

**LEGISLATIVE BUDGET ANALYSIS
2015 BIENNIUM
VOLUME 1 - STATEWIDE PERSPECTIVES**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION
TO THE SIXTY-THIRD LEGISLATURE**

January 2013

Legislative Finance Committee Members

Representative Jon Sesso (Chair)
Senator Rick Ripley (Vice Chair)
Representative Rob Cook
Representative John Esp
Representative Steve Gibson
Representative Cynthia Hiner
Representative Gallen Hollenbaugh
Senator Llew Jones
Senator Steve Gallus
Senator Dave Lewis
Senator Dave Wanzenried
Senator Carol Williams

LEGISLATIVE FISCAL DIVISION STAFF

Legislative Fiscal Analyst (Director)

Amy Carlson

Principal Fiscal Analyst

Taryn Purdy

Assistant Principal Fiscal Analysts

Barbara Smith

Joe Triem

Fiscal Analysts

Christina Butler

Marilyn Daumiller

Greg DeWitt

Cathy Duncan

Brian Hannan

Pam Joehler

Roger Lloyd

Rob Miller

Stephanie Morrison

Jim Standaert

Lois Steinbeck

Kris Wilkinson

Fiscal Support Manager

Diane McDuffie

Fiscal Web Specialist

Susie Lindsay

ACKNOWLEDGEMENTS

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

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

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



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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

Director/Legislative Fiscal Analyst
AMY CARLSON

December 2012

Members of the Sixty-third Legislature:

I submit for your consideration the state budget outlook for the 2015 biennium and the analysis of the Governor's Budget in volumes 1 through 8. In a departure from previous versions, volumes 2 through 8 will not be generally printed, and distributed, but only available over the internet. A printed copy of this volume 1 Overview will be widely available, but several of the usual charts and tables have been included as electronic only appendices. If you are looking for a particular table or graph that is missing in the paper version of this document, you will likely find it online. If you are unable to access the online version please let staff know and we will provide you with printed versions of the documents you want. The online version is available at the following link: <http://leg.mt.gov/fbp.asp>

In addition, a group of staff improved the format of Volumes 3 through 7 (Sections A through E) to be a better tool for decision making for subcommittee work. Please provide feedback to your subcommittee staff so we can continue to improve this document for future legislatures.

I have many thanks to the staff members of the Legislative Fiscal Division, who have stepped up to the plate to deliver time and again. These professionals are committed to the Legislature and to serving the people of Montana. You will find them listed with their areas of expertise on the following pages.

In addition, I want to thank the members of the Legislative Finance Committee for their wisdom and guidance over this past two years. I have immense respect for each of them.

Sincerely,

Amy Carlson
Legislative Fiscal Analyst

TABLE OF CONTENTS

Overview	1
Growing revenues and budget challenges	1
Growing Revenues	1
Budget Challenges.....	2
Governor Schweitzer’s Budget Request.....	4
The Governor Schweitzer Budget	5
Governor’s Budget Adjusted Using the LFD Estimates for Revenue and Statutory Appropriations	5
General Fund Budgeting Basics	9
Reading and Understanding the General Fund Balance Sheet	9
Major Fiscal Issues facing the legislature	12
Pension Funding Shortfall	12
Personnel and Pay Costs.....	14
Rates Paid to Providers.....	15
Health Care Reform.....	16
Federal Fiscal Cliff: Revenue and Spending Impacts	18
Wildfire Costs.....	19
Natural Resources Development Issues	20
Managing Volatility	21
Revenue.....	22
General Fund and other State Revenue Sources.....	22
Individual Income Tax	23
Property Tax	24
Corporate License Tax	24
Oil & Natural Gas Production Tax.....	24
Summary and Comparison to the Executive Revenue Estimate	25
Executive Legislation	26
State Expenditures	27
Executive Proposed spending by source of authority.....	27
Proposal By Source of Authority – HB 2.....	28
Funding By Functional Area	28
Type of Funding	29
Executive Proposed General Fund	29
Governor’s Proposal.....	29
Proposal by Source of Authority – Long Range	33
Governor’s Proposal.....	33
Proposal by Source of Authority – Statutory Appropriations	34

Governor’s Proposal..... 34
Proposal by Source of Authority – General Fund Transfers 35
 Executive Budget General Fund Transfer Proposals..... 36
Proposal by Source of Authority – Other Legislation 36

LEGISLATIVE FISCAL DIVISION (LFD)

