proprietary funds (enterprise) funds does not require appropriation. Authorizations refer to non-state funds, typically university funds and donations. These items are shown on the table given that statute requires capital building projects with costs in excess of \$150,000 must be authorized by the legislature in the Long-Range Building Program.

Legislative Action

Total legislative appropriations and authorizations for the LRP budgets are \$325.5 million. This is a 129% increase from the LRP budgets in the 2013 biennium and 9% lower than the executive budget proposal. There is no general fund appropriated in any of the LRP programs, however the legislature transferred \$103.2 million from the general fund into the various LRP funds, as seen in the figure above. The purposes and associated amounts of the general fund transfers include:

- Funding state building construction projects with cash - \$49.6 million
- Funding state information technology projects - \$11.5 million
- Expanding funding for local government infrastructure projects - \$25.1 million
- Funding the state's obligation for tribal water compacts - \$17.0 million

The LRP budgets contain a number of significant appropriations. Several highlights of the LRP budget include:

- Ten new building construction projects (LRBP-HB 5)
- A state information technology security project (LRITP-HB 10)
- Fully funding the state share of the Dry Prairie and North Central regional water projects (TSEPRW-HB 11)
- Providing an affordable loan for the local share of the Dry Prairie and North Central regional water projects (RRGL-HB 8)
- Final deposits for the state obligation of the Ft. Belknap and Blackfeet tribal water compacts (RRGL-HB 6)

Eastern Montana Infrastructure

Local governments in proximity to the Bakken oil fields are struggling to provide the infrastructure and services needed for the growing populations that accompany oil and gas development. Populations grow as workers migrate to the area to find employment, causing serious impacts on local government infrastructure and services. Counties in the region have experienced inadequacies in water and wastewater infrastructure, roads and bridges, school facilities, housing, and law and healthcare services. All of these services come with significant costs. The costs of improvements to infrastructure and ongoing provision of public services generally exceeds the normal funding available to local governments.

To help local governments mitigate the increased demand for services, the Sixty-third Legislature passed HB 218, which would have provided \$35.0 million for grants to local governments in oil and gas development impacted areas (from FY 2013 through FY 2015). The legislation created a short-term grant program, structured similar to the

Treasure State Endowment Program (TSEP) and administered by the Department of Commerce. The legislation defined and targeted oil impact areas and the project eligibility for grants. The new program would have supported TSEP type infrastructure projects (water, wastewater, bridges) by providing grants for local government roads and buildings, along with limited grant funding for law enforcement, fire, emergency, and public health and welfare services. Ultimately, the Governor vetoed HB 218 and the legislature did not override the veto in polling.

\$15.3 million of infrastructure project funding was specifically provided for seven Eastern Montana counties, including Custer, Dawson, Fallon, Powder River, Richland, Roosevelt, and Sheridan Counties, through Long-Range Planning (LRP) programs. Infrastructure projects include water, wastewater, and irrigation system improvements; school facility upgrades; land and streambed reclamation; and a study of the impacts of oil and gas development on the state's waters. While most of the funding shown below is provided to local governments in the form of grants, \$6.0 million is a loan to the Dry Prairie regional water authority. The funding by LRP program is shown in the figure below:

Long Range Planning Eastern Montana Project Funding		
Program	Projects	Funding
Quality School Facilities	2	\$236,380
Reclamation & Development Grants	3	727,377
Renewable Resource Grants & Loans	9	6,800,000
Treasure State Endowment	4	2,500,000
Treasure State Endowment Regional Water	<u>1</u>	<u>5,000,000</u>
Total	19	<u>\$15,263,757</u>

While the funding from LRP programs will provide assistance to local governments in Eastern Montana, the need for infrastructure and services improvements will, in many cases, remain unmet in the near future. The 2015 Legislature will almost certainly face the need for funding assistance again in the next session. Until then, there are options for the financing of urgent water/waste water infrastructure projects with low interest loans offered through the revolving loan programs co-administered by the Department of Environmental Quality and the Department of Natural Resources and Conservation. For more information on HB 218 and the various grant programs mentioned above, refer to the Volume 4, Long-Range Planning section of the fiscal report.

APPROPRIATIONS BY SOURCE OF AUTHORITY – STATUTORY APPROPRIATIONS

General Fund

Figure 11 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet for FY 2013 through FY 2015. The largest single statutory appropriation of general fund occurs under 15-1-121, MCA. Under this statute, \$211.6 million is expected to be spent for entitlement payments to local governments and tax increment financing districts in the 2013 biennium and \$243.8 million in the 2015 biennium. Through FY 2011, statute allowed annual increases based on averages of Montana's gross state product and personal income. The amount grew at an average annual rate of 1.5% from FY 2002 to FY 2012 (excluding tax increment financing districts). For FY 2012 and FY 2013, entitlement payments were held constant at the FY 2011 amount. Beginning in FY 2014 a different methodology for calculating the growth rate was used based on revenue from individual income taxes, corporation license taxes, and sources in 15-1-121(2)(b)(c)(g), MCA. Other large statutory appropriations of general fund in the 2015 biennium include:

- \$107.9 million of transfers to retirement funds (Title 19, MCA)
- \$30.1 million to service the debt on bonding issues approved by past legislatures (17-7-502, MCA)
- \$16.5 million for emergencies or disasters declared by the governor or the president of the United States
- \$12.1 million of coal trust interest (deposited to the general fund) to fund economic development programs (15-35-108, MCA)

Figure 11
General Fund Statutory Appropriation Estimates
Fiscal Years 2012-2015
(Millions)

MCA Cite	Bill/Purpose	Legislative		2013 Biennium			2015 Biennium		
		Session	Fiscal 2011A	Fiscal 2012A	Fiscal 2013E	Total	Fiscal 2014E	Fiscal 2015E	Total
Retirement									
19-3-319	Local Government PERD 19-3-319	1985	\$0.921	\$0.933	\$1.057	\$1.990	\$1.190	\$1.369	\$2.560
19-6-404(2)	HB 102-MVD retirement transfer	2005	1.270	1.200	1.281	2.481	0.267	0.266	0.533
19-6-410	HB 102-MHP retirement transfer	2005	0.278	0.269	0.268	0.537	1.367	1.459	2.826
19-9-702	Ins Prem Tax-Fire/Pol/Ret 19-9-702-SA	1997	11.594	12.274	13.153	25.427	14.056	14.991	29.047
19-13-604	Prem Tax-Fire/Pol 19-13-604-SA	1997	11.365	11.797	12.786	24.583	13.555	14.458	28.012
19-17-301	Prem Tax-Fire/Pol 19-17-301-SA	1985	1.596	1.635	1.602	3.237	1.611	1.616	3.227
19-18-512(1)	Prem Tax-Fire/Pol 19-18-512-SA	1985	0.356	0.390	0.363	0.753	0.370	0.374	0.744
19-19-305(1)	Prem Tax-Fire/Pol 19-19-305-SA	1985	0.209	0.230	0.238	0.468	0.226	0.231	0.457
19-19-506(4)	Prem Tax-Fire/Pol 19-19-506-SA	1985	0.000	0.000	0.004	0.004	0.001	0.002	0.003
19-20-604	Teachers GABA 19-20-604	1985	0.813	0.800	0.840	1.641	0.878	0.918	1.796
19-20-607	HB 63 - Teachers' retirement system	2007	16.624	16.043	16.845	32.889	17.604	18.396	35.999
19-21-203	HB 95 - Increase MUS employers' retirement contributions	2007	<u>1.839</u>	<u>1.361</u>	<u>1.361</u>	<u>2.721</u>	<u>1.361</u>	<u>1.361</u>	<u>2.721</u>
Sub-total			\$46.866	\$46.933	\$49.799	\$96.732	\$52.485	\$55.440	\$107.925
Economic Development									
15-35-108(9)(b)(i)	Coop Developmental Center NMC	2000 SS	\$0.065	\$0.065	\$0.065	\$0.130	\$0.065	\$0.065	\$0.130
15-35-108(9)(b)(ii)	Growth Through Agriculture	2000 SS	0.636	0.625	0.625	1.250	1.250	1.250	2.500
15-35-108(9)(b)(iii)	Research & Commercialization	2000 SS	1.275	1.276	1.275	2.551	3.650	3.650	7.300
15-35-108(9)(b)(iv)	Economic Development	2000 SS	<u>1.066</u>	<u>1.098</u>	<u>1.100</u>	<u>2.198</u>	<u>1.100</u>	<u>1.100</u>	<u>2.200</u>
Sub-total			\$3.042	\$3.063	\$3.065	\$6.128	\$6.065	\$6.065	\$12.130
Other									
7-4-2502	HB 12 - Pay county attorney salaries	2007	\$2.609	\$2.831	\$3.000	\$5.831	\$3.180	\$3.371	\$6.552
10-1-1202	HB 136 - Death benefit to national guard beneficiaries	2007	0.000	0.000	0.000	0.000	0.000	0.000	0.000
10-3-312(1)	Emergency Appropriations	1985	0.827	1.528	14.972	16.500	8.250	8.250	16.500
15-1-121(6)	HB 124 - Combined Local Entitlement Distribution	2001	99.209	99.209	110.448	209.657	109.349	120.829	230.178
15-1-121(6)	HB 124 - Local TIF Entitlement Distribution	2001	0.819	0.763	1.218	1.981	1.475	2.432	3.907
15-1-218	HB 680 - DOR to collect out-of-state debt	2007	0.048	0.042	0.042	0.084	0.042	0.042	0.084
15-70-601(1)(b)	HB 756 - Biodiesel tax incentives	2005	0.000	0.000	0.000	0.000	0.000	0.000	0.000
15-70-369(4)	HB 776 - Biodiesel tax refunds	2005	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16-11-509	HB 169 - Fines & cost recovery tobacco settlement	2005	0.002	0.033	0.033	0.066	0.033	0.033	0.066
17-3-106(2)	DofA Cash Management Interest	1993	0.185	0.161	0.187	0.348	0.178	0.175	0.353
17-6-101(6)	BOI Banking Charges	1993	2.243	2.059	2.141	4.200	2.236	2.346	4.582
17-7-502(4)	TRANS Debt Service and Issuance Costs	1985	0.000	0.000	0.000	0.000	0.000	0.000	0.000
17-7-502(4)	Transfer to Debt Service A/B Bond	1985	14.999	15.925	16.045	31.970	15.972	14.160	30.132
85-20-1505	HB 49 - Authorize the sale of bonds for Blackfeet water compact	2011	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Sub-total			\$120.942	\$122.551	\$148.086	\$270.637	\$140.716	\$151.638	\$292.354
2013 Legislature - New Statutory Appropriations									
22-1-327(3)*	HB 203 - Revise direct state aid to public libraries	2013	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
19-20-607(2)	HB 377 - Increase contributions and funding for TRS	2013	\$0.000	\$0.000	\$0.000	\$0.000	\$25.000	\$25.000	\$50.000
15-35-108(9)(a)	HB 454 - Provide funding for PERS defined benefit plan	2013	\$0.000				\$14.857	\$15.906	\$30.763
15-35-108(9)(b)(v)	HB 454 - Provide funding for PERS defined benefit plan	2013	<u>\$0.000</u>				<u>\$21.000</u>	<u>\$21.000</u>	<u>\$42.000</u>
Sub-total			\$0.000	\$0.000	\$0.000	\$0.000	\$60.857	\$61.906	\$122.763
2013 Legislature - Changes to Existing Statutory Appropriations									
15-35-108(9)(b)(ii)	HB 454 - Provide funding for PERS defined benefit plan	2013	\$0.000	\$0.000	\$0.000	\$0.000	(\$0.625)	(\$0.625)	(\$1.250)
15-35-108(9)(b)(iii)	HB 454 - Provide funding for PERS defined benefit plan	2013	\$0.000	\$0.000	\$0.000	\$0.000	(\$2.375)	(\$2.375)	(\$4.750)
15-1-121(6)	SB 16 - Revise tax increment financing laws related to distribution	2013	\$0.000	\$0.000	\$0.000	\$0.000	(\$0.025)	(\$0.025)	(\$0.050)
15-1-121(6)	SB 96 - Lower the business and equipment tax	2013	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$3.786</u>	<u>\$5.942</u>	<u>\$9.728</u>
Sub-total			\$0.000	\$0.000	\$0.000	\$0.000	\$0.761	\$2.917	\$3.677
Total			\$170.849	\$172.548	\$200.950	\$373.497	\$260.884	\$277.965	\$538.849

* Appropriation effective: \$1.259M in FY 2016 & \$1.947M in FY 2017

The 2013 Legislature enacted four new general fund statutory appropriations and three laws that change the amount of general fund appropriated from existing statutory appropriations.

House Bill 203 – The legislation revises direct state aid to public libraries by creating a new general fund statutory appropriation. The amount of the appropriation is determined by a rate of 40 cents for each state resident based on the most recent decennial census of the population. Due to coordination with House Bill 2, the appropriation becomes

effective July 1, 2015. Therefore, there are no expenditures in the 2015 biennium. The legislation is effective July 1, 2013 and terminates July 1, 2017.

House Bill 377 – Beginning July 1, 2014 on the first day of each fiscal year, \$25 million is statutorily appropriated from the general fund to the teachers retirement system pension trust fund. Total statutory appropriation expenditures for the 2015 biennium are \$50 million. The legislation is effective July 1, 2013.

House Bill 408 – The legislation revises the tax rate on pollution control equipment. Reimbursements to local governments and tax increment financing districts are made through the general fund entitlement statutory appropriation. The expenditure effects of the legislation occur in FY 2016 (\$1,259,192) and FY 2017 (\$1,947,344) for a total of \$3,206,536 for the 2017 biennium. The legislation is effective October 1, 2013.

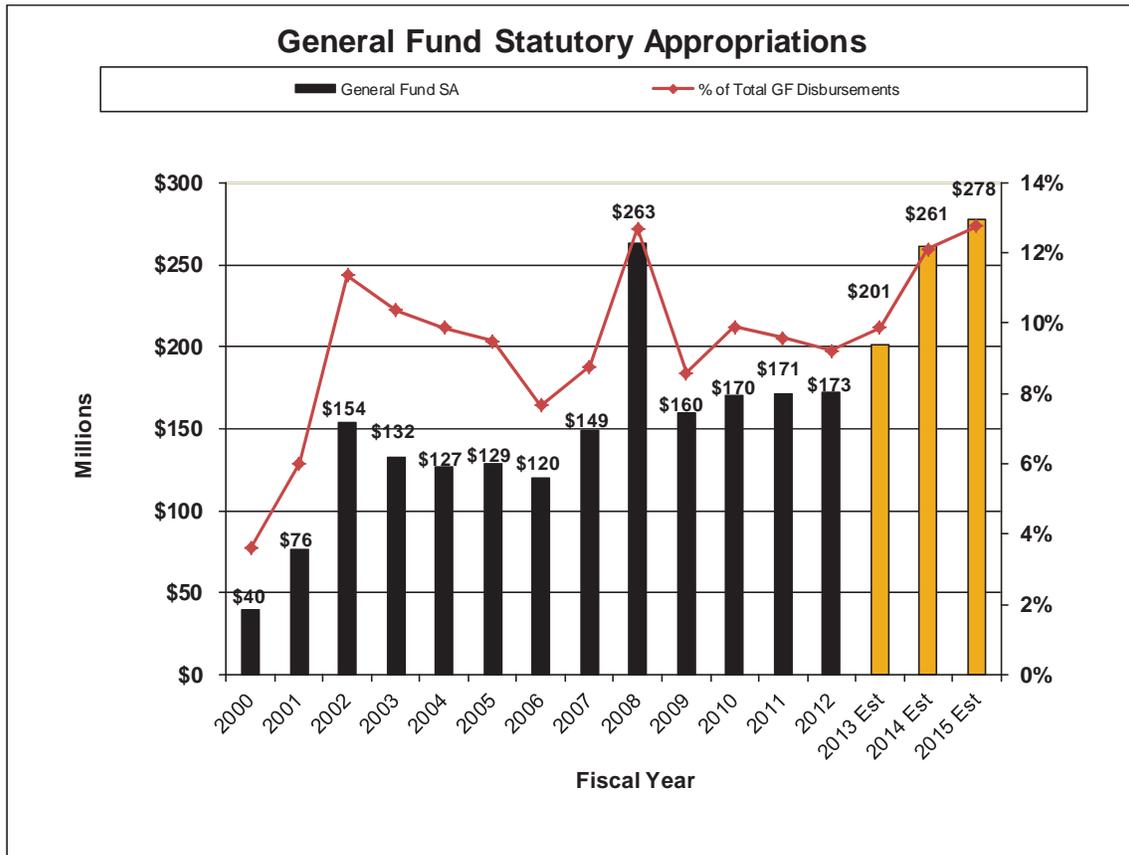
House Bill 454 – Provides funding for public employees retirement system defined benefit plan and revises the guaranteed annual benefit adjustment. Beginning FY 2014, the legislation reduces the current statutory appropriation for the Department of Agriculture by \$625,000 each fiscal year and reduces the Department of Commerce statutory appropriation transfer to the research and commercialization account by \$2,375,000 each fiscal year. The remainder of the coal tax (after allocations to various agencies) deposited to the general fund is newly statutorily appropriated from the general fund to the PERS defined benefit plan. Another new general fund statutory appropriation up to \$21 million of interest earned from the coal severance tax permanent fund is also statutorily appropriated to the PERS defined benefit plan. Total amounts for the two new statutory appropriation and changes in the two existing ones are \$32,857,000 in FY 2014 and \$33,906,000 in FY 2015 for a total of \$66,763,000 for the 2015 biennium. The legislation is effective July 1, 2013.

Senate Bill 16 - The legislation decreases the statutorily appropriated entitlement share payment to the Missoula-1-1C tax increment financing district by \$25,028 general fund each fiscal year for a total reduction of \$50,056 for the 2015 biennium. The legislation is effective October 1, 2013.

Senate Bill 96 – The legislation reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$10 million of taxable market value and 3% for all taxable market value in excess of \$10 million, and exempts the first \$250,000 in market value of this property owned by a taxpayer, beginning in TY 2014. Reimbursements to local governments and tax increment financing districts are made through the general fund entitlement statutory appropriations. These appropriations are \$3,785,893 for FY 2014 and \$5,941,628 for FY 2015 for a total of \$9,727,521 for the 2015 biennium. The legislation is effective on passage and approval.

Figure 12 illustrates the amount of general fund spent through statutory appropriations from FY 2000 through FY 2012 and estimated amounts for FY 2013 to FY 2015. From FY 2000 to FY 2012, general fund expenditures from statutory appropriations increased \$169 million and in FY 2012, comprised 8% of all general fund disbursements. The initiation of the local government entitlement program in FY 2001 (enacted by HB 124 in the 2001 session) accounts for most of the large increase shown in FY 2001. FY 2009 was an unusual year in that the \$94.6 million was spent to provide one-time tax rebates (HB 9 in the 2007 May special session). For the 2015 biennium, \$539 million general fund is expected to be spent with statutory appropriations, an increase of \$165 million over the estimated \$374 million to be spent in the 2013 biennium.

Figure 12



State Special

It is estimated that \$462 million of state special revenue will be spent through statutory appropriations in the 2015 biennium.

The 2013 Legislature enacted 12 laws that increased state special revenue amounts statutorily appropriated by a net \$70.3 million in the 2015 biennium. These laws affect the appropriations by: 1) changing or eliminating existing statutory appropriations; 2) changing the amount of revenue deposited in accounts that are statutorily appropriated; or 3) creating new statutory appropriations. Figure 13 shows the amounts estimated from existing statutory appropriations and from new ones enacted by the 2013 Legislature.

In addition, the Legislative Finance Committee sponsored HB 21, which eliminated two statutory appropriations (17-3-112, MCA & 50-4-623, MCA) and made changes to the review and guidelines of statutory appropriations (17-1-580, MCA). The legislation is effective July 1, 2013.