State Capitol, First Floor, East Wing, Room 110A
(406) 444-2986

STAFF ASSIGNMENTS

General Government

Kris Wilkinson (Ext. 2722, Office #131)

Administration
Commerce
Commissioner of Political Practices
Labor & Industry
Military Affairs
Secretary of State
State Fund

Cathy Duncan (Ext. 4580, Office #117)

Consumer Counsel
Governor's Office
Legislative Branch
Revenue

Lois Steinbeck (Ext. 5391, Office #118)

State Auditor's Office

Health & Human Services

Lois Steinbeck (Ext. 5391, Office #118)

Marilyn Daumiller (Ext. 5386, Office # 132)

Rob Miller (Ext. 1795, Office #110G)

Natural Resources & Transportation

Christina Butler (Ext. 110H, Office #110H)

Fish, Wildlife & Parks
Environmental Quality
Livestock
Natural Resources & Conservation
Agriculture

Cathy Duncan (Ext. 4580, Office #117)

Transportation

Judicial Branch, Law Enforcement and Justice

Greg Dewitt (Ext. 5392, Office #119)

Judiciary
Board of Crime Control
Justice
Public Service Regulation
Corrections
Office of the Public Defender

Education

Rob Miller (Ext. 1795, Office #110G)

Office of Public Instruction
School for the Deaf and Blind
Board of Public Education

Pam Joehler (Ext. 5387, Room #130)

Commissioner of Higher Education/
Board of Regents

Education (Continued)

Pam Joehler (Ext. 5387, Room #130)

Community Colleges
Six University Units and College of Tech.
Agricultural Experiment Station
Extension Service
Forestry & Conservation Experiment Station
Bureau of Mines & Geology
Fire Services Training School
Montana Arts Council
Library Commission
Montana Historical Society

Jim Standaert (Ext. 5389, Office #113)

Brian Hannan (Ext. 1787, Office #110Q)

Office of Public Instruction

Long Range Planning

Cathy Duncan (Ext. 4580, Office #117)

Long-Range Building Program
State Building Energy Conservation
Long-Range Information Technology Program
Treasure State Endowment
Treasure State Endowment Regional Water System
Reclamation & Development Grant Program
Renewable Resource Grant & Loan Program
Cultural and Aesthetic Grant Program
Quality Schools Facilities Grant Program

Revenue Estimating/Monitoring/Tax Policy

Jim Standaert (Ext. 5389, Office #113)

Roger Lloyd (Ext. 5385, Office #120)

Stephanie Morrison (Ext. 4408, Office 110M)

Brian Hannan (Ext. 1787, Office #110Q)

Fiscal Web Specialist

Susie Lindsay (Ext. 4121, Office #110P)

Fiscal Support Manager

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

Assistant Principal Fiscal Analysts

Barbara Smith (Ext. 5347, Office #115)

Joe Triem (Ext. 5834, Office #110F)

Principal Fiscal Analyst

Taryn Purdy (Ext. 5383, Office #114) – Budget

Legislative Fiscal Analyst & Director

Amy Carlson, (Ext. 2988, Office #116)

INTRODUCTION VOLUME 1

PURPOSE OF VOLUME 1: THE OVERVIEW

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2013 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by: 1) providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2015 biennium, and 2) identifying some of the major issues now facing the Legislature. As such, this document is intended to complement the Legislative Budget Analysis – 2015 Biennium Online, which contains our review of the 2015 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2015 Biennium Online reports the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this Overview presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 discussions incorporate the December 15 Governor's revisions.

This volume is divided into six parts:

- 2013 Biennium Overview provides a high level summary of our analysis of the proposed executive budget
- Budget Basics: Understanding the General Fund Balance Sheet
- Major Issues Facing the Legislature includes discussions of several state financial issues, a list of which can be found on page 7 of this volume
- State Revenues Perspectives provides a review of the revenue projections in the budget and our own assessment of revenues through FY 2013
- State Expenditures Perspectives – Part One provides an overview of the state spending plan for the 2015 biennium
- State Expenditures Perspectives – Part Two evaluates the major expenditure proposals in the budget

WHAT IS CONTAINED IN THE LEGISLATIVE BUDGET ANALYSIS - 2015 BIENNIUM ONLINE?

REVENUE ESTIMATES

A summary and overview of the state's major revenue sources is included online. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. This volume will be provided to the House and Senate Taxation committees for use as a working document, and delineates the economic assumptions used to derive revenue estimates presented to the Revenue and Taxation Interim Committee (RTIC) on November 19, 2012.

BUDGET ANALYSIS

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

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

- Section F – Long-Range Planning

The Legislative Budget Analysis – 2015 Biennium Online briefly describes the agencies from all three branches of state government, as well as each program within an agency. The basic structure used for the analysis is consistent across agencies. These sections detail an agency’s requests, as well as a list of proposals and issues significant to the agency. When appropriate, there may be discussion of circumstances that could hold budgetary impacts (e.g., proposed executive legislation or agency reorganization). These sections also present detailed discussions of present law adjustments, new proposals, and significant issues facing the various agencies as identified by legislative fiscal analysts.

Agency budgets are presented in three tiers as required by statute:

- Base budget: the level of funding authorized by the previous legislature
- 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

By making this presentation in this tiered manner, legislators can use the “base budget” as the starting point, then to follow the incremental increases that result in a total budget request for an agency.

OVERVIEW

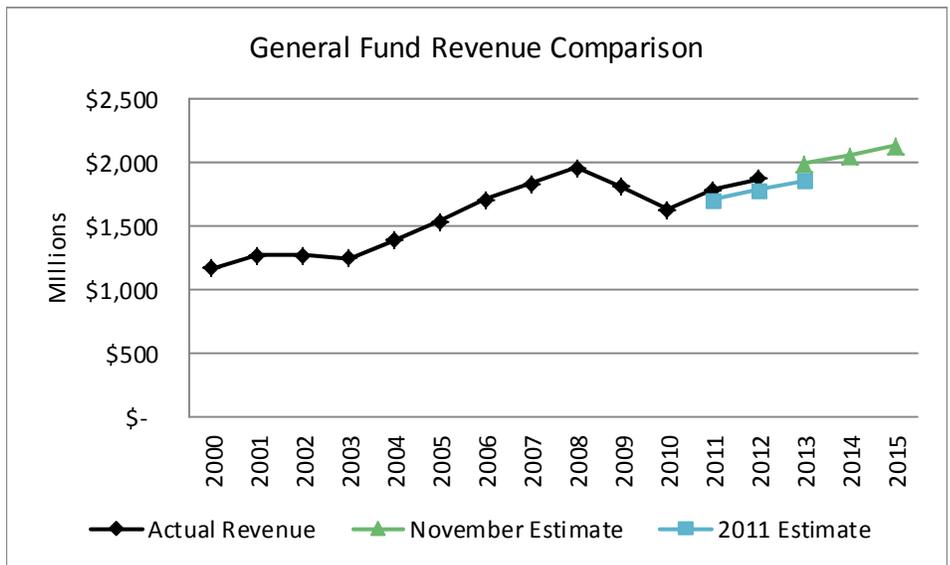
GROWING REVENUES AND BUDGET CHALLENGES

The 2013 legislative session will have the advantage of growing general fund revenue streams and a significant fund balance. The following analysis outlines the trends in revenue, structural balance and budget challenges for the 2013 legislative session. There are several budget challenges and significant policy issues that will be considered this session.

GROWING REVENUES

In FY 2009 and FY 2010, state revenues declined two years in a row. While two years ago, the legislature was confident that these declines were past, it was not clear how strong general fund revenues would return. The last two years has brought growth and stability to the general fund revenues. This stability gives confidence that the worst is behind us.

The next two years anticipate continued growth in the general fund revenue, though 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 above demonstrates 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 November of 2012 by the Legislative Fiscal Division (LFD).

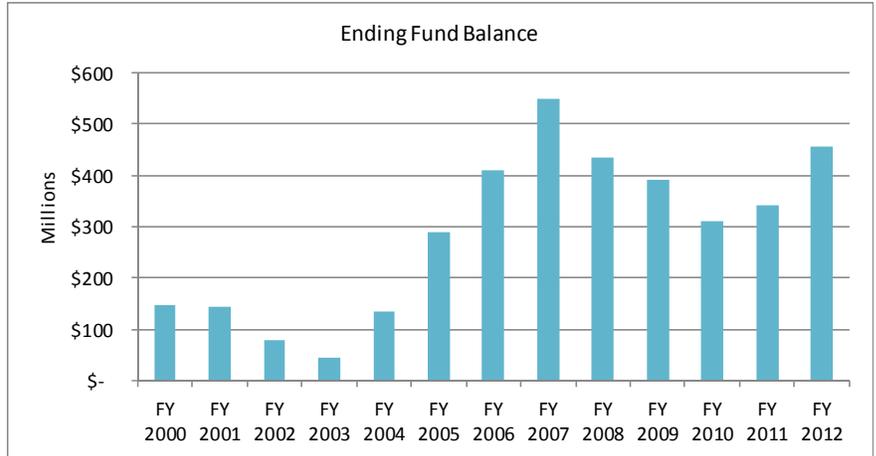
These additional revenues are based on an economic forecast from IHS Global Insight that shows slow economic growth of 4% as measured by gross state product (GSP). This growth in GSP is lower than recent growth in both the Montana and U.S. economies. Economists believe that the current slow growth patterns will continue for some time. For more information, see page 5 of Volume 2, the LFD revenue estimate analysis. Therefore, while the forecast level of revenue is higher and growing from recent years, it is below the long term revenue trend for Montana.