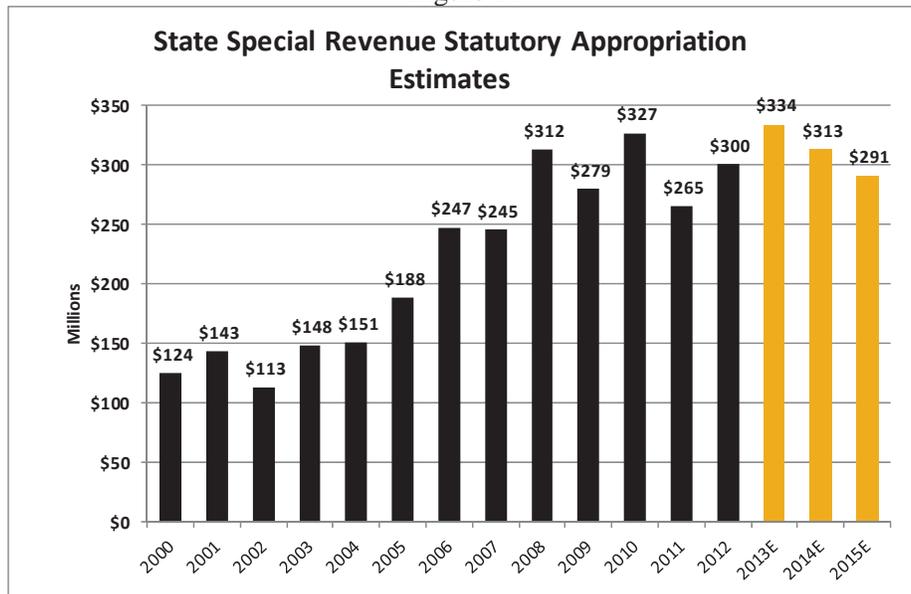
Figure 13

State Special Revenue Statutory Appropriation Estimates						
Fiscal Years 2013-2015						
(in Millions)						
MCA Cite	Bill/Purpose	Legislative Session	FY 2013	2015 Biennium		
				FY 2014	FY 2015	Total
<u>Existing Statutory Appropriations *</u>						
Multiple	Varied dedicated uses	Multiple	\$334.32	271.423	267.739	539.162
<u>Changes to Existing Statutory Appropriations - 2013 Legislature</u>						
85-20-1505(6)	HB 6 - Renewable resource grants	2013	\$0.00	14.000	0.000	14.000
10-4-301(5)	HB 509 - Provide prepaid wireless 9-1-1 service charge	2013	0	(0.062)	(0.028)	(0.091)
23-5-612 (3)	HB 141 - Revise gambling control laws	2013	0	0.005	0.005	0.011
20-9-622(1)(b)	SB 175 - Revise public education funding	2013	0	11.475	11.475	22.950
20-9-622(1)(b)	SB 369 - Revise state cabin site leasing laws	2013	0	(0.085)	(0.130)	(0.215)
15-37-117(3)	SB 401 - Revise disposition of metalliferous mines license tax	2013	0	<u>1.859</u>	<u>1.761</u>	<u>3.620</u>
Sub-total			\$0.00	27.192	13.083	40.275
<u>New Statutory Appropriations - 2013 Legislature</u>						
76-13-150(10)	HB 354 - Establish a wildfire project suppression fund	2013	0	1.000	0.000	1.000
Unknown MCA	SB 410 - Transfers to implement provisions of HB 2 (Corrections)	2013	0	2.000	0.000	2.000
Unknown MCA	SB 410 - Transfers to implement provisions of HB 2 (DPHHS)	2013	0	2.000	0.000	2.000
Unknown MCA	SB 410 - Transfers to implement provisions of HB 2 (Governor)	2013	0	7.500	0.000	7.500
Unknown MCA	SB 410 - Transfers to implement provisions of HB 2 (Labor)	2013	0	<u>2.000</u>	<u>0.000</u>	<u>2.000</u>
Sub-total			\$0.00	14.500	0.000	14.500
Total			\$334.32	313.115	280.822	593.937

* Amounts from the executive budget

Figure 14 shows the amounts spent from FY 2000 through FY 2012 and the amounts estimated to be spent from FY 2013 through FY 2015. In FY 2012, the agency with the largest expenditure of state special revenue (\$104.3 million) statutory appropriations was the Office of Public Instruction which distributes net interest and income from the common school trust to fund public schools. The second largest was \$98.3 million spent by the Department of Revenue. This department distributes revenue from oil, natural gas, metalliferous mines, beer, wine, and liquor taxes to local and tribal governments. The five agencies with the largest expenditures spent \$279.7 million or 93% of the \$300.3 million total.

Figure 14



APPROPRIATIONS BY SOURCE OF AUTHORITY – GENERAL FUND TRANSFERS

The figure 15 shows a history of the non-budgeted general fund transfers from FY 2000 through FY 2012. For the 2015 biennium, \$130 million is estimated to be transferred out of the general fund, a \$47 million increase from the 2013 biennium.

Figure 15

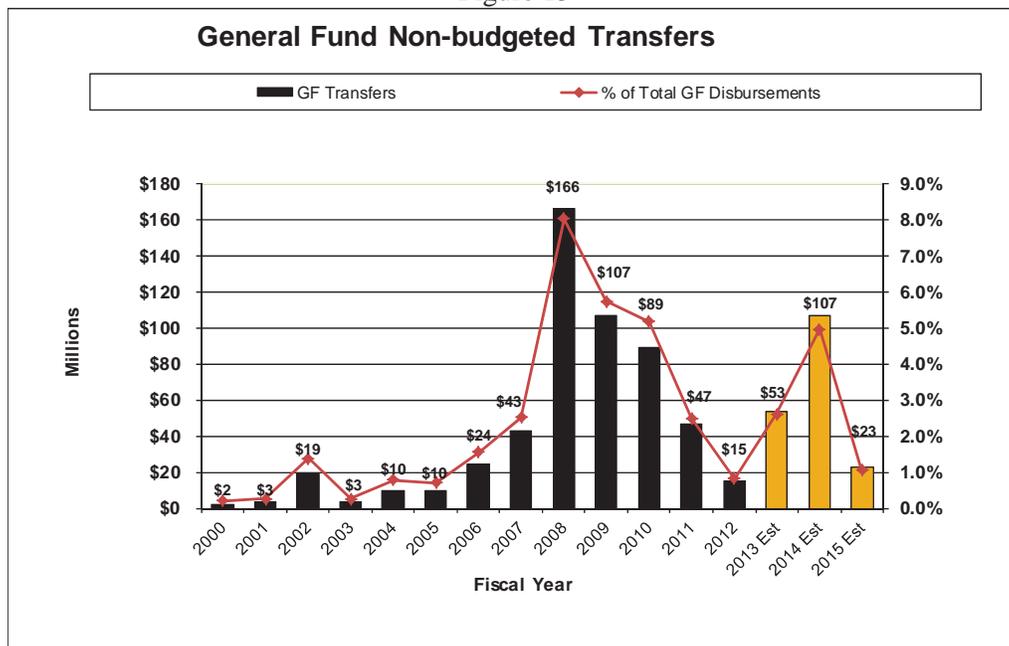


Figure 16 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet for the 2013 and 2015 biennia. Following Figure 2 are explanations of bills enacted by the 2013 Legislature that created new transfers and changed amounts of existing transfers.

SB 96 - The legislation reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$10 million of taxable market value and 3% for all taxable market value in excess of \$10 million. It also exempts the first \$250,000 in market value of this property owned by a taxpayer, beginning in TY 2014. Reimbursement through a transfer of general fund is provided to the university system for loss of the 6-mill levy revenue. The legislation is effective on passage and approval and applies to property tax years beginning after December 31, 2013.

In addition, the legislature created the potential for the following on-going general fund transfers:

HB 354 – The legislation provides for the potential of the following three new transfers from the general fund to the fire suppression account (money in the account cannot exceed \$100 million):

- The transfer of any unexpended and unencumbered balance of the Governor’s emergency appropriation at the end of each biennium
- By August 15 following the end of each fiscal year, an amount equal to the balance of unspent general fund appropriated in that year in excess of 0.5% of the total general fund appropriated for that fiscal year, must be transferred (\$1.0 million is shown on the chart)
- Certain corporation license tax revenue deposited in the general fund must be transferred in the following manner:
 - By August 15, 2013, funds in excess of \$152 million collected for FY 2013
 - By August 15, 2014, funds in excess of \$152.2 million collected for FY 2014
 - By August 15, 2015, funds in excess of \$157.5 million collected for FY 2015

This legislation is effective on passage and approval.

APPROPRIATIONS BY SOURCE OF AUTHORITY – OTHER LEGISLATION

The legislature approved other legislation that increases general fund by an additional \$493.5 million. The following figure illustrates.

Other Appropriation Legislation -- General Fund	
Feed bill	\$ 9,231,000
Supplemental appropriations	118,799,000
State employee pay plan	59,100,000
Infrastructure Assistance	103,176,000
Pension Legislation	127,574,000
K-12	48,764,000
Other Bills	<u>\$ 26,839,000</u>
Total	\$ 493,483,000

BILLS ADDRESSING MAJOR BUDGET ISSUES

SB 175

In comparing K-12 education funding from the 2013 biennium to the 2015 biennium, it is necessary to examine HB 2 in conjunction with SB 175. SB 175 changed school law in a number of ways. The bill:

- Applies statutory inflation - 0.89% in FY 2014 and 2.08% in FY 2015 to per-ANB entitlements only; funding is in HB 2
- Increases the basic entitlements and creates multiple basic entitlements per district
- Creates new data for achievement payment of \$10 per ANB in FY 2014, \$15 per ANB in FY 2015 and \$20 per ANB in FY 2016 and beyond
- Creates a data task force

- Counts students three times per year compared with two times under previous law
- Pays state share for anticipated unusual enrollment increases from one year to the next of at least 4% or 40 students
- Shares excess oil and gas retained by state with districts that have enrollment impacts but no direct oil and gas revenue
- Starting in FY 2015 creates a natural resource development payment
- Caps the amount of interest and income in the guarantee account that may be used for direct state aid; 50% of excess I&I is reserved for appropriation in the following session and 50% is distributed to school districts on quality educator basis to be used for maintenance and repairs
- Allows districts to sell revenue bonds backed by oil and gas revenue
- Appropriates \$25.8 million for aspects of the bill except the change to the basic entitlements
- Transfers \$22.9 million from the state general fund ending fund balance in FY 2013 to a new state special account; half of that is transferred each year to the guarantee account to pay for the increase in the basic entitlement
- Appropriates \$22.3 million in excess oil and gas revenue from a new oil and gas distribution account to pay for districts that are eligible because of oil and gas development impacts but that have no or little oil and gas revenues

A table comparing K-12 education funding between biennia is discussed earlier in this chapter.

PENSION LEGISLATION IMPACTS

Coming into the 2013 legislative session five of Montana's eight public pension systems were experiencing significant funding shortfalls due to a combination of a prolonged period of low investment earnings and the lack of past legislative actions to sufficiently increase state, employee, or employer contribution levels in times of extended economic downturn. In total, the state's public pensions were facing a combined unfunded liability of \$4.3 billion with existing employer and employee contributions amortizing about \$2.0 billion of the liability, leaving a \$2.3 billion shortfall to be addressed by lawmakers if the systems were to be made actuarially sound as required by the Montana Constitution.

As of June 30, 2012, the actuarially-determined Annual Required Contribution (ARC) to amortize the unfunded liabilities for all five troubled systems over a 30-year period was approximately \$112 million per year higher than the current level of contributions to the systems. This annual shortfall was projected to increase over \$121 million by the beginning of the next biennium.

Legislative proposals

A number of bills were presented to the 2013 Legislature related to pension system reform including proposals by the outgoing Governor, various legislators, Teachers' Retirement System, Public Employees' Retirement System, and various stakeholder groups. Leadership of the 2013 Legislature created a Joint Select Committee on Pensions, and referred all major pension reform legislation to this select committee for hearings and debate. House and Senate State Administration committees participated in a number of joint hearings with the Joint Select Committee on Pensions, in addition to dealing with the balance of the pension bills to be considered by the legislature.

Specifically related to pension legislation were 56 bill draft requests, 35 bills introduced, and ultimately 13 bills approved by the 2013 Legislature and signed by the Governor. The end result of the legislative session was adoption of two major pieces of legislation to fund the two largest systems' liabilities, HB 377 (TRS) and HB 454 (PERS), along with a handful of other smaller bills aimed at pension system tweaks and general housekeeping.

Major pension legislation

Montana's two largest public pension systems, the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS), are responsible for over 90% of the State's funding shortfall. The 2013 Legislature adopted legislation to fund these two largest systems' liabilities with a combination of state general fund, state and local employer contributions, employee contribution increases, and reducing the automatic inflationary increases in retiree benefits. The annual general fund cost of these proposals is just less than \$64 million per year.

HB 377 was adopted to address the Teachers' Retirement System funding shortfall. HB 377 provides for additional funding of \$25 million annually from the state general fund, \$14.7 million one-time-only from school district retirement reserves, a 1.0% supplemental contribution from active members, and a 1.0% employer supplemental contribution in FY 2014 increasing by 0.1% each year thereafter for 10 years. In addition, HB 377 creates a second tier of benefits for members hired after July 1, 2013, which reduces the employer's normal cost rate, requires members to work longer before they are eligible for benefits, and reduces benefits for most new hires. The total impact to the state general fund as a result of HB 377 is estimated between \$27-28 million per year.

In addition to increasing contributions into the system to pay off the unfunded liability, HB 377 has provisions to reduce the automatic inflationary increases in retiree benefits (GABA) in certain circumstances. The legislation requires the TRS Board to suspend up to 1.0% of the 1.5% GABA for both tier 1 and tier 2 members if the system's funded ratio is less than 90%, or if granting full GABA results in the funded ratio being less than 90%.

The Unfunded Actuarial Accrued Liability (UAAL) of TRS is projected to be reduced from "Does Not Amortize" (DNA) to 22.0 years as a result of HB 377.

HB 454 was adopted to address the Public Employees' Retirement system funding shortfall. HB 454 provides additional funding of \$15-16 million annually from coal severance tax revenues, \$21 million annually from coal trust interest, a 1% supplemental contribution from active members with hire dates prior to July 1, 2011, and a 1.0% employer supplemental contribution in FY 2014 increasing by 0.1% each year thereafter for 10 years. The total impact to the state general fund as a result of HB 454 is estimated between \$36-37 million per year.

In addition to increasing contributions into the system to pay off the unfunded liability, HB 454 permanently revises the GABA for active and retired members to a maximum of 1.5%, with reductions below 1.5% in certain circumstances. If the systems funded ratio is less than 90% the GABA would be reduced by 0.1% for every 2% below the 90% funded level; and if the amortization period is 40 years or greater the GABA would be reduced to 0.0%.

The Unfunded Actuarial Accrued Liability (UAAL) of PERS is projected to be reduced from "Does Not Amortize" (DNA) to 15.2 years as a result of HB 454.

Other pension legislation

A number of other bills were passed which were intended to provide minor system improvements to various public employee retirement systems. Although a couple of the bills closed loopholes that may decrease future system liabilities, generally they are estimated to have little or no immediate fiscal impact and are more "housekeeping" in nature. Following is a listing of those bills, along with the bill's short title that generally describes the bill's purpose or objective:

- HB 53– Revise State Administration and Veteran Affairs statutory duties
- HB 54– Revise Teachers' Retirement System administrative and tax qualification laws
- HB 78– Clarify break in service requirements for postretirement employment under TRS
- HB 91– Modify and expand public employee 457 deferred compensation program
- HB 95– Require contributions on working retiree compensation
- HB 97– Cap highest/final average compensation in MPERA retirement systems
- HB 105– Generally revise MPERA retirement system laws concerning plan administration
- HB 320– Change name of optional retirement system
- HB 461– Increase pension for certain volunteer firefighters
- SB 245– Revise reference to financial investment by fire relief associations

What will future legislatures face?

The 2013 legislative session made significant strides towards actuarially funding the state's two major pension systems through a combination of increasing contributions into the system, decreasing future benefits to be paid from the system, and changing pension offerings to new employees. Based upon analysis provided by the system actuaries, both TRS and PERS are projected to be on the path of actuarial soundness. Additionally, provisions within the adopted

legislation related to GABA adjustments provide a long-term solution that positions the pension systems to reasonably manage investment risks moving forward – so that the systems can maintain better financial footing by reducing the likelihood of insolvency reoccurring.

Future legislatures, along with interim SAVA and LFC, will have the task of continuing to monitor the financial health of all eight state pension systems and continue to verify and improve upon the work done by the 2013 Legislature.

HB 13 – STATE EMPLOYEE PAY PLAN

The legislature appropriated \$59.1 million general fund (\$115.5 million total funds) in the 2015 biennium for a state employee pay plan. The plan consists of three parts:

- 1) An increase in the base pay of each state employee;
- 2) An increased insurance contribution; and
- 3) Contingency funds for both the executive and legislative branches to be used when an agency cannot meet its vacancy savings requirement.

The following shows the total biennial appropriations by component of the pay plan.

HB 13 by Component 2015 Biennium					
Component	General Fund	State Special	Federal Special	Proprietary	Total Funds
Pay Increase	\$42,001,497	\$19,867,804	\$15,990,445	\$7,150,943	\$85,010,689
Benefits Contribution Increase	15,998,503	7,554,708	4,953,297	172,847	28,679,355
Contingency Funds	<u>1,100,000</u>	<u>600,000</u>	<u>125,000</u>	<u>25,000</u>	<u>1,850,000</u>
Total	<u>\$59,100,000</u>	<u>\$28,022,512</u>	<u>\$21,068,742</u>	<u>\$7,348,790</u>	<u>\$115,540,044</u>

Instead of prescribing a set percentage of salary increase as proposed in the Governor’s budget, HB 13 provided the executive, judicial, and legislative branches the authority to determine the amount of each employee’s increase with “particular attention to the lower pay bands and those who did not receive a base pay increase” since July 1, 2011. In addition, the legislature increased the state’s monthly contribution for employee health insurance premiums from \$733 to \$806 starting in July 2013 for university system employees and January 2014 for other state employees, and \$887 for the following year.

The following shows appropriations by funding source and recipient.

HB 13 by Funding Type and Entity 2015 Biennium					
Entity	---2015 Biennium ---				
	General Fund	State Special	Federal	Proprietary	Total
Legislative Branch	\$1,206,510	\$195,320	\$0	\$0	\$1,401,830
Consumer Counsel	0	70,215	0	0	70,215
Judicial Branch	3,220,459	187,881	6,829	0	3,415,169
Executive Branch	30,000,442	26,955,020	20,338,046	7,314,638	84,608,146
University System	<u>23,572,589</u>	<u>14,076</u>	<u>598,867</u>	<u>9,152</u>	<u>24,194,684</u>
Appropriations for Pay and Insurance	\$58,000,000	\$27,422,512	\$20,943,742	\$7,323,789	\$113,690,044
Contingency Funds	\$1,100,000	\$600,000	\$125,000	\$25,000	\$1,850,000
Total	<u>\$59,100,000</u>	<u>\$28,022,512</u>	<u>\$21,068,742</u>	<u>\$7,348,789</u>	<u>\$115,540,043</u>

The legislation also requires that future compensation plans for state employees be based on an analysis and comparison of the municipal and state government labor markets in North Dakota, South Dakota, Idaho and Wyoming and mandates the Department of Administration to conduct the market comparison and to provide its analysis to the Office of Budget and Program Planning as a part of preparing the state budget.

The following link includes a table that shows the appropriation by year, by recipient:
www.leg.mt.gov/content/Publications/fiscal/FR-2015/Additional-Data-Tables/HB13-Costs.pdf

WILDFIRE COSTS

Montana had a severe 2012-2013 fire season. As a result, a large supplemental was appropriated to pay the fire suppression costs determined to be the responsibility of the state. The following figure shows the total current and projected fire suppression costs to the end of FY 2013, and how those costs were funded. As shown, the total is \$60.3 million, of which all but \$10.0 million is the responsibility of the state.

Fire Suppression Costs and Sources of Funding FY 2013	
Total Actual and Projected Fire Costs	FY 2013
Other Parties Responsibility	\$10,006,875
State Responsibility	<u>50,251,567</u>
Total	\$60,258,442
Method of Funding State Responsibility	
Fire Suppression Fund*	4,100,000
Governor's Emergency Fund	10,368,145
Supplemental Appropriation**	<u>35,783,422</u>
Total	<u>\$50,251,567</u>
*Total amount available in FY 2013 prior to replenishment by HB 354.	
**Total appropriation in HB 3 was \$50 million, with the additional funds transferred to the fire suppression fund in FY 2014.	

- The legislature took two major actions to address future fire costs:
- Appropriated more general fund for fire suppression in HB 3 than was necessary to pay current and projected 2013 biennium fire costs, with the unobligated balance transferred to the fire suppression fund. As of this writing, the amount to be transferred is estimated at \$14.2 million of the \$50 million appropriated in HB 3. It should be noted that as of this writing the remainder of FY 2013 fire costs is estimated, and could be higher
- Enacted HB 354, which transfers the following potential funding sources to the fire suppression fund:
 - Any unencumbered and unexpended funds from the Governor’s emergency statutory appropriation at the end of the biennium
 - Any unencumbered and unexpended general fund reversions in excess of 0.5% of total general fund appropriations each fiscal year as long as no reductions are required as provided in MCA 17-7-140
 - Any corporate license tax collected in excess of the revenue estimate each fiscal year through FY 2015

The following table shows each of the funding sources and the anticipated amounts as of May 2013.

Sources of Funding for Fire Suppression Fund 2015 Biennium	
Sources	2015 Biennium
Excess Supplemental Appropriation*	\$14,216,578
HB 354	
Excess Corporate License over Revenue Estimate	46,900,000
Excess Governor's Emergency Fund	-
Reversions over 0.5%	<u>1,000,000</u>
Total	<u>\$62,116,578</u>
*No estimates at this time.	

As of this writing, both corporate license tax revenues and reversions appear stronger than estimated during the legislative session. The fire suppression fund is capped at \$100 million and statutorily appropriated to the Department of Natural Resources and Conservation.

A further discussion is in the narrative for the Department of Natural Resources and Conservation, located at the following address:

<http://www.leg.mt.gov/content/Publications/fiscal/FR-2015/Section%20C/5706-summary.pdf>

Other Budget Increases

- \$5.0 million for increased support of community colleges, other two year education, and workforce development
- \$4.9 million for pay raises and increased employer health insurance contributions for MUS research/public service agencies, community colleges, and the Office of the Commissioner of Higher Education
- \$2.3 million to expand medical education opportunities and address medical workforce needs
- \$0.6 million to implement an Energy and Natural Resources Doctoral Program
- \$2.1 million for increased state support of the Agricultural Experiment Station and Extension Service
- \$0.4 million for the Bio-Energy Research Center at MSU-Northern

A further discussion of the agency begins on page E-X of Volume 4 of the 2015 Biennium Legislative Fiscal Report.

Public Health and Human Services (DPHHS)

The DPHHS 2015 biennium budget is \$259.4 million (\$86.2 million general fund) higher than the 2013 biennium. The most significant change is in funding for benefits (direct services to eligible persons) which grows \$177.9 million total funds over the biennium, with major increases including:

- Medicaid service utilization and eligibility increases - \$126.2 million total funds including \$23.2 million general fund
- Temporary Assistance for Needy Families (TANF) benefits, child care, and early childhood services - \$15.3 million including \$2.2 million general fund

The legislature also approved a 2% annual provider rate increase, some of which is allocated to services and adds \$67.6 million total funds including \$21.8 million general fund over the biennium.

A further discussion of the agency begins on page B-1 of Volume 3 of the 2015 Biennium Legislative Fiscal Report.

Corrections

The legislature provided funding for this agency that is \$21.0 million total funds (6.0%) and \$20.0 million general fund (5.9%) higher than the 2013 biennium funding.

A large amount of the biennium funding growth (\$8.7 million) is to annualize funding for all but 12 male pre-release beds at the levels previously authorized and to annualize a contract to house 25 low risk, infirm inmates at the Montana Mental Health Nursing Care Center. The legislature also funded five new pre-release beds for women and five transitional living slots for women (\$288,000).

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LANGUAGE APPROPRIATIONS IN HB 2

The legislature made several appropriations in language in HB 2. Generally, language appropriations are made when it is not known whether and/or to what degree the funds will be spent. The language specified the maximum amount that can be spent from the appropriation. There are two language appropriations in HB 2 that impact general fund:

- Liquor Control Division (Department of Revenue) - \$154.0 million over the biennium. In addition to direct appropriations authority for staff and related operating expenses, the division is given authority to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts. Because any profits are transferred to the general fund, these expenditures will have a direct impact on general fund
- Board of Crime Control – The board is given authority to spend any remaining pass-through grant appropriations from the 2013 biennium, up to \$100,000

Language appropriations from other sources total \$18.3 million in four agencies: 1) Office of Public Instruction; 2) Commissioner of Higher Education; 3) Natural Resources and Conservation; and 4) DPHHS. Specifics of these language appropriations can be found in the narratives for each agency in Volumes 3 and 4 of the LFD 2015 Biennium Fiscal Report.

APPROPRIATIONS BY SOURCE OF AUTHORITY – LONG RANGE PLANNING

The Long-Range Planning Subcommittee (LRP) analyzes and recommends appropriations and grant authorizations for capital projects to the legislature. 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. More information related to the LRP budgets is found in Volume 4 Section F of the Legislative Fiscal Report.

LRP Budgets

The Sixty-third Legislature approved total funds spending of \$325.5 million for the LRP budgets. For the 2015 biennium, the legislature appropriated funds for nine programs. The LRP programs include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state owned lands and buildings
- State Building Energy Conservation Program (SBECP) – energy efficiency improvements to state owned buildings
- Long-Range Information Technology Program (LRITP) – major information technology build out and upgrade
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program (TSEPRW) – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program (RRGL) – water conservation grants and loans to local governments
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program (C&S) – arts and historical grants
- Quality School Facility Grants Program (Quality Schools) – grants for major maintenance of K-12 school facilities

SB 96 - The legislation reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$10 million of taxable market value and 3% for all taxable market value in excess of \$10 million. It also exempts the first \$250,000 in market value of this property owned by a taxpayer, beginning in TY 2014. Reimbursement through a transfer of general fund is provided to the university system for loss of the 6-mill levy revenue. The legislation is effective on passage and approval and applies to property tax years beginning after December 31, 2013.

In addition, the legislature created the potential for the following on-going general fund transfers:

HB 354 – The legislation provides for the potential of the following three new transfers from the general fund to the fire suppression account (money in the account cannot exceed \$100 million):

- The transfer of any unexpended and unencumbered balance of the Governor’s emergency appropriation at the end of each biennium
- By August 15 following the end of each fiscal year, an amount equal to the balance of unspent general fund appropriated in that year in excess of 0.5% of the total general fund appropriated for that fiscal year, must be transferred (\$1.0 million is shown on the chart)
- Certain corporation license tax revenue deposited in the general fund must be transferred in the following manner:
 - By August 15, 2013, funds in excess of \$152 million collected for FY 2013
 - By August 15, 2014, funds in excess of \$152.2 million collected for FY 2014
 - By August 15, 2015, funds in excess of \$157.5 million collected for FY 2015

This legislation is effective on passage and approval.

APPROPRIATIONS BY SOURCE OF AUTHORITY – OTHER LEGISLATION

The legislature approved other legislation that increases general fund by an additional \$493.5 million. The following figure illustrates.

Other Appropriation Legislation -- General Fund	
Feed bill	\$ 9,231,000
Supplemental appropriations	118,799,000
State employee pay plan	59,100,000
Infrastructure Assistance	103,176,000
Pension Legislation	127,574,000
K-12	48,764,000
Other Bills	<u>\$ 26,839,000</u>
Total	\$ 493,483,000

BILLS ADDRESSING MAJOR BUDGET ISSUES

SB 175

In comparing K-12 education funding from the 2013 biennium to the 2015 biennium, it is necessary to examine HB 2 in conjunction with SB 175. SB 175 changed school law in a number of ways. The bill:

- Applies statutory inflation - 0.89% in FY 2014 and 2.08% in FY 2015 to per-ANB entitlements only; funding is in HB 2
- Increases the basic entitlements and creates multiple basic entitlements per district
- Creates new data for achievement payment of \$10 per ANB in FY 2014, \$15 per ANB in FY 2015 and \$20 per ANB in FY 2016 and beyond
- Creates a data task force

An Overview of State Expenditures



STATE EXPENDITURES

SPENDING BY SOURCE OF AUTHORITY

Figures 5 and 6 show the budget by source of funding. Figure 1 shows the total budget from all fund sources. HB 2 dominates the funding sources for total funds.

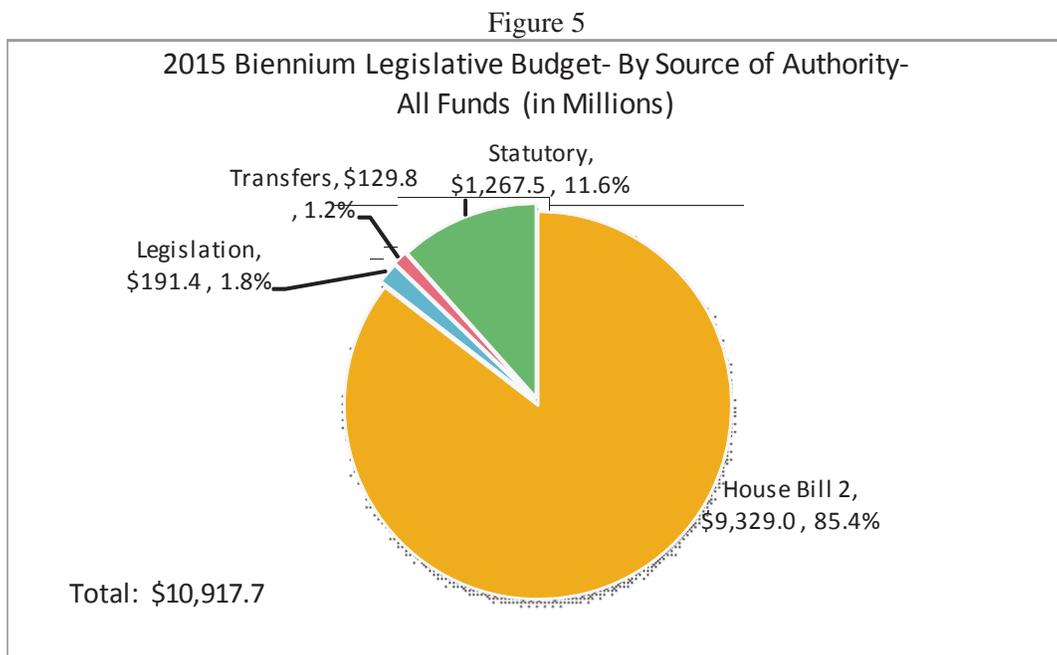
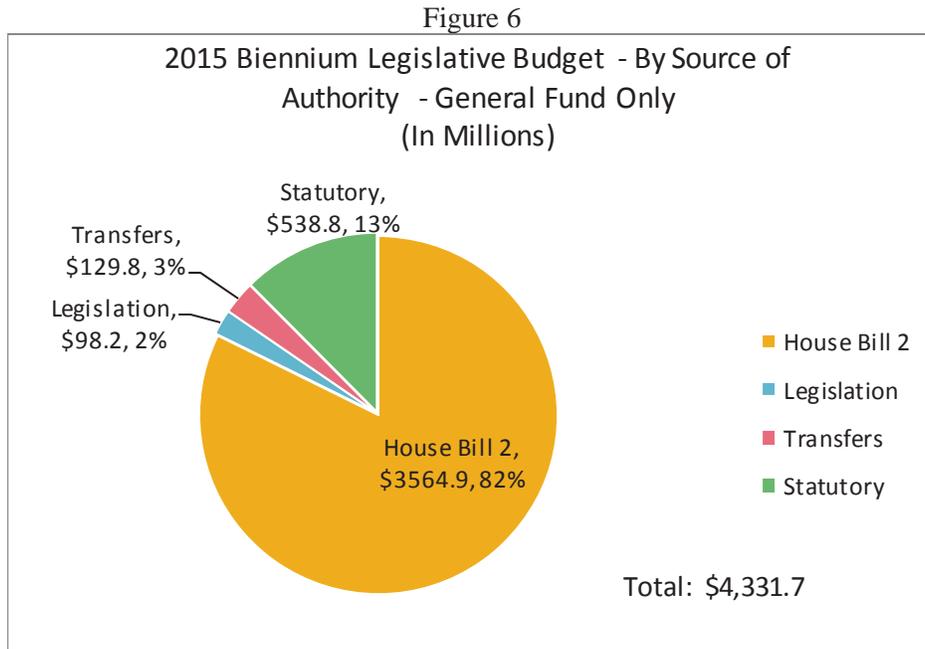


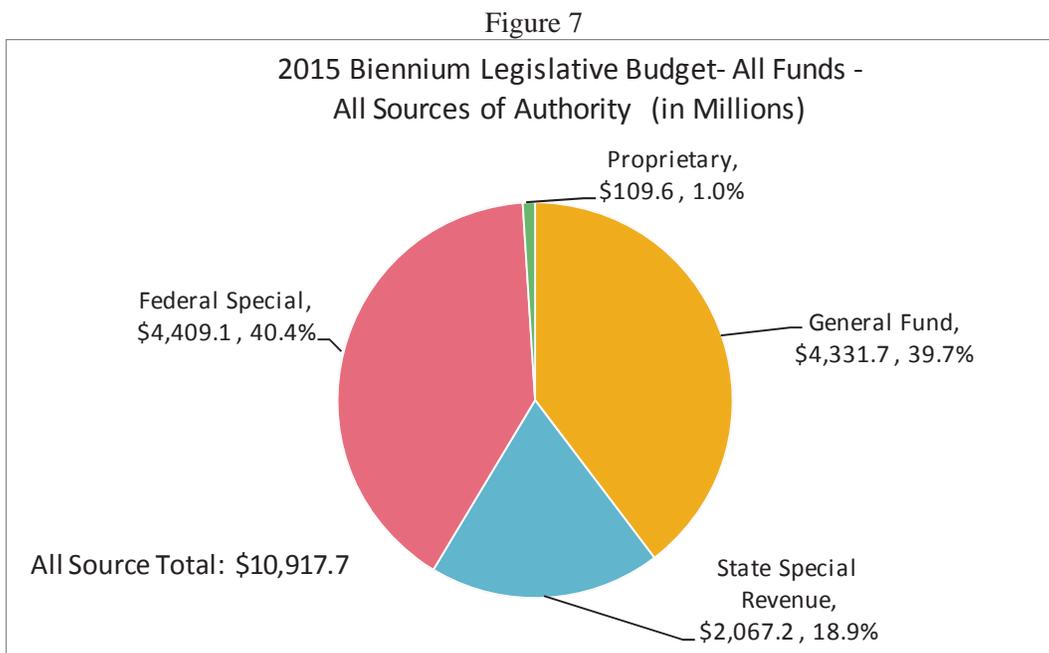
Figure 6 shows the general fund budget by source of funding. The following discusses each of the sources shown. Please note that “Legislation” includes Long Range Planning, which is discussed separately.



The legislature increased total general fund expenditures in the 2015 biennium by \$537.67 million or 14.2% from the previous biennium. The following sections discuss the various components, beginning with HB 2.

Spending by Type of Funding

The following shows the sources of funding for total expenditures. As shown, federal funds provide the largest share, primarily due to human services and transportation funding, followed by general fund.

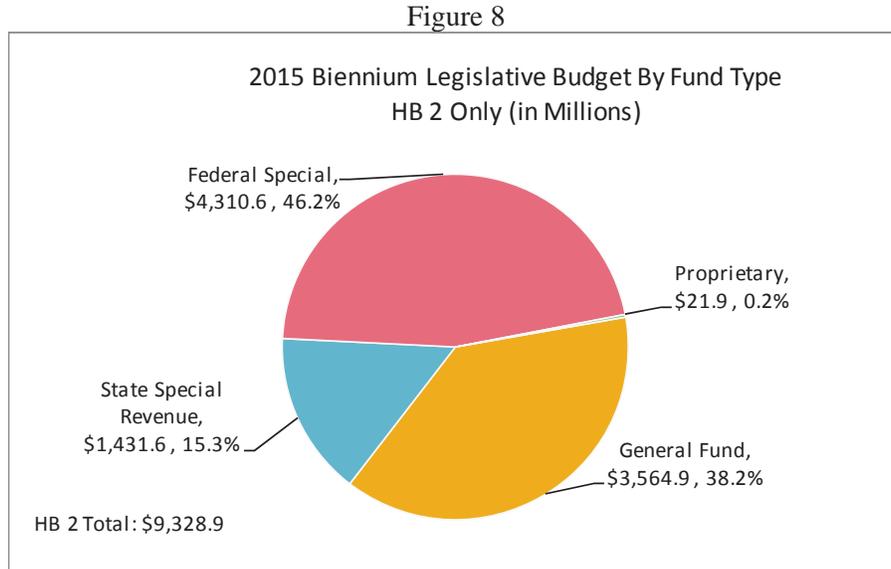


APPROPRIATIONS BY SOURCE OF AUTHORITY – HB 2

HB 2 is the general appropriations bill, of all appropriations in HB 2 about 38% are general fund in the 2015 biennium.

Type of Funding

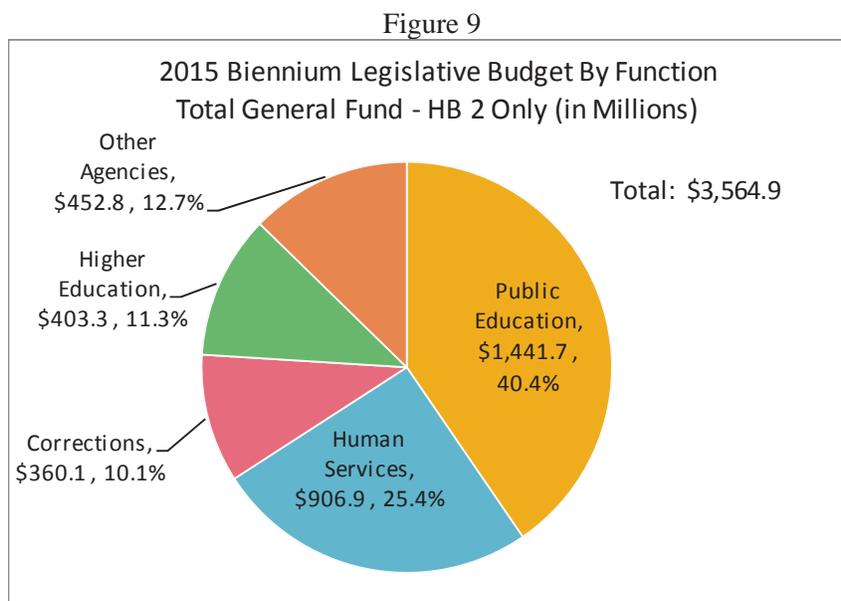
Figure 8 shows the allocation of funding in HB 2. As shown, federal revenues are the largest source, with general fund at 38.2%.



The following discusses the three primary funding sources in HB 2: 1) general fund; 2) state special revenue; and 3) federal funds.

General Fund

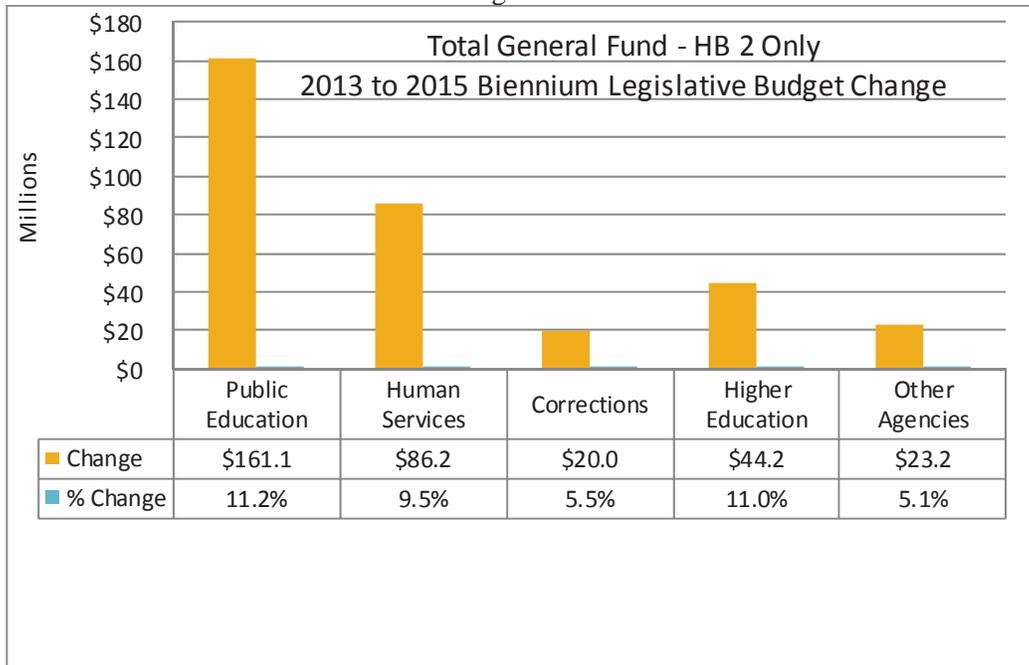
Figure 9 shows total HB 2 general fund, by government functional area. Education, human services, and corrections are over 87% of the total appropriations.



Legislative Action

The legislature increased general fund appropriations by \$334.7 million, or 10.4%. Increases for K-12 education and human services are over 93% of the total increase.

Figure 10



Major increases include:

- K-12 – Replacement of one-time guaranteed account funds and lower account estimates, BASE Aid inflation, SB 372 reimbursements to school districts, ANB adjustments and FY 2013 inflation. A further explanation follows this section
- DPHHS – Medicaid caseload and utilization increases and a 2% provider rate increase each year. A further explanation follows this section
- Corrections - Annualized contract bed and assisted living beds funding, inflation of outside medical costs, a 2% per year provider rate increase, and additional community corrections beds and placements. A further explanation follows this section
- Higher Education – An overall increase for the educational units and research facilities of 7.5%, generally funded at 82% general fund; and an increase in funding for the community colleges
- Office of the Public Defender – Additional staff and operating expenses to address workload/caseload issues
- Revenue – 6-year re-appraisal cycle, enhanced e-services
- FWP and Agriculture – Continuance of aquatic invasive species activities (additional funding is included in HB 586)
- Livestock – Continuance of brucellosis containment and monitoring activities
- All agencies – Statewide present law adjustments

Additional information on present law adjustments and new proposals can be found in Appendix A of this publication.

SB 410

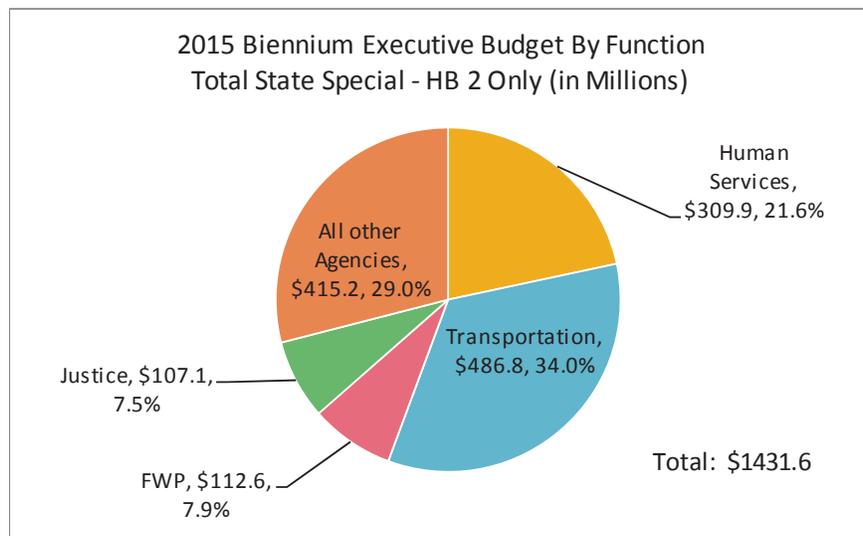
The legislature passed SB 410, which transferred \$13.5 million general fund for general operations of several agencies. In addition, the bill provides a \$7.5 million appropriation to the Governor’s Office for allocation to a number of agencies, also for “operations of the agency”. Because the purposes for which fund in the bill can be used for are similar to HB 2, it is discussed here although it is not included in the figures above. The following shows the individual

statutory appropriations, as well as the agencies that may receive some portion of the \$7.5 million appropriated to the Governor’s Office.