Structural Balance

The November revised revenue estimate for FY 2013 is \$143 million or 7.7% greater than the original FY 2013 estimate. In the 2011 session, the FY 2013 ongoing spending was set \$25 million above the revenue estimate. The net structural balance of \$118 million (\$143 million less \$25 million) from FY 2013 affords the legislature the opportunity to determine the use of this additional revenue for ongoing purposes if it so chooses.

Ending Fund Balance

In addition to this structural balance, a higher level of ending fund balance is available to the 2013 Legislature. Three years of higher revenues than anticipated adds up. While the 2011 session anticipated ending fund balance was \$150 million, even with the Governor's requested supplemental appropriations for the 2013 biennium the ending fund balance is currently anticipated to be nearly \$450 million. Some portion of this higher ending fund balance could be used by the 2013 Legislature for one time needs.



Several spending pressures face the 2013 Legislative session and Governor Schweitzer has offered solutions to many of these challenges in his budget proposal.

BUDGET CHALLENGES

Pension Funding Shortfall

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

Governor Schweitzer has proposals to fund the two largest systems' liabilities with a combination of employer, state, local government, and employee contribution increases. The annual general fund cost of these proposals is just less than \$50 million per year. While the proposals do not fully fund the additional amounts need to fund the Annual Required Contribution (ARC) as recommended by actuaries, it does turn the corner on the liabilities and they are forecast to close the funding gap in 37 to 45 years.

Personnel and Pay Plan

Employees of the state of Montana have not received an inflationary 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. LFD analysis has shown variance between agencies and types of employees how well employee pay compares to private and public sector counterparts. Since pay increases in the pay plan bill are in addition to the base HB 2 budget, the legislature may want to consider this variance when considering both base cost pay and the pay plan. For more information on state employee pay see:

http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_Sept/Personal%20Services%20Rpt.pdf

Governor Schweitzer has proposed changes in the HB 2 budget to address some base pay concerns. Specifically these adjustments can be found in the Department of Corrections and the Office of the Public Defender. In addition, Governor Schweitzer and the unions have agreed to a 5% per year across the board pay increase and a 10% per year increase in employer contributions for health insurance for state employees that the legislature will be asked to approve. For a more detailed analysis on the Governor Schweitzer proposed pay plan see:

<http://leg.mt.gov/content/Publications/fiscal/ba-2015/Volume-1/Appendix-B-Executive-Pay-Plan-Proposal.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 across the board increase in funding in four years. Governor Schweitzer has proposed an increase of 2% per year for most providers and statutorily calculated increases for other providers.

Federal Healthcare Reform and Montana's choices

Federal Affordable Care Act or ACA requires or allows Montana to make several changes in the funding and structure of state healthcare programs. Montana's choices include part of the expansion of Medicaid and the future of certain current state health programs that, in part, overlap with some new federal provisions. The program, law, and budget choices are interconnected and will need to be tracked carefully during session.

Governor Schweitzer recommends expanding Medicaid and phasing out Insure Montana, the state program that provides subsidies to small businesses that provide health care to employees.

Federal Fiscal Cliff

The federal government has plans to increase tax collections and decrease spending. Both impacts will affect 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. On net, the direct tax impact from the tax changes considered in the Federal Fiscal Cliff 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. As the federal government makes decisions regarding addressing the federal deficit, IHS Global Insight will adjust their economic forecast accordingly. Currently, IHS Global Insight has assumed a partial implementation of the sequestration or fiscal cliff provisions. For more information see the Revenue Section of this volume.