HB 410 - General Fund Transfers and Receiving Agencies 2015 Biennium	
Receiving Agency/Potential Recipients	Biennial Amount
Corrections	\$2,000,000
Public Health and Human Services	2,000,000
Labor and Industry	2,000,000
Governor's Office	<u>7,500,000</u>
Governor's Office	
Public Health and Human Services	
Natural Resources and Conservation	
Environmental Quality	
Administration	
Commerce	
Revenue	
Corrections	
Labor and Industry	
Total	<u>\$13,500,000</u>

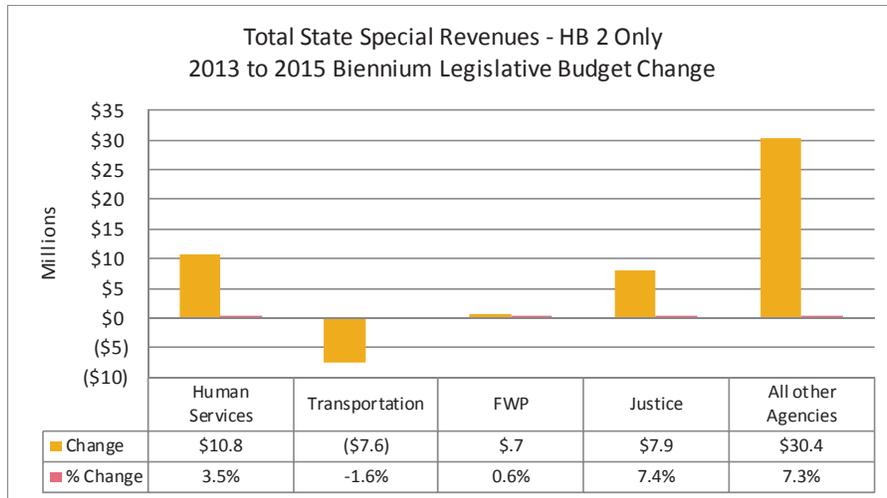
State Special Revenue

State special revenue is earmarked for specific purposes and comprises \$1,431.6 million or 15.3% of total expenditures in the 2015 biennium in HB 2. The following chart shows total state special revenues by function for HB 2 only.



Legislative Action

State special revenue increases by \$42.3 million, or about 3.0%.

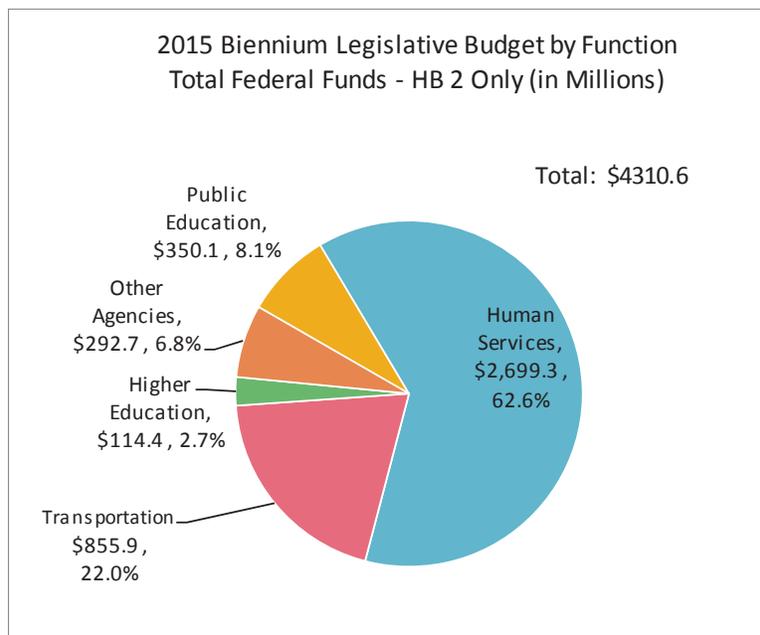


The legislature made a number of changes in various agencies. The most significant policy adjustments include the following:

- Environmental related - Additional Zortman Landusky monitoring and remediation, and authority for rangeland loans and various water projects
- DPHHS – A reduction due to an anticipated hold harmless switch, increased intergovernmental transfers, and additional tobacco prevention and other public health initiatives
- All agencies – Statewide present law adjustments

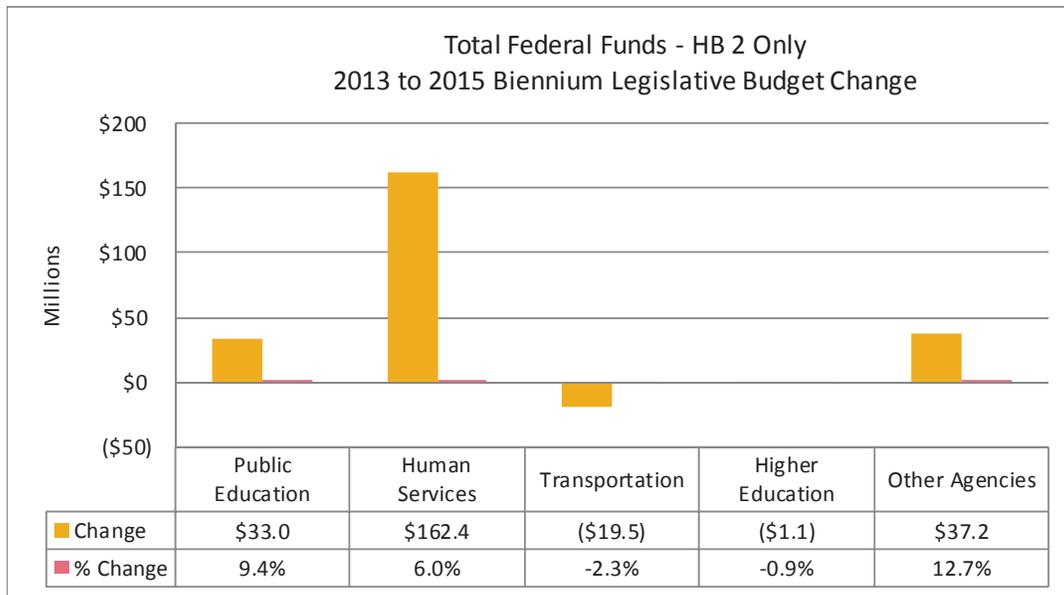
Federal Funds

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 comprises \$4,310.6 million or 46.2% of total appropriations in the 2015 biennium.



Legislative Action

Federal funds increase by \$211.9 million and 5.2% from the previous biennium, with the change in DPHHS comprising over 76% of the increase.

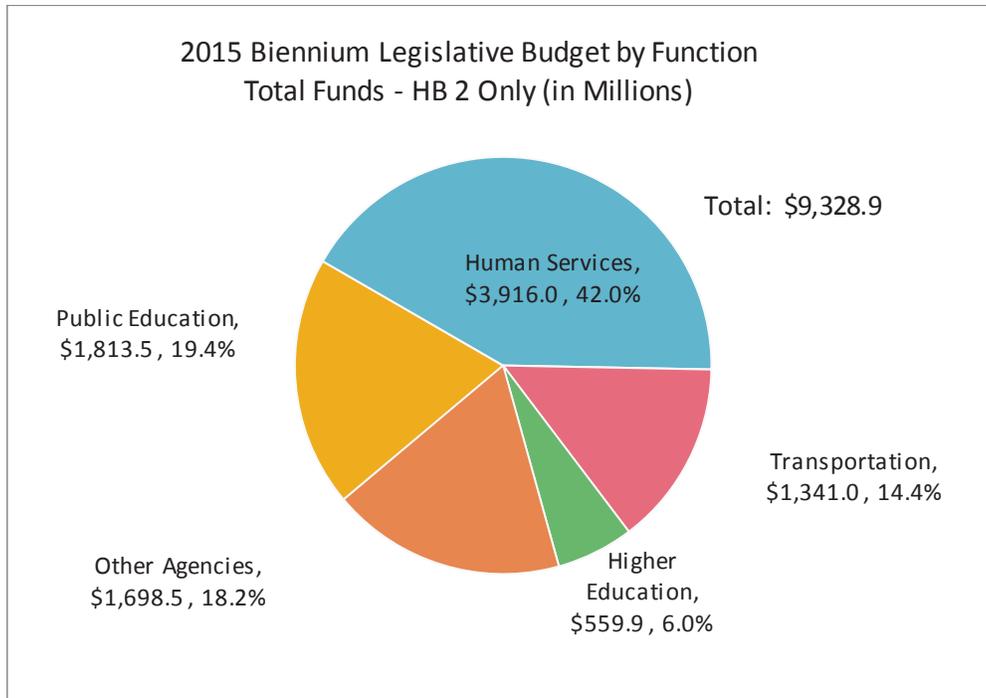


As with state special funds, the legislature made multiple changes over numerous agencies. The major changes include the following:

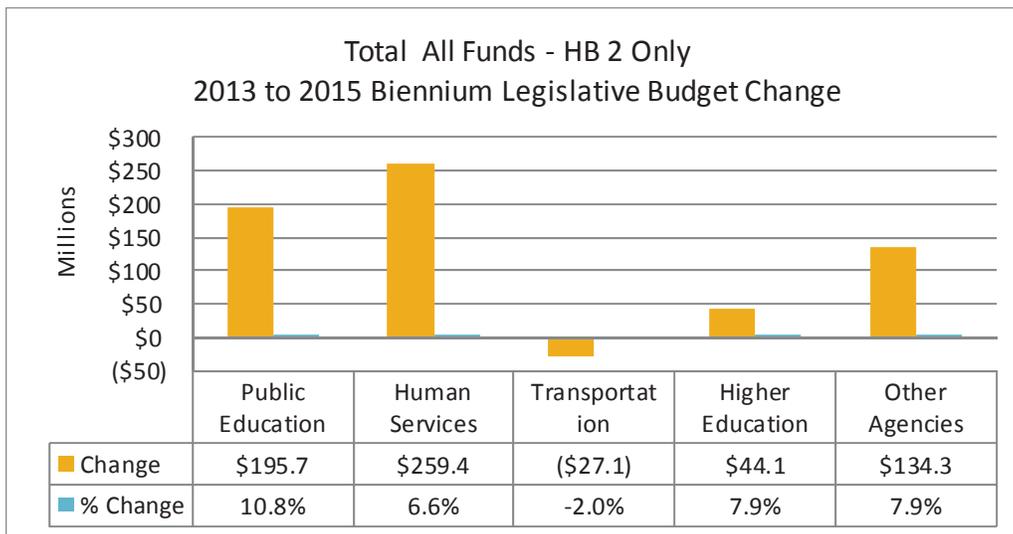
- DPHHS – Caseload and utilization increases and a 2% provider rate increase per year
- Public Education – Addition of a Montana Striving Readers Project and other increased federal grants
- Transportation – Anticipated federal construction funds, and reductions due to the winding down of federal stimulus projects
- Commerce – Various grants adjustments
- Military Affairs – Additional homeland security grants
- All agencies – Statewide present law adjustments

Total Funds

The following shows the allocation of total funds in HB 2 by functional area. Education, human services, and transportation are almost 76% of the total.



The following shows the changes in total funds by functional area.



Functional Areas

The following provides additional information on general fund appropriations for K-12 and higher education, human services, and corrections.

K-12 Education

The budget for K-12 in the 2015 biennium includes direct appropriations in HB 2, SB 175 and statutory appropriations from the guarantee account. A comparison of appropriations in the 2015 biennium and 2013 biennium must take into account each of these sources.

The table below shows that comparison.

Biennial Comparison for OPI - Distribution to Schools - State GF (HB2) and Guarantee Account.				
	General Fund	Guarantee Account	SB 175	Total
2012	\$613.01	\$103.37	\$0.00	\$716.38
2013	\$679.12	\$65.50	\$0.00	\$744.62
2014	\$688.87	\$57.47	\$25.80	\$772.14
2015	\$717.28	\$54.67	\$22.95	\$794.90
2013 Biennium	\$1,292.12	\$168.87	\$0.00	\$1,460.99
2015 Biennium	<u>\$1,406.15</u>	<u>\$112.13</u>	<u>\$48.75</u>	<u>\$1,567.03</u>
Biennial Difference	<u>\$114.03</u>	<u>(\$56.74)</u>	<u>\$48.75</u>	<u>\$106.04</u>
Biennial Percent Growth	8.8%	-33.6%		7.3%
Note: The general fund in FY 2013 contains \$43.58 million in supplementals				

The spending for K-12 in the guarantee account in the 2013 biennium was high due to one-time-only transfer of balances from other funds to the guarantee account in FY 2012. The spending from the general fund in FY 2013 contains two supplementals. One for around \$40 million is due to the veto of HB 316 from the 2011 legislative session. The second supplemental of \$3.6 million was due to higher than expected reimbursements to school districts due to the tax cuts in SB 372.

The state is expected to increase funding for K-12 in the 2015 biennium compared with the 2013 biennium by \$106.0 million. Of this amount \$48.8 million is due to SB 175, the school funding bill.

A further discussion of the agency begins on page E-1 of Volume 4 of the 2015 Biennium Legislative Fiscal Report.

Higher Education

The 2013 Legislature increased state funding for Montana's postsecondary education institutions and agencies \$68.8 million in the 2015 biennium. Most of this increase, \$52.7 million, will be allocated to the Montana University System education units to implement a Tuition Cap Agreement reached between the Governor and the Board of Regents that will freeze resident student tuition rates each year of the 2015 biennium. The agreement was dependent upon new funding for inflationary costs in HB 2 and adequate funding for faculty and staff pay raises in HB 13. The remaining \$16.1 million biennial increase is for new programs, increases to current programs, and pay raises and health insurance increases for the remaining postsecondary institutions, agencies, and programs.

Tuition Cap Agreement

- HB 2 -- \$34.0 million
 - \$28.2 million general fund was added to the MUS education units to fund an 82% state share of the present law cost increases in the MUS general operating budget for the 2015 biennium
 - \$5.2 million general fund was restored to the Student Assistance Program that was part of a funding switch in the 2011 legislative session
 - \$0.6 million general fund was added for inflationary increases in the WICHE/WWAMI/Minnesota Dental program
 - HB 13 - \$18.7 million estimated allocation for MUS education units for pay raises and increased state contribution towards health insurance premiums
 - The agreement also commits the Montana University System to incorporating a performance funding component into the allocation model used by the Board of Regents for distributing funds to the MUS education units

Other Budget Increases

- \$5.0 million for increased support of community colleges, other two year education, and workforce development
- \$4.9 million for pay raises and increased employer health insurance contributions for MUS research/public service agencies, community colleges, and the Office of the Commissioner of Higher Education
- \$2.3 million to expand medical education opportunities and address medical workforce needs
- \$0.6 million to implement an Energy and Natural Resources Doctoral Program
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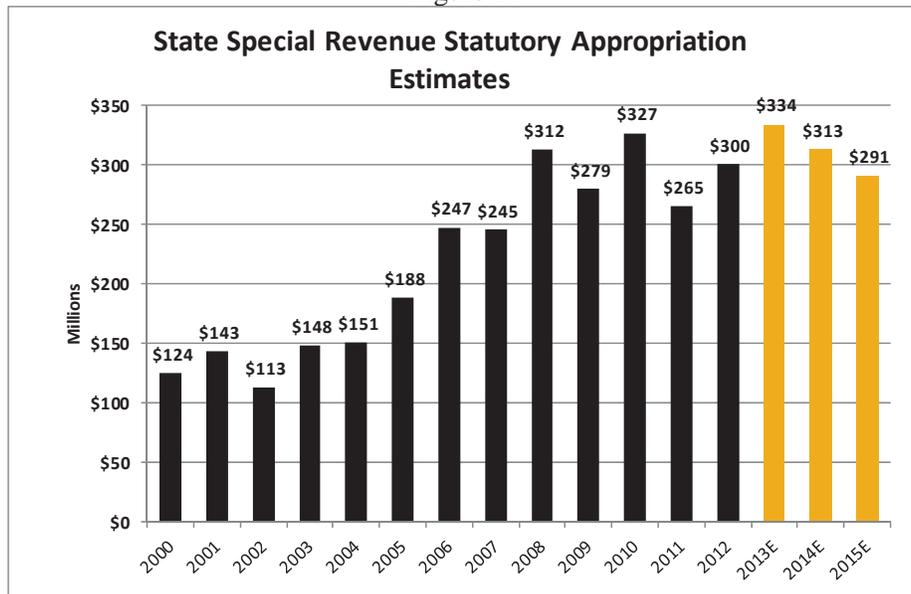
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- Board of Crime Control – The board is given authority to spend any remaining pass-through grant appropriations from the 2013 biennium, up to \$100,000

Figure 14



APPROPRIATIONS BY SOURCE OF AUTHORITY – GENERAL FUND TRANSFERS

The figure 15 shows a history of the non-budgeted general fund transfers from FY 2000 through FY 2012. For the 2015 biennium, \$130 million is estimated to be transferred out of the general fund, a \$47 million increase from the 2013 biennium.

Figure 15

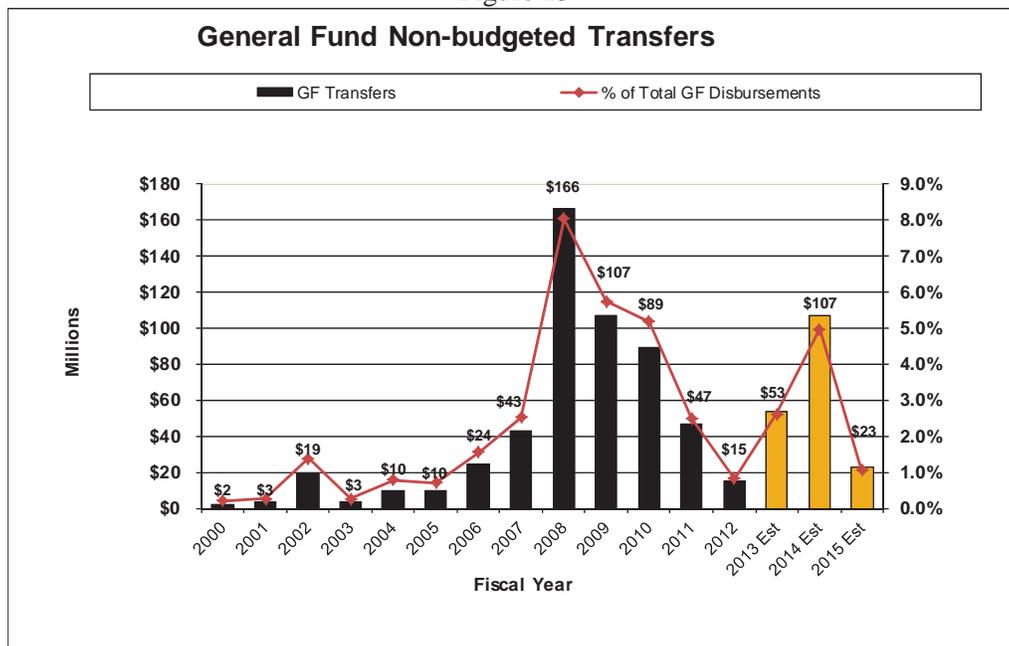


Figure 16 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet for the 2013 and 2015 biennia. Following Figure 2 are explanations of bills enacted by the 2013 Legislature that created new transfers and changed amounts of existing transfers.

Figure 16

General Fund Non-budgeted Transfer Estimates
Fiscal Years 2012-2015
(Millions)

Authorization	Name	Legislative Session	2013 Biennium			2015 Biennium		
			Fiscal 2012A	Fiscal 2013E	Total	Fiscal 2014E	Fiscal 2015E	Total
Vehicle/Other Fee Transfers								
15-1-122(1)	DPHHS-Adoption services	2001	\$0.059	\$0.065	\$0.124	\$0.071	\$0.079	\$0.150
15-1-122(3)(a)	DEQ-Junk vehicles	2001	1.477	1.499	2.976	1.584	1.598	3.182
15-1-122(3)(b)	Agriculture-Noxious weeds	2001	1.496	1.519	3.015	1.605	1.620	3.225
15-1-122(3)(c)(i)	FWP-Boat facilities & enforcement, OHV, Parks	2001	0.705	0.729	1.434	0.770	0.778	1.548
15-1-122(3)(c)(ii)	FWP-Enforcement, snowmobiles	2001	In above	In above	0.000	In above	In above	0.000
15-1-122(3)(c)(iii)	FWP-Motorboats	2001	In above	In above	0.000	In above	In above	0.000
15-1-122(3)(d)	MA-Veterans' services	2001	0.692	0.689	1.381	0.728	0.734	1.462
15-1-122(3)(e)	DOT-Disabled seniors transportation	2001	0.299	0.304	0.603	0.321	0.324	0.645
15-1-122(3)(f)	MA-Search and rescue	2001	<u>In above</u>	<u>In above</u>	<u>0.000</u>	<u>In above</u>	<u>In above</u>	<u>0.000</u>
Sub-total			\$4.728	\$4.804	\$9.532	\$5.079	\$5.133	\$10.212
Other Transfers								
Unknown	DPHHS Non-budgeted		\$0.136	\$0.136	\$0.272	\$0.136	\$0.136	\$0.272
Unknown	Other Agencies Non-budgeted		0.016	0.016	0.032	0.016	0.016	0.032
15-1-122(5)	HB 622 - Livestock loss reduction and mitigation	2011	0.200	0.200	0.400	0.200	0.200	0.400
15-1-123(5)(b)	SB 372 - Lower business equipment tax	2011	0.000	0.285	0.285	0.171	0.375	0.547
17-1-511(2)	SB 553 - Incentive for rural physicians	2007	0.227	0.227	0.454	0.227	0.227	0.454
39-71-2352(6)	Old state fund shortfall *	2002 SS	10.042	11.204	21.246	7.356	5.652	13.008
77-1-108(4a)	HB 19 - To trust land administration account	2007	0.080	0.000	0.080	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.040	0.040	0.080	0.040	0.040	0.080
87-2-803(12c)	SB 243 - To general license acct. national guard free license	2007	<u>In above</u>	<u>In above</u>	<u>0.000</u>	<u>In above</u>	<u>In above</u>	<u>0.000</u>
Sub-total			\$10.741	\$12.108	\$22.849	\$8.227	\$6.646	\$14.873
2013 Legislature - New Transfers								
Uncodified	HB 5 - Long-range building appropriations	2013	\$0.000	\$0.000	\$0.000	\$49.550	\$0.000	\$49.550
Uncodified	HB 6 - Renewable resource grants	2013	\$0.000	\$0.000	\$0.000	\$20.474	\$0.000	\$20.474
Uncodified	HB 10 - Long-range information technology appropriations	2013	\$0.000	\$0.000	\$0.000	\$11.452	\$0.000	\$11.452
Uncodified	HB 11 - Treasure state endowment program	2013	\$0.000	\$0.000	\$0.000	\$10.850	\$10.850	\$21.700
Uncodified	HB 354 - Establish a wildfire project suppression fund	2013	\$0.000	\$0.000	\$0.000	\$1.000	\$0.000	\$1.000
Uncodified	SB 175 - Revise public education funding	2013	\$0.000	\$22.950	\$22.950	\$0.000	\$0.000	\$0.000
Uncodified	SB 410 - Transfers to implement provisions of HB 2	2013	<u>\$0.000</u>	<u>\$13.500</u>	<u>\$13.500</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>
Sub-total			\$0.000	\$36.450	\$36.450	\$93.325	\$10.850	\$104.175
2013 Legislature - Changes to Existing Transfers								
15-1-122(2)(d)	HB 626 - Increase % of motor vehicle revenue for veterans	2013	\$0.000	\$0.000	\$0.000	\$0.172	\$0.174	\$0.346
15-1-123(4)(b)	SB 96 - Lower the business and equipment tax	2013	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$0.083</u>	<u>\$0.141</u>	<u>\$0.224</u>
Sub-total			\$0.000	\$0.000	\$0.000	\$0.256	\$0.314	\$0.570
Total			\$15.469	\$53.363	\$68.832	\$106.887	\$22.943	\$129.830

* Updated estimate from the State Fund May 3, 2013

Transfers are estimated to be \$129.8 million in the 2015 biennium. The largest single on-going transfer in the biennium is \$13.0 million to the workers compensation old fund (39-71-235(6), MCA). Beginning FY 2013 at \$11.2 million, the Montana State Fund estimates that yearly general fund transfers (in decreasing amounts after FY 2013) totaling \$58.8 million will be needed through FY 2051.

The 2013 Legislature enacted eight new laws that transfer general fund to various other accounts on a one-time basis (see the chart above) and made changes to the following two existing transfers:

HB 626 – The legislation increases the percentage of general fund motor taxes and fee revenue to the veterans' cemetery and veterans' services state special revenue accounts from 0.64% to 0.81%. The on-going general fund transfer increases \$172,353 in FY 2014 and \$173,529 in FY 2015 for a biennial total of \$345,882. The legislation is effective July 1, 2013.

SB 96 - The legislation reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$10 million of taxable market value and 3% for all taxable market value in excess of \$10 million. It also exempts the first \$250,000 in market value of this property owned by a taxpayer, beginning in TY 2014. Reimbursement through a transfer of general fund is provided to the university system for loss of the 6-mill levy revenue. The legislation is effective on passage and approval and applies to property tax years beginning after December 31, 2013.

In addition, the legislature created the potential for the following on-going general fund transfers:

HB 354 – The legislation provides for the potential of the following three new transfers from the general fund to the fire suppression account (money in the account cannot exceed \$100 million):

- The transfer of any unexpended and unencumbered balance of the Governor’s emergency appropriation at the end of each biennium
- By August 15 following the end of each fiscal year, an amount equal to the balance of unspent general fund appropriated in that year in excess of 0.5% of the total general fund appropriated for that fiscal year, must be transferred (\$1.0 million is shown on the chart)
- Certain corporation license tax revenue deposited in the general fund must be transferred in the following manner:
 - By August 15, 2013, funds in excess of \$152 million collected for FY 2013
 - By August 15, 2014, funds in excess of \$152.2 million collected for FY 2014
 - By August 15, 2015, funds in excess of \$157.5 million collected for FY 2015

This legislation is effective on passage and approval.

APPROPRIATIONS BY SOURCE OF AUTHORITY – OTHER LEGISLATION

The legislature approved other legislation that increases general fund by an additional \$493.5 million. The following figure illustrates.

Other Appropriation Legislation -- General Fund	
Feed bill	\$ 9,231,000
Supplemental appropriations	118,799,000
State employee pay plan	59,100,000
Infrastructure Assistance	103,176,000
Pension Legislation	127,574,000
K-12	48,764,000
Other Bills	<u>\$ 26,839,000</u>
Total	\$ 493,483,000

BILLS ADDRESSING MAJOR BUDGET ISSUES

SB 175

In comparing K-12 education funding from the 2013 biennium to the 2015 biennium, it is necessary to examine HB 2 in conjunction with SB 175. SB 175 changed school law in a number of ways. The bill:

- Applies statutory inflation - 0.89% in FY 2014 and 2.08% in FY 2015 to per-ANB entitlements only; funding is in HB 2
- Increases the basic entitlements and creates multiple basic entitlements per district
- Creates new data for achievement payment of \$10 per ANB in FY 2014, \$15 per ANB in FY 2015 and \$20 per ANB in FY 2016 and beyond
- Creates a data task force

PENDING LAWSUITS

The State of Montana is involved in a number of substantial cases, some of which are summarized below. In addition to the fiscal risks inherent in some of these cases, e.g., *Wrzesien v. State/MPERA* and *PPL v. Montana*, when the State is the losing party in major litigation, it may be required to pay the costs and attorney fees of the prevailing party. The costs and expenses in these cases are often very substantial.

Montana v. Wyoming: In 2004 Montana sued Wyoming for violation of the Yellowstone River Compact, involving primarily the Tongue River system. The Supreme Court of the United States has original jurisdiction over the case and has appointed a special master.

PPL v. Montana: Following remand by the Supreme Court of the United States, this litigation concerns navigability of portions of the Missouri, Clark Fork, and Madison rivers. Millions of dollars in rents from dam operators are at stake.

Wrzesien v. State/MPERA: Plaintiffs are seeking class certification of an equal protection challenge to “plan choice rate” for defined contribution and ORP (optional retirement program) retirement plans, which directs a percentage of the employer’s contribution to the defined benefit plan to pay down the pension’s actuarial liability. They seek an elimination of the plan choice rate going forward and a repayment, with interest, of past plan choice rate payments.

Montana Cannabis v. State: Plaintiffs are challenging restrictions placed upon the production and sale of medical marijuana enacted during the 2011 legislative session. If the plaintiffs are successful, the number of medical marijuana users would continue to increase, as would the costs of policing the medical marijuana industry.

Donaldson v. State: Plaintiffs challenge various statutes denying equal benefits to same-sex couples. The State prevailed in the Montana Supreme Court but remanded to allow the plaintiffs to amend their complaint.

American Tradition Partnership v. Murry and Bullock: Plaintiffs are appealing to the Ninth Circuit the federal district court’s ruling that Section 13-35-216, MCA, establishes unconstitutional contribution limits in Montana elections. The case is pending in the Ninth Circuit Court of Appeals.

Big Sky Colony v. Montana Dep’t of Labor: Plaintiffs allege that workers compensation statutes discriminate against the Hutterites. The State prevailed in the Montana Supreme Court but the plaintiffs filed a petition for certiorari to the Supreme Court of the United States, which has ordered the State to file a Brief in Opposition.

HB 2 BOILER PLATE – VACANCY SAVINGS

The 2013 Legislature paid particular attention to personal services budgeting. As a part of this heightened interest, the HB 2 boiler plate language was modified to include the following language:

Section 3. Legislative intent. It is the intent of the legislature that the appropriations for personal services contained in this bill for fiscal year 2014 and fiscal year 2015, except for the reductions contained in decision packages that remove an additional vacancy savings amount, are supported by only the number of FTE that are funded. It is the intent of the legislature that this net level of FTE is the level that will be used to calculate personal services funding in the next biennium.

This language will be implemented in the 2015 biennium and used to modify how personal services are budgeted in future years. Implementing this language fits within the charge of the Legislative Finance Committee to make recommendations to the House Appropriations Committee and the Senate Finance and Claims Committee on the application of budget issues. “At a minimum, the recommendations must include procedures for the consistent application during each session of inflation factors, the allocation of fixed costs, and the personal services budget.” 5-12-205(7), MCA.

OTHER BUDGET ISSUES

The following are areas of the budget that are not mentioned in depth in other areas, but will be tracked through the interim and reported to the 2015 Legislature.

STRUCTURAL BALANCE

General Fund

Structural balance refers to the balancing of ongoing expenditures with ongoing revenues. If ongoing revenues equal or exceed ongoing expenditures, then structural balance is achieved for the short-term. If ongoing expenditures exceed ongoing revenues, then structural imbalance occurs. With adjustments for one-time revenues and expenditures, the ending structural balance for the 2015 biennium is slightly negative at \$4.56 million or 0.2%.

Future Budget Risks

In order to attain or maintain a structural balance, for any increase in annual expenditures there must be an equal or greater increase in ongoing revenue. At the same time, any reduction in revenues must be at least matched by reductions or lower growth in expenditures. In every biennium, the following pressures can impact future structural balance of the general fund:

- Expenditure growth for higher costs for current services, as is common with caseload driven entitlement programs such as Medicaid or increases in prison populations supervised by the Department of Corrections
- Realization of any delayed implementation of ongoing programs or taxation policy changes
- Growth or reductions in services or revenues arising from known demographic or other economic changes, such as the cost of an aging population
- Revenue growth greater or less than anticipated

Going into the next biennium, the beginning point would be the currently estimated structural balance using SJ 2 revenue estimates for FY 2015, or slightly negative at 0.2%. At present the FY 2013 year-to-date base revenues are stronger than anticipated and will likely erase this small structural imbalance.

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Currently, personal services budget techniques are based on traditions and processes developed over the years that include:

- Funding personal services based on FTE, or full-time equivalent positions (the legislature does not “approve” any FTE)
- Determining which ongoing FTE positions can be included in the next budget base and used to determine personal services appropriations in the next biennium,
- Establishing a vacancy savings amount that reduces the funding for personal services, but leaves all of the FTE positions (frequently 4%) used to determine personal services appropriations

This amendment reduces the number of positions that will be used by the legislature to determine the 2017 biennium personal services appropriation. The Legislative Finance Committee will recommend the specific manner in which this will be implemented for the next biennium.

The spreadsheet on page A-11 in Appendix A illustrates the calculated FTE reductions by agency.

TRIBAL WATER COMPACTS

Tribal water compacts are formal agreements for the equitable division and apportionment of waters between the State and the several Indian Tribes claiming reserved water rights within the state and between the State and the federal government claiming non-Indian reserved waters within the state. All compacts must be approved by the Legislature and Congress prior to implementation.

The state has worked to secure water rights agreements with the Montana tribes for decades. These negotiations are time consuming and costly endeavors, and are pursued by all parties as an alternative to litigation. Tribal water compacts provide for the equitable division and apportionment of waters between the state and the tribes. To finalize the compacts, the federal government must enter into the agreement. To date, the Montana legislature has approved the:

- Ft. Peck-MT Compact, 1985
- Northern Cheyenne-MT Compact, 1991
- Chippewa Cree Tribe-MT Compact, 1997
- Crow Tribe-MT Compact, 1999
- Ft. Belknap-MT Compact, 2001
- Blackfeet Tribe MT Compact, 2009

Congress has ratified the first four of those compacts but has yet to ratify the Ft. Belknap and Blackfeet Tribal compacts. One last tribal compact awaiting approval by the legislature is the agreement with the Confederated Salish and Kootenai Tribes (CSKT) of the Flathead Reservation. The Reserved Water Rights Compact Commission approved a CSKT compact and in February, 2013 recommended the settlement to the Legislature for approval during the 2013 Legislative Session.

The executive proposed HB 629 as a vehicle to adopt the Reserved Water Rights Compact Commission recommendation for settlement of the CSKT Water Compact, but the legislation failed to win the approval of the 2013 Legislature. The consequences of the failure of HB629 are unclear. The Compact Commission plans to issue a report on issues raised during the session to the Water Policy Interim Committee. The tribes may exercise their right to file claims in court or wait for legislation to ratify the compact to be proposed in a future session.

With uncertainty of the ability to pass HB 629, the legislature provided \$17 million of appropriations in HB 6 to fulfill the state's financial obligation for two existing/authorized tribal water compacts: the Ft. Belknap Tribal compact (\$3 million) and the Blackfeet Tribal compact (\$14 million). These two compacts have not yet been ratified by Congress, and Congressional action on both compacts is dependent on state funding being in place. The state may not expend funds on water infrastructure projects for the two state-authorized compacts until the Congress has ratified the compacts. In past sessions, the legislature has authorized the issuance of general obligation bonds to partially cover the state's obligation on the compacts, including:

- \$9.5 million for the Ft. Belknap compact
- \$16.0 million for the Blackfeet compact

Explicitly stated in the bonding legislation for the Blackfeet compact and assumed for the Ft. Belknap compact, the bonds will not be issued or sold unless a water rights compact has been finally ratified by all parties, including Congress. The state is anticipating Congressional action on the Ft. Belknap compact in FY 2018 and the Blackfeet compact in FY 2015 (per HB 629 fiscal note). The appropriations included in HB 6 will fully fund the state's financial obligation for the two compacts.

- Office of Public Instruction –
 - State Tuition Payments - State tuition payments are payments to school districts for students placed in a school district outside their district of residence by a state agency or court. Tuition payments are higher than anticipated
 - Base Aid – HB 316 moved mineral royalties revenues to the guarantee account from the general fund, reducing the general fund appropriation required for Base Aid. When HB 316 was vetoed additional general fund was needed
 - Block Grants - SB 372 cut tax rates on class 8 business equipment starting tax year 2012. The revenue loss associated with these tax cuts was reimbursed to school districts. However, the amount appropriated for SB 372 reimbursements was short by \$3.7 million.
- Department of Justice – The legislature provided funds for three purposes: 1) to add funds to the biennial appropriation that funds major litigation, which has been depleted by major cases, including the PPL lawsuit that went to the US Supreme Court; 2) payouts of eligible exempt staff who left the department when the new Attorney General took office; and 3) legal services costs for the Public Safety Officer Standards and Training (POST) board
- Governor’s Office – This supplemental is for payout costs for eligible exempt staff who left the office when the new Governor assumed office
- Department of Natural Resources and Conservation (DNRC) – DNRC is the agency responsible for paying most of the state-responsibility costs of fire suppression. Total estimated state responsibility costs as of this writing are \$50.3 million, with \$4.1 million paid from the fire suppression fund (which will be depleted) and \$10.4 million paid from the Governor’s emergency fund, leaving a balance that must be paid from a supplemental appropriation at \$35.8 million. The legislature provided this funding plus an additional \$14.2 million to replenish the fire suppression fund. A further discussion of fire costs can be found in the 2015 Biennium LFD Fiscal Report narrative for DNRC at the following link and in this appendix: <http://www.leg.mt.gov/content/Publications/fiscal/FR-2015/Section%20C/5706-summary.pdf>
- Department of Administration – The legislature provided two appropriations: 1) replenish the fund balance for the state’s self-insurance program that was depleted to pay for the state’s share of the Libby asbestos lawsuit settlement with a lump-sum general fund payment (the remaining fund balance will be replenished over time through additional insurance costs to agencies); and 2) provide additional authority for the lottery to pay vendors
- Office of the Public Defender (OPD) – This appropriation is due primarily to the impacts on the agency from unanticipated double digit caseload growth that was heavily influenced by large growth in the number of dependent and neglect cases, high turnover and payout costs, and costs associated with death penalty cases
- Military Affairs – The department was provided federal homeland security grants for local communities
- Department of Corrections – The legislature added funding primarily for outside medical costs and low vacancy savings in positions on which a vacancy savings rate of 4% was applied in the budget

AGENCY BUDGET COMPARISONS BY FUND

This section provides a comparison, by agency, of HB 2 appropriations compared to the 2013 biennium. For each fund type, a table shows the comparison by agency. Also included for each fund type is a pie chart showing the amount and percent of each fund by major program area, and a bar graph that shows the percentage increase by major program area. The narrative describes the primary reasons for the budget changes, by fund type.

General Fund

As defined in 17-2-102, MCA, the general fund “accounts for all financial resources except those required to be accounted for in another fund.” The general fund provides funding for the general operations of state government.

The legislature increased general fund in HB 2 by \$334.7 million, or 10.36%. K-12 and higher education are over 61% of the total increase. Human services (agencies 6902 through 6911 in the table) are another 26% of the increase, meaning those three areas contribute 87% of the total general fund increase. For most agencies, statewide present law adjustments constitute the largest increase. Note that this comparison is done without including impacts from supplemental appropriations included in the 2013 budget. In this comparison, approximately \$95 million or 28% of the

increase is to replace the statutorily appropriated guarantee account revenue for K-12 in the 2013 biennium and appropriated by the 2013 Legislature in a supplemental appropriation with HB 2 general fund. While this does not increase the overall state spending, it does increase HB 2 general fund and total funds.

HB 2 Only - General Fund Comparison 2013 Biennium versus Legislative Budget 2015 Biennium								
General Fund	Base 2012	Adjusted Authorized 2013	Adjusted Total FY 12-13	Legislative Budget 2014	Legislative Budget 2015	Legislative Budget FY 14-2015	Biennial Change	Biennial % Change
1104 Legislative Branch	10,271,713	12,309,086	22,580,798	11,799,235	12,152,408	23,951,643	1,370,845	6.07%
2110 Judicial Branch	35,403,342	35,658,080	70,710,339	37,422,144	37,232,971	74,655,115	3,944,776	5.58%
3101 Governor's Office	5,486,222	19,520,609	35,084,494	6,101,819	5,988,423	12,090,242	(22,994,252)	-65.54%
3202 Comm Of Political Practices	-	567,028	1,046,633	588,126	556,407	1,144,533	97,900	9.35%
3401 State Auditor's Office	479,478	-	-	1,646,660	6,763,375	8,410,035	8,410,035	
3501 Office Of Public Instruction	622,881,947	645,440,345	1,268,322,304	700,115,453	728,548,656	1,428,664,109	160,341,805	12.64%
4107 Crime Control Division	2,260,588	2,263,250	4,524,309	2,343,618	2,342,690	4,686,308	161,999	3.58%
4110 Department Of Justice	26,524,504	26,315,728	52,731,961	29,918,271	29,924,611	59,842,882	7,110,921	13.49%
5101 Board Of Public Education	215,746	222,033	437,839	209,128	192,932	402,060	(35,779)	-8.17%
5102 Commissioner Of Higher Education	185,706,551	179,553,762	359,105,160	200,703,383	202,609,650	403,313,033	44,207,873	12.31%
5113 School For The Deaf & Blind	5,927,143	5,971,331	11,898,469	6,357,793	6,306,952	12,664,745	766,276	6.44%
5114 Montana Arts Council	451,194	448,088	899,372	576,186	476,907	1,053,093	153,721	17.09%
5115 Montana State Library	2,544,894	2,643,606	5,188,515	3,207,502	3,155,870	6,363,372	1,174,857	22.64%
5117 Montana Historical Society	2,824,294	2,934,256	5,758,905	3,418,356	3,118,310	6,536,666	777,761	13.51%
5201 Department Of Fish, Wildlife & Parks	-	-	-	309,125	309,125	618,250	618,250	
5301 Department Of Environmental Quality	5,161,619	5,287,921	10,450,557	5,222,831	5,225,695	10,448,526	(2,031)	-0.02%
5603 Department Of Livestock	995,352	991,064	1,977,147	1,507,983	1,497,575	3,005,558	1,028,411	52.01%
5706 Dept Of Natural Resources & Conservation	21,732,274	22,811,451	44,539,062	23,666,442	23,614,354	47,280,796	2,741,734	6.16%
5801 Department Of Revenue	47,885,941	47,756,729	95,420,530	49,784,214	49,598,991	99,383,205	3,962,675	4.15%
6101 Department Of Administration	5,948,828	6,132,662	11,909,609	6,292,860	6,185,621	12,478,481	568,872	4.78%
6108 Office Of The Public Defender	23,275,619	21,678,051	44,255,950	26,163,647	26,227,081	52,390,728	8,134,778	18.38%
6201 Department Of Agriculture	920,608	923,538	1,844,584	969,358	927,068	1,896,426	51,842	2.81%
6401 Department Of Corrections	170,210,323	170,089,157	340,166,746	179,367,912	180,767,375	360,135,287	19,968,541	5.87%
6501 Department Of Commerce	5,068,638	3,204,433	6,371,322	6,461,219	5,460,749	11,921,968	5,550,646	87.12%
6602 Department Of Labor & Industry	1,474,829	1,483,665	2,958,491	1,285,371	1,311,124	2,596,495	(361,996)	-12.24%
6701 Department Of Military Affairs	5,601,573	5,725,200	11,327,091	6,030,337	6,023,180	12,053,517	726,426	6.41%
6902 Economic Security Services Branch	69,116,822	71,780,854	142,085,801	76,244,127	78,143,303	154,387,430	12,301,629	8.66%
6904 Director's Office	2,390,999	1,650,334	4,041,332	1,648,159	1,647,626	3,295,785	(745,547)	-18.45%
6906 Operations Services Branch	17,376,847	15,347,882	32,724,745	18,180,265	17,651,035	35,831,300	3,106,555	9.49%
6907 Public Health	3,598,647	2,723,255	6,321,901	3,833,072	4,018,584	7,851,656	1,529,755	24.20%
6911 Medicaid And Health Services Branch	306,166,322	<u>330,854,602</u>	<u>635,521,034</u>	<u>344,067,101</u>	<u>361,447,883</u>	<u>705,514,984</u>	<u>69,993,950</u>	<u>11.01%</u>
Total HB 2	\$1,587,902,856	\$1,642,288,000	\$3,230,205,000	1,755,441,697	1,809,426,531	\$3,564,868,228	\$334,663,228	10.36%

Among the major changes are:

- Office of Public Instruction (OPI) - Replacement of one-time guaranteed account funds and lower account estimates, Base Aid inflation, SB 372 reimbursements to school districts, and ANB adjustments and FY 2013 inflation (other significant increases are included in SB 175)
- Department of Public Health and Human Services (DPHHS – agencies 6902 through 6911 in the table) – Caseload and utilization increases in various programs, most notably Medicaid and provider rate increases
- Corrections – Annualized funding of contract and assisted living beds, additional community corrections beds, medical costs, and provider rate increases
- Higher education – Various present law adjustments funded at 82% general fund, increased community college funding
- Office of the Public Defender – Additional staff and contracts to address workload issues and projected caseload increases
- State Auditor – Provision of one-time-only funds to the Insure Montana program
- All Agencies – Statewide present law adjustments

State Special Revenue

As defined in 17-2-102, MCA, the state special fund “consists of money from state and other non-federal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or non-federal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation.”