In addition to tax and direct spending provisions, the Federal Fiscal Cliff contains budget reductions that will impact the state agency budgets directly. The largest and most difficult of these provisions is anticipated to be in K-12 education, the Department of Justice, and public health. Governor Schweitzer has no specific recommendations to address the anticipated reductions in federal funding. Details as to which fiscal cliff measures will be implemented may become clearer during session.

Wildfire Funding

Wildfire costs in FY 2013 are expected to reach \$59.4 million, a much higher than usual level. The seven year average wildfire costs are \$23.8 million per year. The fire suppression account 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 have been requested by the executive.

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. Essentially every government service is being stretched. The legislature will see many choices this session to address some of these challenges.

In order to assist with these challenges, Governor Schweitzer recommends transferring \$12 million of state general fund to the Oil and Gas board to distribute to affected counties and cities. In addition, policies are being implemented to address recruitment and retention concerns for state employees in these areas.

Managing Budget Volatility

The 2013 legislature will determine how it addresses budget volatility. The general fund status sheets provided to the legislature illustrate structural balance and ending fund balance are both readily available. Governor Schweitzer proposes a positive structural balance (revenues exceeding spending) and an ending fund balance of \$414 million.

Questions before the 2013 Legislative session will include:

- 1) How much estimated ending fund balance does the legislature wish to budget for the 2015 biennium?
- 2) Are there other ways that the legislature will wish to manage potential budget volatility?

GOVERNOR SCHWEITZER'S BUDGET REQUEST

While the major budget issues shown above highlight some of the recommendations of the Governor Schweitzer budget, there are several more budget recommendations contained in the executive proposal.

Other major recommendations in the Governor Schweitzer's budget request include:

State Fund Worker's Compensation

Governor Schweitzer recommends a bill to combine the Montana State Fund "Old Fund" (claims for injuries resulting from accidents that occurred before July 1, 1990), with the current workers' compensation fund. This bill would have claims from the "Old Fund" paid from current workers' compensation insurance surplus and reserves rather than the general fund. This results in general fund savings of \$7.4 million in FY 2014 and \$5.7 million in FY 2015. The bill also includes a provision that the State Fund may not raise rates to pay for these amounts. Potential legal ramifications are described in the Appendix to Volume 1 under general fund transfers.

K-12 funding

The Executive proposes 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. The increase in general fund from the FY 2012 base appears largely due to the amount of school trust revenue in the guarantee account which was higher than normal, and reduced the level of general fund needed to fund schools in FY 2012. These unusually higher school trust revenue amounts will not continue in the 2015 biennium.

Montana University System funding

Governor Schweitzer recommends an 8.4% increase in the general fund budgets from the 2013 biennium to the 2015 biennium for educational units and agencies. The budget recommends returning \$2.6 million per year of student assistance funding to general fund after the temporary federal funding is no longer available. Additional recommendations include: Community college funding increases by 9% or nearly \$2 million in the biennium, additional University of Washington medical education slots for doctors, and continuing support for Montana's non-beneficiary tribal college students.

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.

Long-Range Planning (HB 5)

The executive proposal for the LRBP would provide \$271.4 million of authority to expend non-state funds and appropriations of state funds. The LRBP proposal would construct seven new state buildings, including a new Low Side Prison Unit in Deer Lodge, the Heritage Center in Helena, and the College of Technology in Missoula, among others. The projects would be funded with a mix of all fund types, with additional project funding through a \$16.3 million transfer of general funds to the LRBP capital projects fund and \$87.9 million in bond proceeds.

Long-Range Information Technology (HB 10)

The executive proposal for the LRITP recommends \$18.2 million in appropriations for major information technology (IT) projects. The proposal includes six major projects which include upgrades to the Secretary of State's information system, which will allow the agency to better manage information on the state's registered businesses. Another large IT project is the Legislative Branch Session Systems Replacement project that would replace the operating systems underlying the LAWS system. Funding for the projects would come from most fund types and would require a transfer of \$8.8 million from the general fund to the LRITP capital projects fund.

More information on the LRBP and LRITP requests may be seen in Section F of the Legislative Fiscal Division Budget Analysis.

THE GOVERNOR SCHWEITZER BUDGET

The Governor Schweitzer recommended budget is structurally balanced and has an ending fund balance of \$414 million or 9.9% of the biennial budget. The following table shows the Governor's estimation of general fund revenues and proposed spending:

Executive Budget Proposal - General Fund (in Millions)								
	Actual FY 2012	Estimated FY 2013	Requested FY 2014	Requested FY 2015	2013 Biennium	2015 Biennium	Biennial \$ Change	Biennial % Change
Beginning Fund Balance	\$341.875	\$453.180	\$433.437	\$423.037	\$341.875	\$433.437	\$91.562	26.8%
Revenue								
Executive Revenue Estimates	1,870.954	1,978.755	2,056.447	2,119.016	3,849.709	4,175.463	325.754	8.5%
Executive Revenue Proposals	0.000	0.000	(17.297)	(18.391)	0.000	(35.688)	(35.688)	
Executive Revenue Adjustments	8.751	(1.500)	0.000	0.000	7.251	0.000	(7.251)	-100.0%
Total Funds Available	\$2,221.580	\$2,430.435	\$2,472.587	\$2,523.662	\$4,198.835	\$4,573.212	\$374.377	8.9%
Disbursements								
General Appropriations Act	1,587.917	1,642.280	1,752.962	1,797.234	3,230.197	3,550.196	319.999	9.9%
Feed Bill (HB1)	1.356	10.056	1.397	10.309	11.412	11.706	0.294	2.6%
Supplemental Appropriations (HB 3)	0.000	123.621	0.000	0.000	123.621	0.000	(123.621)	-100.0%
Long Range Building Proposals - Cash (HB 5)	0.000	0.000	16.300	0.000	0.000	16.300	16.300	
Long Range Information Technology (HB 10)	0.000	0.000	8.808	0.000	0.000	8.808	8.808	
Pay Plan (HB 13)	0.000	0.000	28.111	52.006	0.000	80.117	80.117	
Long Range Building Proposal - Bonds (HB 14)*	0.000	0.000	2.954	5.908	0.000	8.862	8.862	
School Funding	0.000	0.300	0.000	0.000	0.300	0.000	(0.300)	-100.0%
Pension Legislation	0.000	0.000	30.467	30.517	0.000	60.984	60.984	
Infrastructure Assistance	0.000	0.000	12.000	0.000	0.000	12.000	12.000	
Water Compact Obligations	0.000	0.000	2.420	4.840	0.000	7.260	7.260	
Medicaid Expansion	0.000	0.000	1.892	3.108	0.000	5.000	5.000	
Statutory Appropriations	171.229	207.692	197.095	211.141	378.921	408.236	29.315	7.7%
Statutory Appropriations - Economic Development Legislation	0.000	0.000	(3.000)	(3.000)	0.000	(6.000)	(6.000)	
Transfers	15.469	15.112	13.318	11.637	30.581	24.955	(5.626)	-18.4%
Transfers - Old Fund Legislation	0.000	0.000	(7.356)	(5.652)	0.000	(13.008)	(13.008)	
Other Appropriations	3.665	5.554	0.000	0.000	9.219	0.000	(9.219)	-100.0%
Reversions	0.000	(7.618)	(7.818)	(8.049)	(7.618)	(15.867)	(8.249)	108.3%
Prior Year Adjustments	(5.127)	0.000	0.000	0.000	(5.127)	0.000	5.127	-100.0%
Total Disbursements	\$1,774.509	\$1,996.997	\$2,049.550	\$2,109.999	\$3,771.506	\$4,159.549	\$388.043	10.3%
Fund Balance Adjustment	\$6.109	\$0.000	\$0.000	\$0.000	\$6.109	\$0.000	(\$6.109)	
Ending Fund Balance	\$453.180	\$433.437	\$423.037	\$413.663	\$433.438	\$413.663	(19.775)	-4.8%

GOVERNOR'S BUDGET ADJUSTED USING THE LFD ESTIMATES FOR REVENUE AND STATUTORY APPROPRIATIONS

The legislature has the authority to decide the level of revenue used to balance the state's budget. Using the November 15th Legislative Fiscal Division's revenue estimates, the final Governor Schweitzer's budget continues to be structurally balanced, meaning that ongoing revenues exceed ongoing spending.

The following balance sheet lays out the ongoing and one-time-only spending of the Governor Schweitzer budget submission with the LFD November revenue estimates. It illustrates the comparable and non-comparable items and allows for biennium to biennium comparisons.

2015 Biennium Ongoing Spending

The growth in ongoing spending in Governor Schweitzer's budget (adjusted for a school Base Aid supplemental in FY 2013) is 12.5% from biennium to biennium. The primary components of the increase are: HB 2 adjustments total 7.9%, pay plan 2.0%, and pensions (including revenue reductions and offsets to statutory appropriations) 2.5%.