The legislature increases state special funding by 3.0%. As shown in the figure, the increases and decreases are applied to a large number of agencies.

HB 2 Only - State Special Revenue Fund Comparison 2013 Biennium versus Legislative Budget 2015 Biennium								
State Special Revenue Funds	Base 2012	Adjusted Authorized 2013	Adjusted Total FY12-13	Legislative Budget 2014	Legislative Budget 2015	Legislative Budget FY14-2015	Biennial Change	Biennial % Change
1104 Legislative Branch	2,152,771	2,300,502	4,453,273	2,521,218	2,004,782	4,526,000	72,727	1.63%
1112 Consumer Council	1,094,216	1,393,320	2,487,536	1,634,324	1,648,316	3,282,640	795,104	31.96%
2110 Judicial Branch	1,969,709	2,386,679	4,356,388	2,501,475	2,499,089	5,000,564	644,176	14.79%
3101 Governor's Office	11,117	11,123	22,240	8,409	8,346	16,755	(5,485)	-24.66%
3401 State Auditor's Office	18,073,434	18,176,903	36,250,337	17,764,594	12,371,742	30,136,336	(6,114,001)	-16.87%
3501 Office Of Public Instruction	9,571,786	9,572,692	19,144,478	10,593,048	10,293,109	20,886,157	1,741,679	9.10%
4107 Crime Control Division	151,364	333,199	484,563	152,173	152,165	304,338	(180,225)	-37.19%
4110 Department Of Justice	46,978,839	52,273,582	99,252,421	53,469,674	53,668,593	107,138,267	7,885,846	7.95%
4201 Public Service Regulation	3,308,354	3,591,088	6,899,442	3,670,925	3,595,361	7,266,286	366,844	5.32%
5101 Board Of Public Education	180,043	188,322	368,365	167,999	168,186	336,185	(32,180)	-8.74%
5102 Commissioner Of Higher Education	19,827,019	21,274,458	41,101,477	20,788,136	21,294,893	42,083,029	981,552	2.39%
5113 School For The Deaf & Blind	284,311	287,061	571,372	263,080	263,220	526,300	(45,072)	-7.89%
5114 Montana Arts Council	204,321	201,903	406,224	220,123	215,923	436,046	29,822	7.34%
5115 Montana State Library	763,324	763,323	1,526,647	1,800,386	1,799,683	3,600,069	2,073,422	135.82%
5117 Montana Historical Society	552,247	581,831	1,134,078	710,814	710,577	1,421,391	287,313	25.33%
5201 Department Of Fish, Wildlife & Parks	55,375,319	56,522,854	111,898,173	56,591,231	56,034,700	112,625,931	727,758	0.65%
5301 Department Of Environmental Quality	24,657,802	29,342,925	54,000,727	32,198,162	31,523,051	63,721,213	9,720,486	18.00%
5401 Department Of Transportation	226,716,607	267,661,094	494,377,701	245,952,786	240,825,250	486,778,036	(7,599,665)	-1.54%
5603 Department Of Livestock	7,569,126	7,977,812	15,546,938	7,657,822	7,629,303	15,287,125	(259,813)	-1.67%
5706 Dept Of Natural Resources & Conservation	25,053,700	29,275,510	54,329,210	34,271,644	32,091,542	66,363,186	12,033,976	22.15%
5801 Department Of Revenue	1,015,571	1,028,900	2,044,471	1,152,311	1,152,725	2,305,036	260,565	12.74%
6101 Department Of Administration	6,430,943	6,883,075	13,314,018	5,978,176	5,976,271	11,954,447	(1,359,571)	-10.21%
6108 Office Of The Public Defender	99,958	186,144	286,102	281,544	273,926	555,470	269,368	94.15%
6201 Department Of Agriculture	10,475,040	11,647,754	22,122,794	13,620,585	13,716,995	27,337,580	5,214,786	23.57%
6401 Department Of Corrections	4,714,007	4,788,037	9,502,044	5,894,818	5,893,475	11,788,293	2,286,249	24.06%
6501 Department Of Commerce	3,556,214	8,193,567	11,749,781	7,331,881	6,903,918	14,235,799	2,486,018	21.16%
6602 Department Of Labor & Industry	38,439,794	41,914,681	80,354,475	39,886,165	39,872,879	79,759,044	(595,431)	-0.74%
6701 Department Of Military Affairs	1,071,157	1,292,045	2,363,202	1,100,490	1,001,546	2,102,036	(261,166)	-11.05%
6902 Economic Security Services Branch	6,542,897	8,726,826	15,269,723	6,852,870	6,877,159	13,730,029	(1,539,694)	-10.08%
6904 Director's Office	555,031	376,426	931,457	406,138	406,095	812,233	(119,224)	-12.80%
6906 Operations Services Branch	2,354,435	2,737,738	5,092,173	2,491,189	2,475,321	4,966,510	(125,663)	-2.47%
6907 Public Health	14,765,002	14,804,580	29,569,582	16,607,808	16,607,638	33,215,446	3,645,864	12.33%
6911 Medicaid And Health Services Branch	122,693,564	125,461,725	248,155,289	127,125,876	130,017,660	257,143,536	8,988,247	3.62%
Total HB 2	\$657,209,022	\$732,157,679	\$1,389,366,701	\$721,667,874	\$709,973,439	\$1,431,641,313	\$42,274,612	3.04%

Among the major changes are:

- State Auditor - A change in funding of the Insure Montana Program
- Department of Natural Resources and Conservation - Authority for rangeland loans, and various water projects
- Department of Environmental Quality – Hard rock reclamation projects; and operating increases in the Permitting and Compliance and Planning, Prevention, and Assistance Divisions
- Public Health and Human Services (Medicaid and Health Services Branch) – Healthy Montana Kids and Medicaid caseload and utilization, and provider rate increases
- Justice – Annualization of contracts, the rolling reissue of license plates, and statewide present law adjustments

Federal Special Revenue

As defined in 17-2-102, MCA, the federal special fund “consists of money deposited in the treasury from federal sources, including trust income that is used for the operation of state government.”

The figure shows federal funds are increased by \$211.9 million. As shown, a number of agencies receive federal funds, but DPHHS and the Department of Transportation dominate the total, with over 82% of the 2015 biennium total. DPHHS receives almost 77% of all requested increases due primarily to increases in projected Medicaid utilization and caseloads, along with a provider rate increase.

HB 2 Only - Federal Special Revenue Fund Comparison 2013 Biennium versus Legislative Budget 2015 Biennium								
Federal Special Revenue Funds	Base 2012	Adjusted Authorized 2013	Adjusted Total FY 12-13	Legislative Budget 2014	Legislative Budget 2015	Legislative Budget FY 14-2015	Biennial Change	Biennial % Change
2110 Judicial Branch	122,129	122,989	245,118	120,882	120,841	241,723	(3,395)	-1.39%
3201 Secretary Of State's Office	-	-	-	128,000	128,000	256,000	256,000	
3501 Office Of Public Instruction	158,761,828	158,166,004	316,927,832	174,179,020	175,743,809	349,922,829	32,994,997	10.41%
4107 Crime Control Division	6,017,480	12,363,635	18,381,115	6,050,579	6,049,946	12,100,525	(6,280,590)	-34.17%
4110 Department Of Justice	1,119,209	1,493,495	2,612,704	1,102,415	1,102,408	2,204,823	(407,881)	-15.61%
4201 Public Service Regulation	65,607	105,434	171,041	65,607	65,607	131,214	(39,827)	-23.29%
5102 Commissioner Of Higher Education	47,540,878	67,906,142	115,447,020	57,222,973	57,154,829	114,377,802	(1,069,218)	-0.93%
5113 School For The Deaf & Blind	63,915	63,915	127,830	71,760	71,760	143,520	15,690	12.27%
5114 Montana Arts Council	647,363	958,664	1,606,027	697,430	684,122	1,381,552	(224,475)	-13.98%
5115 Montana State Library	1,140,348	1,021,878	2,162,226	1,664,870	564,873	2,229,743	67,517	3.12%
5117 Montana Historical Society	752,392	765,318	1,517,710	720,187	719,719	1,439,906	(77,804)	-5.13%
5201 Department Of Fish, Wildlife & Parks	15,266,466	15,862,607	31,129,073	19,069,890	19,007,544	38,077,434	6,948,361	22.32%
5301 Department Of Environmental Quality	17,873,715	21,373,932	39,247,647	19,905,806	19,947,930	39,853,736	606,089	1.54%
5401 Department Of Transportation	416,081,033	457,666,742	873,747,775	427,534,289	426,669,179	854,203,468	(19,544,307)	-2.24%
5603 Department Of Livestock	1,365,735	1,488,488	2,854,223	1,396,879	1,390,568	2,787,447	(66,776)	-2.34%
5706 Dept Of Natural Resources & Conservation	2,020,333	2,053,554	4,073,887	1,996,314	1,991,419	3,987,733	(86,154)	-2.11%
5801 Department Of Revenue	256,608	271,218	527,826	248,447	247,312	495,759	(32,067)	-6.08%
6101 Department Of Administration	17,530	42,043	59,573	947,530	947,499	1,895,029	1,835,456	3081.02%
6201 Department Of Agriculture	1,854,084	2,329,665	4,183,749	2,076,508	2,078,203	4,154,711	(29,038)	-0.69%
6401 Department Of Corrections	16,005	25,739	41,744	16,005	16,005	32,010	(9,734)	-23.32%
6501 Department Of Commerce	10,188,178	16,769,079	26,957,257	17,577,678	17,795,698	35,373,376	8,416,119	31.22%
6602 Department Of Labor & Industry	33,823,455	34,794,419	68,617,874	36,533,410	36,644,750	73,178,160	4,560,286	6.65%
6701 Department Of Military Affairs	24,861,378	26,236,631	51,098,009	37,405,141	35,424,717	72,829,858	21,731,849	42.53%
6902 Economic Security Services Branch	348,310,202	452,248,534	800,558,736	360,116,005	361,009,150	721,125,155	(79,433,581)	-9.92%
6904 Director's Office	2,271,548	1,813,612	4,085,160	1,721,429	1,721,057	3,442,486	(642,674)	-15.73%
6906 Operations Services Branch	30,163,479	24,540,786	54,704,265	34,289,126	34,050,125	68,339,251	13,634,986	24.92%
6907 Public Health	40,869,904	40,542,623	81,412,527	44,920,817	44,737,616	89,658,433	8,245,906	10.13%
6911 Medicaid And Health Services Branch	757,088,664	839,067,050	1,596,155,714	882,070,686	934,641,728	1,816,712,414	220,556,700	13.82%
Total HB 2	\$1,918,559,466	\$2,180,094,196	\$4,098,653,662	\$2,129,849,683	\$2,180,726,414	\$4,310,576,097	\$211,922,435	5.17%

Significant changes include:

- DPHHS – Medicaid caseload and utilization increases, 2% provider rate increase per year
- Transportation – Anticipated federal construction funds, and reductions due to the winding down of federal stimulus projects
- OPI – Addition of a Montana Striving Readers Project and other increased federal grants
- Commerce – Various grants adjustments
- Military Affairs – Additional homeland security grants
- All agencies – Statewide present law adjustments

Proprietary Funds

As defined in 17-7-102, MCA, 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.” 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.”

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds are not reflected in the table.

HB 2 Only - Proprietary Fund Comparison								
2013 Biennium versus Legislative Budget 2015 Biennium								
Proprietary Funds	Base 2012	Adjusted		Legislative Budget 2014	Legislative Budget 2015	Legislative Budget FY 14-2015	Biennial Change	Biennial % Change
		Authorized 2013	Adjusted Total FY 12-13					
4110 Department Of Justice	1,756,753	1,940,162	3,696,915	1,770,975	1,777,282	3,548,257	(148,658)	-4.02%
5102 Commissioner Of Higher Education	72,760	76,039	148,799	75,093	74,290	149,383	584	0.39%
5115 Montana State Library	-	17,186	17,186	-	-	-	(17,186)	-100.00%
5117 Montana Historical Society	550,032	791,270	1,341,302	595,861	593,598	1,189,459	(151,843)	-11.32%
5801 Department Of Revenue	2,654,766	2,691,899	5,346,665	3,023,829	2,799,310	5,823,139	476,474	8.91%
6101 Department Of Administration	7,514,658	7,338,420	14,853,078	4,996,551	4,886,185	9,882,736	(4,970,342)	-33.46%
6201 Department Of Agriculture	462,775	576,288	1,039,063	574,273	574,646	1,148,919	109,856	10.57%
6401 Department Of Corrections	632,814	735,747	1,368,561	66,167	63,011	129,178	(1,239,383)	-90.56%
6602 Department Of Labor & Industry	60,036	88,517	148,553	-	-	-	(148,553)	-100.00%
Total HB 2	\$13,704,594	\$14,255,528	\$27,960,122	\$11,102,749	\$10,768,322	\$21,871,071	(\$6,089,051)	-21.78%

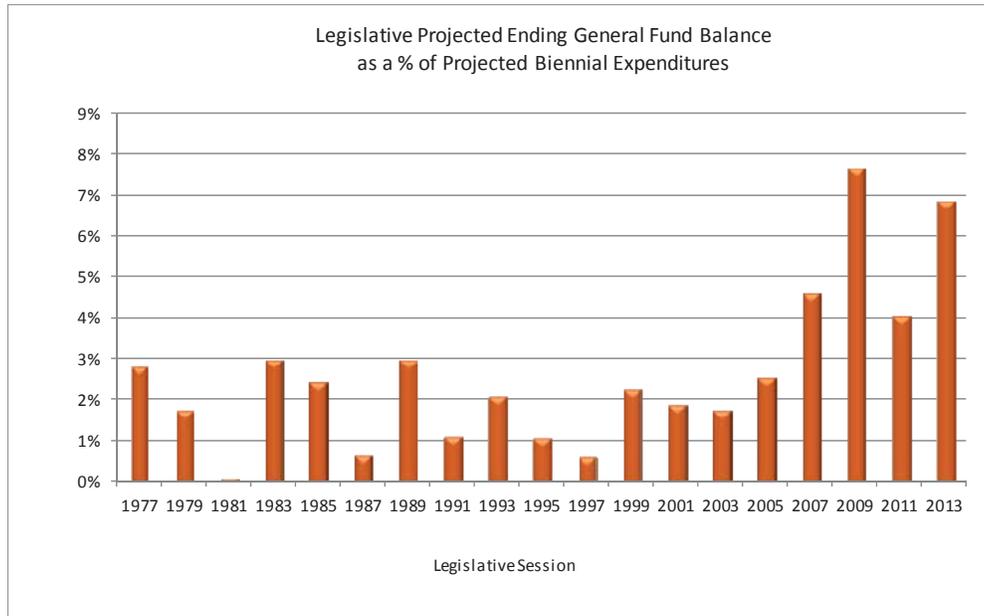
All Funds

The following HB 2 figure is a composite by agency of the preceding tables, and shows a \$606.5 million or 6.95% increase in total funds.

HB 2 - Total Funds Comparison								
2013 Biennium versus Legislative Budget 2015 Biennium								
Agency	Base 2012	Adjusted		Legislative Budget 2014	Legislative Budget 2015	Legislative Budget FY 14-2015	Biennial Change	Biennial % Change
		Authorized 2013	Adjusted Total FY 12-13					
1104 Legislative Branch	12,424,483	14,609,588	27,034,071	14,320,453	14,157,190	28,477,643	1,443,572	5.34%
1112 Consumer Council	1,094,216	1,393,320	2,487,536	1,634,324	1,648,316	3,282,640	795,104	31.96%
2110 Judicial Branch	37,144,097	38,167,748	75,311,845	40,044,501	39,852,901	79,897,402	4,585,557	6.09%
3101 Governor's Office	5,501,668	5,917,927	11,419,595	6,110,228	5,996,769	12,106,997	687,402	6.02%
3201 Secretary Of State's Office	-	-	-	128,000	128,000	256,000	256,000	
3202 Comm Of Political Practices	479,605	567,028	1,046,633	588,126	556,407	1,144,533	97,900	9.35%
3401 State Auditor's Office	18,073,434	18,176,903	36,250,337	19,411,254	19,135,117	38,546,371	2,296,034	6.33%
3501 Office Of Public Instruction	791,215,573	813,179,041	1,604,394,614	884,887,521	914,585,574	1,799,473,095	195,078,481	12.16%
4107 Crime Control Division	8,429,903	14,960,084	23,389,987	8,546,370	8,544,801	17,091,171	(6,298,816)	-26.93%
4110 Department Of Justice	76,271,034	82,022,967	158,294,001	86,261,335	86,472,894	172,734,229	14,440,228	9.12%
4201 Public Service Regulation	3,373,961	3,696,522	7,070,483	3,736,532	3,660,968	7,397,500	327,017	4.63%
5101 Board Of Public Education	395,849	410,355	806,204	377,127	361,118	738,245	(67,959)	-8.43%
5102 Commissioner Of Higher Education	246,992,055	268,810,401	515,802,456	278,789,585	281,133,662	559,923,247	44,120,791	8.55%
5113 School For The Deaf & Blind	6,275,364	6,322,307	12,597,671	6,692,633	6,641,932	13,334,565	736,894	5.85%
5114 Montana Arts Council	1,302,968	1,608,655	2,911,623	1,493,739	1,376,952	2,870,691	(40,932)	-1.41%
5115 Montana State Library	4,448,581	4,445,993	8,894,574	6,672,758	5,520,426	12,193,184	3,298,610	37.09%
5117 Montana Historical Society	4,679,320	5,072,675	9,751,995	5,445,218	5,142,204	10,587,422	835,427	8.57%
5201 Department Of Fish, Wildlife & Parks	70,641,785	72,385,461	143,027,246	75,970,246	75,351,369	151,321,615	8,294,369	5.80%
5301 Department Of Environmental Quality	47,694,153	56,004,778	103,698,931	57,326,799	56,696,676	114,023,475	10,324,544	9.96%
5401 Department Of Transportation	642,797,640	725,327,836	1,368,125,476	673,487,075	667,494,429	1,340,981,504	(27,143,972)	-1.98%
5603 Department Of Livestock	9,920,944	10,457,364	20,378,308	10,562,684	10,517,446	21,080,130	701,822	3.44%
5706 Dept Of Natural Resources & Conservation	48,801,644	54,140,515	102,942,159	59,934,400	57,697,315	117,631,715	14,689,556	14.27%
5801 Department Of Revenue	51,590,746	51,748,746	103,339,492	54,208,801	53,798,338	108,007,139	4,667,647	4.52%
6101 Department Of Administration	19,740,078	20,396,200	40,136,278	18,215,117	17,995,576	36,210,693	(3,925,585)	-9.78%
6108 Office Of The Public Defender	22,677,857	21,864,195	44,542,052	26,445,191	26,501,007	52,946,198	8,404,146	18.87%
6201 Department Of Agriculture	13,712,945	15,477,245	29,190,190	17,240,724	17,296,912	34,537,636	5,347,446	18.32%
6401 Department Of Corrections	175,440,415	175,638,680	351,079,095	185,344,902	186,739,866	372,084,768	21,005,673	5.98%
6501 Department Of Commerce	16,911,281	28,167,079	45,078,360	31,370,778	30,160,365	61,531,143	16,452,783	36.50%
6602 Department Of Labor & Industry	73,798,111	78,281,282	152,079,393	77,704,946	77,828,753	155,533,699	3,454,306	2.27%
6701 Department Of Military Affairs	31,534,426	33,253,876	64,788,302	44,535,968	42,449,443	86,985,411	22,197,109	34.26%
6902 Economic Security Services Branch	425,158,046	532,756,214	957,914,260	443,213,002	446,029,612	889,242,614	(68,671,646)	-7.17%
6904 Director's Office	5,217,577	3,840,372	9,057,949	3,775,726	3,774,778	7,550,504	(1,507,445)	-16.64%
6906 Operations Services Branch	49,894,777	42,626,406	92,521,183	54,960,580	54,176,481	109,137,061	16,615,878	17.96%
6907 Public Health	59,233,552	58,070,458	117,304,010	65,361,697	65,363,838	130,725,535	13,421,525	11.44%
6911 Medicaid And Health Services Branch	1,184,448,660	1,295,383,377	2,479,832,037	1,353,263,663	1,426,107,271	2,779,370,934	299,538,897	12.08%
Total HB 2	4,167,316,748	4,555,181,598	8,722,498,346	\$4,618,062,003	\$4,710,894,706	9,328,956,709	\$606,458,363	6.95%

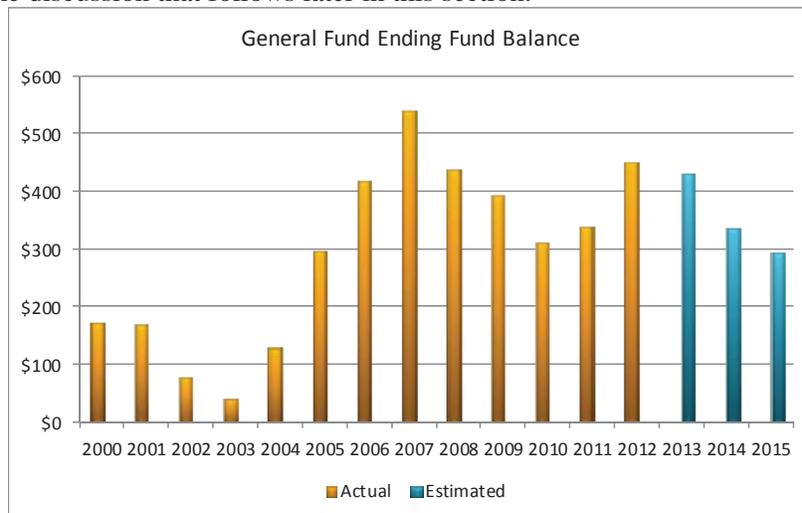
CHANGES IN GENERAL FUND ENDING FUND BALANCE

Budgeted and actual ending fund balances have varied over time. Legislatures and Governors budget for a certain level and depending on actual circumstances the ending fund balance varies. Historically, projected ending fund balances have varied from nearly zero to as high as 7.7% of biennial spending. The 2015 biennium budget anticipates an ending fund balance of \$297 million, or 6.9% of biennial spending. The following table shows the projected ending fund balance for the coming biennium during each legislative session since 1977 as a percent of the anticipated expenditures. (For example, the 2013 session shown is the projection for the 2015 biennium.).