2015 Biennium One-time Spending

Governor Schweitzer's proposed budget decreases spending on one-time items primarily due to no supplemental requirements anticipated in the 2015 biennium.

FY 2013

Supplemental appropriations for FY 2013 total \$123.6 million. These supplementals are primarily for: K-12 funding as anticipated with the veto of HB 316 after the 2011 session for \$34.7 million, wildland fire cost of \$50 million, and the Libby asbestos legal settlement for \$26.8 million. The school funding items of the supplemental have been considered ongoing spending as it is statutorily required spending.

Governor Schweitzer Budget adjusted using LFD revenue estimates and statutory appropriations:

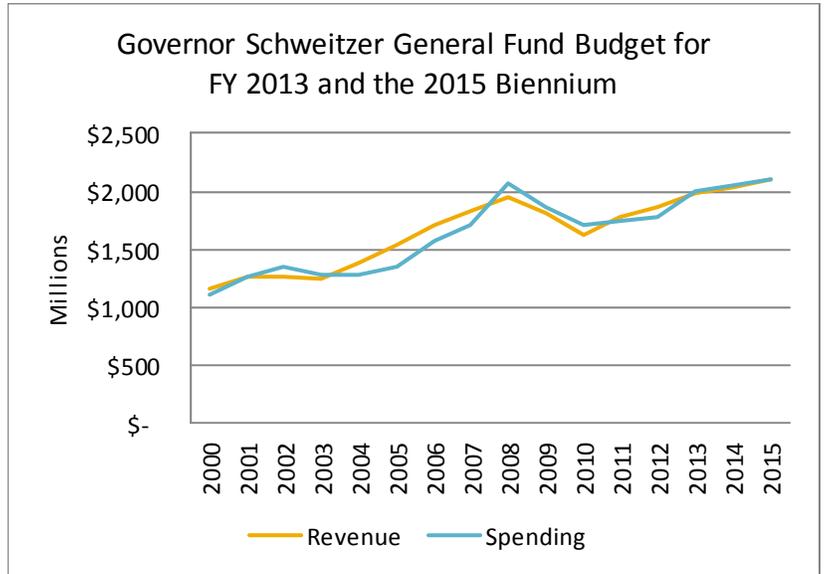
17-7-151, MCA - General Fund Comparison								
(in Millions)								
	Actual FY 2012	Estimated FY 2013	Requested FY 2014	Requested FY 2015	2013 Biennium	2015 Biennium	Biennial \$ Change	Biennial % Change
Beginning Fund Balance	\$341.875	\$453.180	\$449.416	\$424.936	\$341.875	\$449.416	\$107.541	31.5%
Revenue								
Legislative Revenue Estimates	1,870.954	1,988.754	2,044.546	2,124.162	3,859.708	4,168.708	309.000	8.0%
Legislative Prior Year Revenue Adjustments	8.751	0.000	0.000	0.000	0.000	0.000	0.000	
Supplemental Appropriations (HB 3) - Tfr from Lottery Reduction	0.000	(1.500)	0.000	0.000	(1.500)	0.00	1.500	
Pension Legislation - Reduction to General Fund	0.000	0.000	(17.297)	(18.391)	0.00	(35.688)	(35.688)	
Total Funds Available	\$2,221.580	\$2,440.434	\$2,476.665	\$2,530.707	\$4,200.083	\$4,582.436	\$382.353	9.1%
Disbursements								
General Appropriations Act - Ongoing	1,577.269	1,628.666	1,744.213	1,790.052	3,205.935	3,534.265	328.330	10.2%
General Appropriations Act - OTO	10.648	13.614	8.749	7.182	24.262	15.931	(8.331)	-34.3%
Feed Bill (HB 1)	1.356	10.933	1.418	11.097	12.289	12.515	0.226	1.8%
Supplemental Appropriations (HB 3) - Ongoing	0.00	38.534	0.000	0.000	38.534	0.000	(38.534)	-100.0%
Supplemental Appropriations (HB 3) - OTO	0.00	85.087	0.000	0.000	85.087	0.000	(85.087)	-100.0%
Long Range Building Proposals - Cash (HB 5)	0.00	0.000	16.300	0.000	0.000	16.300	16.300	
Long Range Information Technology (HB 10)-OTO	0.00	0.000	8.808	0.000	0.000	8.808	8.808	
Pay Plan (HB 13) - Ongoing	0.00	0.000	24.036	52.006	0.000	76.042	76.042	
Pay Plan (HB 13) - OTO	0.00	0.000	4.075	0.000	0.000	4.075	4.075	
Long Range Building Proposal - Bonds (HB 14)* - Ongoing	0.00	0.000	2.954	5.908	0.000	8.862	8.862	
School Funding - OTO	0.00	0.300	0.000	0.000	0.300	0.000	(0.300)	-100.0%
Pension Legislation - Ongoing	0.00	0.000	30.467	30.517	0.000	60.984	60.984	
Infrastructure Assistance - OTO	0.00	0.000	12.000	0.000	0.000	12.000	12.000	
Water Compact Obligations - Bonds - Ongoing	0.00	0.000	2.420	4.840	0.000	7.260	7.260	
Medicaid Expansion - Ongoing	0.00	0.000	1.892	3.108	0.000	5.000	5.000	
Statutory Appropriations - Ongoing	171.229	200.950	199.266	213.143	372.179	412.409	40.230	10.8%