While the 2015 biennial ending fund balance is projected to decline from actual FY 2012 levels, historically the budgeted ending fund balance is the second highest when compared to total expenditures.

The figure below shows the actual and projected ending fund balance by fiscal year. The ending balance peaked at \$543.5 million in FY 2007 and is projected to end the 2015 biennium at \$297.9 million. The decline in ending fund balance illustrates that all general fund spending (one-time and ongoing) has exceeded all revenues. The ending balance can be used to fund a level of spending that exceeds ongoing revenues. Legislatures frequently spend ending fund balances on one-time investments in infrastructure or other projects. For a list of the current biennium one-time investments please see the discussion that follows later in this section.



The table below shows the historical general fund ending fund balance and yearly revenues and disbursements by fiscal year. The amounts shown for the period FY 2013 through FY 2015 are forecasts. The other years shown represent actual amounts for each item. The figure shows that general fund spending exceeds anticipated revenue by \$97.1 million in FY 2014 and \$40.0 million in FY 2015, resulting in a reduction in the ending fund balance to \$297.9 million from the projected 2013 biennium level of \$435.0. These amounts do not reflect structural balance as they have not been adjusted for one-time only revenues and disbursements. If one-time revenues and expenditures are taken into consideration, the structural balance is estimated at a negative \$4.55 million as discussed earlier in this volume.

General Fund Balances, Revenues, and Disbursements								
Figures in Millions								
	End. Fund Balance	Yearly Adjustments	Yearly Revenue	Yearly Disburse	Yearly * Sur./(Def.)	Biennial Revenue	Biennial Disburse	Biennial Sur./(Def.)
A 2000	\$176.0	\$8.3	\$1,163.6	\$1,105.6	\$58.0			
A 2001	172.9	(3.6)	1,269.5	1,268.9	0.5	2,433.1	2,374.5	58.6
A 2002	81.3	(1.4)	1,265.7	1,355.9	(90.2)			
A 2003	43.1	(8.8)	1,246.4	1,275.8	(29.4)	2,512.1	2,631.7	(119.6)
A 2004	132.9	(9.7)	1,381.6	1,282.0	99.5			
A 2005	299.8	(10.0)	1,530.9	1,354.0	176.9	2,912.5	2,636.1	276.5
A 2006	422.2	(19.0)	1,708.2	1,566.7	141.4			
A 2007	543.5	(7.8)	1,829.9	1,700.8	129.1	3,538.0	3,267.5	270.5
A 2008	441.5	13.5	1,953.5	2,069.0	(115.5)			
A 2009	396.3	6.8	1,808.0	1,860.0	(52.0)	3,761.5	3,929.0	(167.5)
A 2010	314.9	8.1	1,627.1	1,716.7	(89.6)			
A 2011	341.9	(8.2)	1,782.6	1,747.3	35.2	3,409.7	3,464.0	(54.3)
A 2012	452.4	19.2	1,871.0	1,779.6	91.3			
F 2013	435.0	-	1,995.4	2,012.7	(17.4)	3,866.3	3,792.4	73.9
F 2014	337.9	-	2,056.3	2,153.5	(97.1)			
F 2015	297.9	-	2,136.6	2,176.6	(40.0)	4,192.9	4,330.0	(137.1)

* Does not reflect structural balance as these include one-time revenues and spending

FIXED COSTS

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate.

The following figure shows fixed costs funded by the legislature in the 2015 biennium.

Fixed Costs 2015 Biennium Legislative Budget (in Millions)*		2015 Biennium
Subcommittee/Agency Function		
General Government		
Administration	Insurance	\$24.3
	Warrant Writer Fees	1.2
	HR/Payroll Service	6.6
	ITSD Fees	75.9
	SABHRS Operating	6.3
	Messenger Services	0.6
	Rent- Capitol Complex	18.9
	Grounds Maintenance	0.9
	Workers Compensation Mgmt.	0.6
Legislative Branch	Audit Fees	4.3
Various	Statewide Cost Allocation	<u>6.0</u>
		<u>\$145.7</u>
* All sources of authority.		

The legislature did not approve the executive request to establish a fixed cost for the Professional Development Center. The legislature did adjust the costs for insurance due to payment required to under the Libby asbestos settlement. Other changes that were made did not materially impact rates.

FY 2013 SUPPLEMENTAL APPROPRIATIONS

The legislature appropriated \$118.8 million general fund and \$9.4 million other funds in the 2013 biennium as supplemental funding. The figure shows supplemental appropriations since the 2001 biennium.

General Fund Supplementals 2001 to 2013	
Biennium	Millions
2001	\$68.2
2003	12.5
2005	12.7
2007	76.4
2009	3.5
2011	2.9
2013	118.8

As shown, the amount requested is the highest over this time period. The following details the FY 2013 appropriation. The figure is followed by a brief description of each.

FTE CHANGES

The following figure shows the total FTE included in HB 2. The legislature added 99.95 FTE, with over 77% added in five agencies. The figure also shows the FTE associated with boilerplate language in HB 2 that will be used as the starting point for personal services by the 2015 Legislature for the 2017 biennium.

Total FTE Levels								
2015 Biennium								
Section/Agency	Base FY 2012	Net Change FY 2014	Total FY 2014	Net Change FY 2015	Total FY 2015	Change FY 2012-FY2015	HB 2 Boilerplate+	2017 Base Level
Section A*								
Legislative Branch**	134.97	(0.75)	134.22	4.42	139.39	4.42	0.00	139.39
Consumer Counsel	5.54	0.00	5.54	0.00	5.54	0.00	0.00	5.54
Governor's Office	58.07	2.00	60.07	2.00	60.07	2.00	(1.19)	58.88
Secretary of State*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commissioner of Political Practices	6.00	1.00	7.00	1.00	7.00	1.00	0.00	7.00
State Auditor	85.80	2.00	87.80	2.00	87.80	2.00	(3.03)	84.77
Revenue	659.28	16.00	675.28	16.00	675.28	16.00	(27.43)	647.85
Administration*	151.63	(2.50)	149.13	(2.50)	149.13	(2.50)	(6.22)	142.91
Commerce*	52.00	(3.00)	49.00	(3.00)	49.00	(3.00)	(2.13)	46.87
Labor and Industry	756.58	(5.00)	751.58	(5.00)	751.58	(5.00)	(31.44)	720.14
Military Affairs	199.21	0.00	199.21	0.00	199.21	0.00	(8.26)	190.95
Section B								
Public Health and Human Services	2,924.57	3.00	2,927.57	3.00	2,927.57	3.00	(121.68)	2,805.89
Section C								
Fish, Wildlife, and Parks	693.60	6.68	700.28	6.68	700.28	6.68	(24.20)	676.08
Environmental Quality	383.48	2.00	385.48	2.00	385.48	2.00	(15.96)	369.52
Transportation	2,111.26	18.00	2,129.26	18.00	2,129.26	18.00	(87.93)	2,041.33
Livestock	140.75	1.97	142.72	1.97	142.72	1.97	(5.79)	136.93
Natural Resources and Conservation	544.78	1.00	545.78	1.00	545.78	1.00	(22.49)	523.29
Agriculture	119.40	0.13	119.53	0.13	119.53	0.13	(4.89)	114.64
Section D								
Judicial Branch	412.58	16.25	428.83	17.25	429.83	17.25	0.00	429.83
Board of Crime Control	17.50	0.00	17.50	0.00	17.50	0.00	0.00	17.50
Justice	754.85	18.00	772.85	18.00	772.85	18.00	(16.43)	756.42
Public Service Commission	40.00	0.00	40.00	0.00	40.00	0.00	(1.29)	38.71
Office of the Public Defender	209.50	8.00	217.50	8.00	217.50	8.00	(8.06)	209.44
Corrections	1,279.89	2.00	1,281.89	2.00	1,281.89	2.00	(34.49)	1,247.40
Section E								
Office of Public Instruction	163.50	2.50	166.00	2.50	166.00	2.50	(6.20)	159.80
Board of Public Education	4.00	0.00	4.00	0.00	4.00	0.00	0.00	4.00
School for the Deaf and Blind	88.61	0.00	88.61	0.00	88.61	0.00	0.00	88.61
Commissioner of Higher Education***	93.88	0.00	93.88	0.00	93.88	0.00	(3.91)	89.97
Arts Council	7.00	0.00	7.00	0.00	7.00	0.00	0.00	7.00
State Library	28.25	3.50	31.75	3.50	31.75	3.50	(1.18)	30.57
Historical Society	<u>59.83</u>	<u>1.00</u>	<u>60.83</u>	<u>1.00</u>	<u>60.83</u>	<u>1.00</u>	<u>(2.49)</u>	<u>58.34</u>
Totals	<u>12,186.31</u>	<u>93.78</u>	<u>12,280.09</u>	<u>99.95</u>	<u>12,286.26</u>	<u>99.95</u>	<u>(436.69)</u>	<u>11,849.57</u>
Montana University System****	4,955.18	0.00	4,955.18	0.00	4,955.18	0.00		
*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 not included in HB 2.								
**FY 2015 includes session staff.								
***Includes only staff within the Office of the Commissioner of Higher Education.								
****FY 2012 is budgeted FY 2012 level								
+As calculated by LFD staff								

Among the major changes for significant policy actions are the following. The legislature:

- Expanded staff in the Office of the Public Defender to address caseload/workload and other issues (8.00 FTE)
- Eliminated the Energy and Promotion Division in the Department of Commerce (reduced 5.00 FTE) and added 2.00 FTE to the Governor's Office for similar functions
- Replaced the previously contracted health function at the Montana Women's Prison with staff (6.00 FTE)
- Added one-time-only (OTO) staff for 6-year cycle reappraisal in the Department of Revenue (5.00 FTE)
- Enhanced e-services for property and state taxes in the Department of Revenue (4.00 FTE)
- Added 4.00 FTE for expanded commercial driver's licenses and 5.00 FTE highway patrol in the Department of Justice, primarily due to expansion of activity in the Bakken oil fields in Eastern Montana
- Added 3.00 FTE criminal investigators and 2.00 FTE child sexual predator FTE in the Department of Justice
- Added 5.00 FTE for one-time-only staff in the Office of Public Assistance in the Department of Public Health and Human Services
- Continued and expanded Court Help, drug courts, and other judicial staff in the Judicial Branch (11.25 FTE)
- Expanded information technology reporting capabilities in the Judicial Branch (3.00 FTE)
- Added 7.00 FTE to the Department of Revenue for various workload and other purposes
- Added 5.68 FTE to the Department of Fish, Wildlife, and Parks for parks maintenance and fishing access sites

In addition, the legislature:

- Transferred 3.00 FTE from the Department of Natural Resources and Conservation to the Water Court in the Judicial Branch to continue water adjudication activities
- Transferred responsibilities, including 2.50 FTE, for the Land Information Act from the Department of Administration to the Montana State Library
- Added 16.00 FTE to the Department of Transportation for maintenance and the Motor Carrier Division
- Changed the funding classification from HB 2 to non-budgeted proprietary funds for certain legal staff in the Department of Labor and Industry and vocational education staff in the Department of Corrections (reduce 12.00 FTE)

Boilerplate

The boilerplate section in HB 2 includes the following language:

"It is the intent of the legislature that the appropriations for personal services contained in this bill for fiscal year 2014 and fiscal year 2015, except for the reductions contained in decision packages that remove an additional vacancy savings amount, are supported by only the number of FTE that are funded. It is the intent of the legislature that this net level of FTE is the level that will be used to calculate personal services funding in the next biennium."

The LFD has calculated that this intent language would reduce the current biennium base FTE by 436.69 statewide. The reductions for each agency as calculated are shown in the "HB 2 Boilerplate" column, followed by the lower level of FTE that will be the starting point or base the legislature will use for personal services budget deliberations in the 2017 biennium.

2% Reduction

The legislature applied a 2% vacancy savings reduction in addition to the vacancy savings reduction already included in statewide present law adjustments, which for most agencies is 4%. Positions exempted were those with fewer than 20 FTE, or those positions that are exempted in statute or must be filled 24/7. There was no impact on the number of FTE used for determining personal services.

APPENDIX A – BUDGET DETAIL

Appendix A is a collection of various detailed information regarding the budget. This detail is not found elsewhere but is considered important reference information for readers who wish to delve further into the budget. It offers a deeper perspective on specific areas of the budget and may answer numerous questions that arise in the course of future budget analysis. The items included in Appendix A are listed below and discussed further in the pages that follow.

ELEMENTS OF THE LEGISLATIVE BUDGET

- Changes in General Fund Balance
- Present Law Proposals
- New Initiatives
- FTE
- OTO Expenditures HB 2
- Fixed Costs
- Supplemental Appropriations
- Agency Budget Comparisons by Fund

NEW PROPOSALS

New proposals are defined in statute as those to "...provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding..." The following shows new proposals as included in the executive budget, by functional area.

New Proposals by Functional Area 2015 Biennium In Millions				
Functional Area	General Fund	Percent of Total	Total Funds	Percent of Total
Education	\$26.1	32.6%	\$40.6	21.1%
Human Services	25.9	32.3%	132.2	68.8%
Corrections	5.6	7.0%	4.3	2.2%
All Other	<u>22.5</u>	28.1%	<u>15.0</u>	7.8%
Total	<u>\$80.1</u>		<u>\$192.1</u>	

General Fund

The adjacent table shows the major new proposals in HB 2. As shown, there are a large number of proposals across numerous agencies. The table shows almost 87% of the total general fund new proposals funded. Descriptions of all new proposals are in the agency narratives.

Significant New Proposals General Fund 2015 Biennium In Millions	
Adjustment	2015 Biennium
Various	
Additonal Vacancy Savings	(\$6.5)
Provider Rate Adjustments - All Agencies	26.1
State Auditor	
Insure Montana Funding Change	8.4
Revenue	
6 Yr Reappraisal/Enhance E Services	2.6
Commerce	
Economic Dev/Biomed Research	3.8
Native Language Preservation	2.0
Public Health and Human Services	
Aging Services	4.0
Seriously Emotional Disturbed Youth	3.3
Justice	
Major Litigation	2.0
Office of the Public Defender	
Contract Costs for Caseload Growth	3.7
Corrections	
Lewistown Infirmary Beds	2.7
Corrections	
SB96 Reimbursements and GTB	4.9
Special Ed/Career and Technical	3.1
University System	
Student Assistance	5.2
Workforce Development	2.0
WWAMI/Veterinary/Family Practice Residency	2.3
*Includes corrections per diem adjustments.	

Total Funds

The table below shows over 96% of all new proposals. Descriptions of all new proposals are in the agency narratives.

Significant New Proposals Total Funds 2015 Biennium in Millions	
Adjustment	2015 Biennium
Various	
Additonal Vacancy Savings	(\$20.8)
Provider Rate Adjustments*	71.9
Revenue	
6 Yr Reappraisal/Enhance E Services	2.6
Commerce	
Economic Dev/Biomed Research	3.8
Public Health and Human Services	
Best Beginnings/Stars	2.4
Various TANF Adjustments	10.2
Various Public Health Grants/Lab Capacity	7.9
Health Information Technology	17.6
Various Healthy Montana Kids	3.1
Montana Development Center Placements	4.2
Medicaid Personal Assistance Refinance	17.1
Aging Services	4.0
Targeted Case Management SED Youth	2.6
Fish, Wildlife, Parks	
Various Wildlife	2.0
Transportation	
State Funded Construction Program	5.0
Agriculture	
Wheat and Barley Committee	3.3
Justice	
Various, including Major Litigation	4.0
Office of the Public Defender	
Contracts for Caseload Growth	3.7
Corrections	
Lewistown Infirmary	2.7
Office of Public Instruction	
Striving Readers	15.7
SB 96 Reimbursements	4.9
Various Other	7.2
University System	
Various	9.9
*Includes corrections per diem increases	

ONE-TIME-ONLY EXPENDITURES

The legislature appropriated \$44.0 million general fund in HB 2 on a one-time-only (OTO) basis in the 2015 biennium. Additional discussion of each can be found in the narratives for the individual agencies listed. The legislature also appropriated OTO general fund in other legislation totaling \$2.9 million, the largest of which are:

- HB 1 Feed bill - \$0.6 million re-appropriated from the 2013 biennium bill for 2015 biennium activities
- HB 13 Pay plan bill - \$1.1 million for a contingency fund. The remaining funding in the bill is ongoing
- HB 586 Aquatic invasive species - \$1.3 million for various measures to control aquatic invasive species

The legislature also made a number of general fund transfers for one-time-only projects, including \$49.55 million for long-range building and maintenance projects. A further discussion is in this volume under General Fund Transfers and in the Long Range Planning section located in the Overview of State Expenditures section of this volume.

PRESENT LAW AND NEW PROPOSALS

The following shows the allocation of general fund and total funds by budgeting level.

Legislative Budget by DP Type Including Statewide and OTO in Millions				
--- General Fund ---				
DP Type	FY 2014	FY 2015	2015 Biennium	% of Total
BASE	\$1,577.8	\$1,577.8	\$3,155.6	88.52%
Statewide Present Law	12.3	11.4	23.7	0.66%
Present Law	133.3	172.1	305.4	8.57%
New Proposals	<u>31.9</u>	<u>48.2</u>	<u>80.1</u>	2.25%
Total Appropriation	<u>\$1,755.3</u>	<u>\$1,809.5</u>	<u>\$3,564.8</u>	
--- Total Funds ---				
DP Type	FY 2014	FY 2015	2015 Biennium	% of Total
BASE	\$4,167.3	\$4,167.3	\$8,334.6	89.34%
Statewide Present Law	36.1	35.0	71.1	0.76%
Present Law	326.2	405.2	731.4	7.84%
New Proposals	<u>88.6</u>	<u>103.5</u>	<u>192.1</u>	2.06%
Total Appropriation	<u>\$4,618.2</u>	<u>\$4,711.0</u>	<u>\$9,329.2</u>	

BASE

The intent of the base is to determine the expenditures in the previous budget year that were made for on-going costs of the agency. As such, the base is defined for budgeting purposes as actual expenditures of the previous fiscal year, adjusted to remove non-recurring costs (or for which costs cannot be assumed at the previous level). Among the expenditures removed from the base are those:

- From appropriations designated one-time-only by the previous legislature
- For overtime, holidays worked, and differential pay
- For retirement or other termination payouts

As shown, all but a small percentage of spending would be ongoing costs carried forward in the base.

PRESENT LAW ADJUSTMENTS

The legislature added \$329.1 million general fund and \$802.5 million total funds in present law adjustments in HB 2.

Present Law Adjustments by Functional Area 2015 Biennium In Millions				
Functional Area	General Fund	Percent of Total	Total Funds	Percent of Total
Education	\$204.0	62.0%	\$247.9	30.9%
Human Services	84.4	25.6%	336.1	41.9%
Corrections	14.4	4.4%	17.0	2.1%
All Other	<u>26.3</u>	8.0%	<u>201.5</u>	25.1%
Total	<u>\$329.1</u>		<u>\$802.5</u>	

Present law is defined in statute as “...that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

- Changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
- Changes in funding requirements resulting from constitutional or statutory schedules or formulas;
- Inflationary or deflationary adjustments; and
- Elimination of nonrecurring appropriations.”

Statewide present law adjustments (SWPLAs) are made to account for three factors:

- Fully funding all personal services costs at the annualized total, and then applying a vacancy savings rate (the rate in the SWPLA is 4 percent)
- Inflation on selected items, including gasoline and diesel
- Fixed costs so agencies receiving those services can pay for them

There are three main themes in the HB 2 budget:

- The legislature generally funds anticipated caseload and utilization increases in human services, including changes in the federal Medicaid matching rate, population increases in corrections, and an inflationary increase for K-12 education
- The legislature funds all statewide present law adjustments, including 4% vacancy savings for most positions (an additional vacancy savings rate was taken as a new proposal)
- There are a number of other individual adjustments, which for many agencies are minimal. Statewide present law adjustments are the largest present law adjustment provided for most agencies

The following shows the major present law adjustments by general fund and total funds appropriated by the legislature. Please note that all of the figures in the present law and new proposal tables are compared to the doubled FY 2012 base. Consequently, they may differ from the changes compared to the 2013 biennium, which includes actual FY 2012 base and FY 2013 appropriations.

General Fund

The following shows the significant general fund present law adjustments. General fund present law increases are dominated by the adjustments shown, with over 82% of the total.

Significant Present Law Adjustments General Fund - 2015 Biennium In Millions	
Agency/Adjustment	2015 Biennium
Various	
Statewide Present Law Adjustments	\$23.7
Overtime/Holidays/Differential Pay*	10.0
Public Health and Human Services	
Caseload/Utilization Adjustments	25.4
Corrections	
Annualize Beds	6.0
Outside Medical	2.1
Office of the Public Defender	
Workload/Career Ladder	3.6
Office of Public Instruction	
BASE Aid Guarantee Account	94.5
BASE Aid Annualization/Inflation	54.9
SB 372 Block Grant Reimbursements (K-12)	20.5
University System	
State Support University Units/Community Colleges	30.8
*Includes inmate pay.	

Total Funds

The following shows the significant present law adjustments for all funds by agency. The adjustments in the table represent over 75% of all present law adjustments.

Significant Present Law Adjustments Total Funds - 2015 Biennium In Millions	
Agency/Adjustment	2015 Biennium
Various	
Statewide Present Law Adjustments	\$71.1
Overtime/Holidays/Differential Pay*	25.5
Public Health and Human Services	
Caseload/Utilization Adjustments	141.5
Facilities Inflation/Maintenance	5.8
Systems M&O	7.5
Corrections	
Annualize Beds	6.0
Office of the Public Defender	
Workload/Career Ladder	3.9
Office of Public Instruction	
BASE Aid Guarantee Account	94.5
BASE Aid Annualization/Inflation	54.9
SB 372 Block Grant Reimbursements (K-12)	20.5
OPI Federal Grants	16.6
University System	
State Support University Units/Community Colleges	30.8
Guaranteed Student Loan Authority	21.2
Natural Resources and Conservation	
Loan Authority/Water Projects	12.6
Transportation	
MAP 21/Right of Way Acquisition	33.1
Environmental Quality	
Operations Adjustments	12.2
Hard Rock Mining	5.6
Commerce	
Administrative Costs and Federal Grants	18.0
Military Affairs	
Homeland Security Grants	22.0
*Includes inmate pay	

FIXED COSTS

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate.

The following figure shows fixed costs funded by the legislature in the 2015 biennium.

Fixed Costs		
2015 Biennium Legislative Budget (in Millions)*		
Subcommittee/Agency Function		2015 Biennium
General Government		
Administration	Insurance	\$24.3
	Warrant Writer Fees	1.2
	HR/Payroll Service	6.6
	ITSD Fees	75.9
	SABHRS Operating	6.3
	Messenger Services	0.6
	Rent- Capitol Complex	18.9
	Grounds Maintenance	0.9
	Workers Compensation Mgmt.	0.6
Legislative Branch	Audit Fees	4.3
Various	Statewide Cost Allocation	<u>6.0</u>
		<u>\$145.7</u>
* All sources of authority.		

The legislature did not approve the executive request to establish a fixed cost for the Professional Development Center. The legislature did adjust the costs for insurance due to payment required to under the Libby asbestos settlement. Other changes that were made did not materially impact rates.

FY 2013 SUPPLEMENTAL APPROPRIATIONS

The legislature appropriated \$118.8 million general fund and \$9.4 million other funds in the 2013 biennium as supplemental funding. The figure shows supplemental appropriations since the 2001 biennium.

General Fund Supplementals	
2001 to 2013	
Biennium	Millions
2001	\$68.2
2003	12.5
2005	12.7
2007	76.4
2009	3.5
2011	2.9
2013	118.8

As shown, the amount requested is the highest over this time period. The following details the FY 2013 appropriation. The figure is followed by a brief description of each.

HB 3 Supplemental Appropriations FY 2013				
Agency/Purpose	General Fund	State Special		Proprietary Funds
		Funds	Federal Funds	
Office of Public Instruction				
State Tuition Payments	\$172,698			
Base Aid	39,899,927			
Block Grants	3,683,002			
Department of Justice				
Major Litigation	1,149,477			
Exempt Staff Payouts	43,037	60,611		
Public Safety Officer Standards and Training	177,723			
Governor's Office				
Exempt Staff Payouts	276,601			
Department of Natural Resources and Conservation				
Fire Suppression*	50,000,000			
Department of Administration				
Montana Lottery				2,000,000
Risk Management	13,400,000			
Office of the Public Defender				
Public Defender	3,200,000			
Appellate Defender	200,000			
Military Affairs				
Homeland Security Grants			6,547,080	
Department of Corrections				
Secure Facilities	<u>\$6,597,000</u>	<u>\$750,000</u>		
Total	<u>\$118,799,465</u>	<u>\$810,611</u>	<u>\$6,547,080</u>	<u>\$2,000,000</u>

* HB 3 includes language to transfer any supplemental funds remaining unencumbered after 7/1/2013 to the fire suppression fund

- Office of Public Instruction –
 - State Tuition Payments - State tuition payments are payments to school districts for students placed in a school district outside their district of residence by a state agency or court. Tuition payments are higher than anticipated
 - Base Aid – HB 316 moved mineral royalties revenues to the guarantee account from the general fund, reducing the general fund appropriation required for Base Aid. When HB 316 was vetoed additional general fund was needed
 - Block Grants - SB 372 cut tax rates on class 8 business equipment starting tax year 2012. The revenue loss associated with these tax cuts was reimbursed to school districts. However, the amount appropriated for SB 372 reimbursements was short by \$3.7 million.
- Department of Justice – The legislature provided funds for three purposes: 1) to add funds to the biennial appropriation that funds major litigation, which has been depleted by major cases, including the PPL lawsuit that went to the US Supreme Court; 2) payouts of eligible exempt staff who left the department when the new Attorney General took office; and 3) legal services costs for the Public Safety Officer Standards and Training (POST) board
- Governor’s Office – This supplemental is for payout costs for eligible exempt staff who left the office when the new Governor assumed office
- Department of Natural Resources and Conservation (DNRC) – DNRC is the agency responsible for paying most of the state-responsibility costs of fire suppression. Total estimated state responsibility costs as of this writing are \$50.3 million, with \$4.1 million paid from the fire suppression fund (which will be depleted) and \$10.4 million paid from the Governor’s emergency fund, leaving a balance that must be paid from a supplemental appropriation at \$35.8 million. The legislature provided this funding plus an additional \$14.2 million to replenish the fire suppression fund. A further discussion of fire costs can be found in the 2015 Biennium LFD Fiscal Report narrative for DNRC at the following link and in this appendix: <http://www.leg.mt.gov/content/Publications/fiscal/FR-2015/Section%20C/5706-summary.pdf>
- Department of Administration – The legislature provided two appropriations: 1) replenish the fund balance for the state’s self-insurance program that was depleted to pay for the state’s share of the Libby asbestos lawsuit settlement with a lump-sum general fund payment (the remaining fund balance will be replenished over time through additional insurance costs to agencies); and 2) provide additional authority for the lottery to pay vendors
- Office of the Public Defender (OPD) – This appropriation is due primarily to the impacts on the agency from unanticipated double digit caseload growth that was heavily influenced by large growth in the number of dependent and neglect cases, high turnover and payout costs, and costs associated with death penalty cases
- Military Affairs – The department was provided federal homeland security grants for local communities
- Department of Corrections – The legislature added funding primarily for outside medical costs and low vacancy savings in positions on which a vacancy savings rate of 4% was applied in the budget

AGENCY BUDGET COMPARISONS BY FUND

This section provides a comparison, by agency, of HB 2 appropriations compared to the 2013 biennium. For each fund type, a table shows the comparison by agency. Also included for each fund type is a pie chart showing the amount and percent of each fund by major program area, and a bar graph that shows the percentage increase by major program area. The narrative describes the primary reasons for the budget changes, by fund type.

General Fund

As defined in 17-2-102, MCA, the general fund “accounts for all financial resources except those required to be accounted for in another fund.” The general fund provides funding for the general operations of state government.

The legislature increased general fund in HB 2 by \$334.7 million, or 10.36%. K-12 and higher education are over 61% of the total increase. Human services (agencies 6902 through 6911 in the table) are another 26% of the increase, meaning those three areas contribute 87% of the total general fund increase. For most agencies, statewide present law adjustments constitute the largest increase. Note that this comparison is done without including impacts from supplemental appropriations included in the 2013 budget. In this comparison, approximately \$95 million or 28% of the

APPENDIX B – OTHER LFD BUDGET REFERENCE DOCUMENTS

In addition to the Legislative Fiscal Report – 2013 Biennium (Volumes 1 through 4), there are several other reference documents that legislators and other interested parties can use as a source of information concerning budget and other fiscal matters. A limited number of reports of past biennia are available for reference in the LFD office (photo copies of pages of interest can be made). Training publications and brochures are available for distribution and on the LFD website. Check with an LFD staff member for assistance (see staff list near the front of this volume).

TRAINING PUBLICATIONS

Training materials prepared by the LFD include the following:

- Understanding State Finances and the Budgeting Process (A Reference Manual for Legislators) is a helpful guide for persons wanting more detailed information concerning fiscal matters
- HB 2 the Barbarian (How to Make HB 2 Implement Public Policy as Determined by the Legislature) describes the intricacies of developing the general appropriations act

FISCAL POCKET GUIDES

A variety of brochures have been prepared to provide summary information concerning select topics important to legislators and other interested parties.

- √ Bed Tax
- √ Beer Tax
- √ Cigarette Tax
- √ Coal Severance Tax
- √ Coal Severance Tax - A Data View
- √ Coal Severance Tax - A Pictorial View
- √ Coal Severance Tax – Distribution Detail
- √ Corporation Income Tax
- √ Electrical Energy Tax
- √ General Fund (by year)
- √ Higher Education
- √ Individual Income Tax
- √ Insurance Tax & License Fees
- √ Insure Montana
- √ K-12 Education Funding
- √ Liquor Excise Tax
- √ Medicaid
- √ Metalliferous Mines Tax
- √ Montana Highway Funding
- √ Oil & Natural Gas Tax
- √ Pertinent State Statistics
- √ Property Tax
- √ Rental Car Sales Tax
- √ Resource Indemnity Trust
- √ State Employees Budgeting
- √ State Financial and Budgeting Structure
- √ TANF (Temporary Assistance for Needy Families)
- √ Telecommunications Tax
- √ Tobacco Settlement
- √ Tobacco Settlement Financial Summary
- √ Tobacco Tax

- √ Video Gambling Tax
- √ Wholesale Energy Tax
- √ Wildfire Suppression Funding
- √ Wine Tax

The LFD would welcome suggestions for other possible topics for pocket guides.

AGENCY PROFILES

The LFD has created a “profile” of each of the agencies of state government for which funding is provided in the general appropriations act. These profiles include summaries of what the agency does, how it does it, how it is funded, who its primary customers are, and how the legislature can effect change. The profiles also contain a history of expenditures and selected pertinent statistics.

PREVIOUS REPORTS

The Legislative Budget Analysis is prepared at the beginning of each session and the Legislative Fiscal Report is published at the end of each session. The latter is a record of legislative actions that resulted from the enactment of House Bill 2 and other appropriation legislation, as well as revenue estimation and discussion of other fiscal issues.

- The Legislative Budget Analysis for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library
- The Legislative Fiscal Report for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library. Early versions of this report were titled the Appropriations Report

LFD WEBSITE

The Legislative Fiscal Division maintains a comprehensive website which, as mentioned, contains all of the above items except for items that predate the website (circa 1999).

Beginning with the 2011 Legislative Budget Analysis, some previously published items in the Volume 1 - Statewide Perspectives has been removed from that volume and placed on the LFD website with the Legislative Budget Analysis, in an area referred to as Volume 8. Feel free to ask LFD staff for assistance if you have trouble finding or accessing these items. The LFD website address is: www.leg.mt.gov/css/fiscal/

On the LFD home page, you can find a link to available publications and reports.

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. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary – An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

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

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

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House
- The President of the Senate for the Senate
- 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 the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

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

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

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

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

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

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

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

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

Debt Service – The payment on outstanding bonds.

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

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

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

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

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

Fiscal Note - An estimate, prepared by the 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. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

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

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

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

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

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

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

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

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

Interim – The time between regular legislative sessions.

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

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

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

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

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

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

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

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.

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

Other Funds – Capital projects and fiduciary funds.

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

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

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

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

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

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

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

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

- Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
- Internal service funds - Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

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

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

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

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

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

Acronyms

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

RDGP	Reclamation and Development Grant Program	SAVA	State Administration & Veterans' Affairs Interim Committee
RIGWA	Resource Indemnity and Groundwater Assessment Tax	SB	Senate Bill
RIT	Resource Indemnity Trust	SBEC	State Building Energy Conservation Program
RRGL	Renewable Resource Grant & Loan Program	SF&C	Senate Finance and Claims Committee
RTIC	Revenue & Transportation Interim Committee	SLTC	Senior & Long-Term Care Division
SA	Statutory Appropriation	SOS	Secretary of State
SABHRS	Statewide Accounting, Budgeting, and Human Resources System	SSR	State Special Revenue
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users	SWPLA	Statewide Present Law Adjustment
SAO	State Auditor's Office	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

INDEX FOR ALL VOLUMES 1-4

Acronyms (see Glossary/Acronyms/Index at the end of each volume)	
Administration, Dept. of	A-96, Volume 3
Agency Budget Comparisons by Fund.....	Appendix A-18, Volume 1
Agency Subcommittee Groupings	1, Volumes 3 and 4
Agricultural, Dept. of	C-153, Volume 4
Appellate Defender (see Public Defender)	
Appropriations, Other	61, Volume 1
Arts Council	E-44, Volume 4
Board of Public Education	E-27, Volume 4
Board of Regents.....	E-129, Volume 4
Budget Comparisons	
Agency Budget Comparisons by Fund	Appendix A-18, Volume 1
Budget Overview	7, Volume 1
Budget by Categories	41, Volume 1
Business and Personal Taxes	21, Volume 2
Commerce, Dept. of.....	A-170, Volume 3
Commissioner of Higher Education, Office of (Administration Program)	E-87, Volume 4
Community College Assistance Program	E-100, Volume 4
Consumer Counsel	A-19, Volume 3
Consumption (taxes, fees, or profits)	216, Volume 2
Corporate Tax (see also Business and Personal Taxes)	27, Volume 1
Corrections, Dept. of.....	D-71, Volume 4
Crime Control, Board of	D-19, Volume 4
Cultural and Aesthetic Grant Program.....	F-36, Volume 4
Deaf and Blind, School for.....	E-30, Volume 4
Economic Outlook	14, Volume 2
Economic Assumptions.....	14, Volume 1
Education Section	Section E, Volume 4
Environmental Quality, Dept. of.....	C-36, Volume 4
Expenditure Overview	47, Volume 1
Spending by Function	47, Volume 1
Spending by Funding Source.....	47, Volume 1
Fire Suppression Funding	65, Volume 1
Fish, Wildlife, and Parks, Dept. of.....	C-1, Volume 4
Fixed Costs (See also Budget Process – A Primer).....	Appendix A-13, Volume 1
FTE Detail.....	Appendix A-9, Volume 1
Fund Balance (see General Fund Balance)	
Fund Switches	Appendix A-8, Volume 1
Future Costs, Increased	Appendix A-6, Volume 1
General Fund Balance	12, Volume 1
Changes in General Fund Balance by Fiscal Year.....	Appendix A-2, Volume 1
General Fund Revenue, Other	299, Volume 2
General Fund Revenues/Fund Balance (see General Fund Analysis)	
General Fund Transfers.....	59, Volume 1
General Government Section	Section A, Volume 3
Glossary (see Glossary/Acronyms/Index at the end of each volume)	
Governor’s Office	A-23, Volume 3

Health and Human Services Section	Section B, Volume 3
Higher Education	E-76, Volume 4
Commissioner of (entire university system)	E-76, Volume 4
Funding Tuition	13, Volume 1
Highway Special Revenue Account	100, Volume 1
Historical Society	E-55, Volume 4
Individual Income Tax (see also Business and Personal Taxes)	26, Volume 1
Information Technology Projects, Long-Range Planning	F-16, Volume 4
Interest Earnings	140, Volume 2
Judicial Branch.....	D-1, Volume 4
Judicial Branch, Law Enforcement, and Justice Section.....	Section D, Volume 4
Justice, Dept. of.....	D-23, Volume 4
K-12 Education (see Public Instruction, Office of).....	E-1, Volume 4
Labor and Industry, Dept. of.....	A-206, Volume 3
Legislative Branch	A-1, Volume 3
Legislative Audit Division	A-16, Volume 3
Legislative Committees and Activities	A-10, Volume 3
Legislative Fiscal Division.....	A-13, Volume 3
Legislative Services Division.....	A-6, Volume 3
LFD Publications, Other	Appendix B-1, Volume 1
Library Commission	E-48, Volume 4
Livestock, Dept. of.....	C-101, Volume 4
Long-Range Building Program	F-4, Volume 4
Long-Range Planning Section.....	Section F, Volume 4
Long-Range Planning Budget.....	52, Volume 1
Military Affairs, Dept. of	A-244 Volume 3
Montana Arts Council.....	E-44, Volume 4
Montana Historical Society.....	E-55, Volume 4
Montana Library Commission	E-48, Volume 4
Montana University System (see Higher Education, Commissioner of)	
Appropriation Distribution	E-115, Volume 4
Community College Assistance Program	E-100, Volume 4
Educational Outreach and Diversity Program	E-107, Volume 4
Guaranteed Student Loan Program.....	E-126, Volume 4
Improving Teacher Quality.....	E-98, Volume 4
Student Assistance Program	E-91, Volume 4
Tribal College Assistance	E-124, Volume 4
Workforce Development Program.....	E-109, Volume 4
Natural Resources and Conservation, Department of	C-125, Volume 4
Natural Resources and Transportation Section	Section C, Volume 4
Natural Resource Taxes	95, Volume 2
New Initiatives	Appendix A-4, Volume 1
Office of Public Instruction.....	E-1, Volume 4
Oil and Gas Tax (see also Natural Resource Taxes)	30, Volume 1
One-Time-Only Expenditure Proposals	Appendix A-13, Volume 1
Other Budget Issues	67, Volume 1
Pay Plan	64, Volume 1
Pending Lawsuits	68, Volume 1
Pension Legislation Impacts	62, Volume 1
Political Practices, Commissioner of	A-54, Volume 3

Present Law Adjustments.....	Appendix A-5, Volume 1
Property Taxes	25, Volume 1 and 269, Volume 2
Public Defender, Office of.....	D-62, Volume 4
Public Education, Board of.....	E-27, Volume 4
Public Instruction, Office of.....	E-1, Volume 4
SB 175	61, Volume 1
Public Service Regulation.....	D-57, Volume 4
Public Health and Human Services, Dept. of.....	B-1, Volume 3
Federal Healthcare Reform and Montana’s Choices	9, Volume 1
Quality School Facilities Program	F-39, Volume 4
Reclamation and Development Grant and Loan Program.....	F-33, Volume 4
Regents, Board of.....	E-129, Volume 4
Renewable Resource Grant and Loan Program	F-26, Volume 4
Revenue, Dept. of.....	A-75, Volume 3
Revenue Estimates (see Volume 2 table of contents for specific taxes)	Volume 2
Revenue Estimates	17, Volume 1
School for the Deaf and Blind.....	E-30, Volume 4
Secretary of State	A-50, Volume 3
Spending Pressures	8, Volume 1
State Auditor’s Office	A-58, Volume 3
State Building Energy Conservation Program	F-14, Volume 4
Statutory Appropriations.....	54, Volume 1
Structural Balance.....	67, Volume 1
Post-Session Changes to Structural Balance.....	11, Volume 1
Supplemental Appropriations for FY 2011	61, Volume 1
Transportation, Dept. of.....	C-65, Volume 4
Anticipated Federal Revenues	46, Volume 1
Treasure State Endowment Program.....	F-19, Volume 4
Treasure State Endowment Regional Water System.....	F-23, Volume 4
Tribal Water Compacts	69, Volume 1
Vacancy Savings.....	68, Volume 1
Wildfire Funding.....	65, Volume 1