Statutory Appropriations - Legislation	0.000	0.000	(3.000)	(3.000)	0.000	(6.000)	(6.000)	
Transfers - Ongoing	15.469	14.998	13.306	11.779	30.467	25.085	(5.382)	-17.7%
Transfers - Old Fund Legislation	0.000	0.000	(7.356)	(5.652)	0.000	(13.008)	(13.008)	
Other Appropriations	3.665	5.554	0.000	0.000	9.219	0.000	(9.219)	-100.0%
Reversions	0.000	(7.618)	(7.818)	(8.049)	(7.618)	(15.867)	(8.249)	108.3%
Prior Year Adjustments	(5.127)	0.000	0.000	0.000	(5.127)	0.000	5.127	-100.0%
Total Disbursements	\$1,774.509	\$1,991.018	\$2,051.730	\$2,112.931	\$3,765.527	\$4,164.661	\$399.134	10.6%
Fund Balance Adjustment	6.109	0.000	0.000	0.000	6.109	0.000	(6.109)	
Ending Fund Balance	\$453.180	\$449.416	\$424.936	\$417.776	\$440.665	\$417.776	(22.890)	-5.5%
Biennial Comparison								
Total Ongoing	1,765.323	1,886.463	2,001.798	2,105.749	3,651.786	4,107.547	455.761	12.5%
Total OTO	9.186	104.555	49.932	7.182	113.741	57.114	(56.627)	-49.8%
Total Disbursements	\$1,774.509	\$1,991.018	\$2,051.730	\$2,112.931	\$3,765.527	\$4,164.661	\$399.134	10.6%
Structural Balance	\$105.631	\$100.791	\$25.451	\$0.022	\$206.422	\$25.473	(\$180.949)	-87.7%
For informational purposes only:								
Executive Budget Adjustments for Guarantee Account Revenue estimate difference								
Reduce School Funding Present Law Requirement for additional Guarantee Account revenue estimated by the LFD	\$0.000	(\$5.099)	(\$7.607)	(\$8.181)	(\$5.099)	(\$15.788)	(\$10.689)	209.6%
Adjusted Total Disbursements	1,774.509	1,985.919	2,044.123	2,104.750	3,760.428	4,148.873	388.44	10.3%
Adjusted Ending Fund Balance	453.180	454.515	437.642	438.663	454.515	438.663	(15.85)	-3.5%
Adjusted Structural Balance	\$105.631	\$105.890	\$33.058	\$8.203	\$211.521	\$41.261	(\$170.260)	-80.5%

Note that the balance sheet above adjusted all revenue estimates except the coal severance tax switch to fund pensions instead of being deposited in the general fund. The LFD estimate for coal severance tax is \$2.0 million less per year than estimated by the Office of Budget and Program Planning. Governor Schweitzer's proposal for pension funding requires a certain level of funding to achieve the actuarial goals outlined in his proposal; if these revenues were reduced the actuarial goals would not be achieved. This balance sheet assumes that Governor Schweitzer maintains his level of funding for pensions.

The graphic at right describes the past several years and the next biennium's budgets and revenues. The Governor Schweitzer budget increases total general fund spending to be roughly equivalent with anticipated revenues in FY 2013 through FY 2015.

Budget Analysis

Many more details are contained in the revenue estimates, the budget analysis, and the remaining sections of the overview. The LFD will give an update to this analysis when the Governor Bullock budget is prepared and available for session.



GENERAL FUND BUDGETING BASICS

READING AND UNDERSTANDING THE GENERAL FUND BALANCE SHEET

Additional details explaining the traditional fund balance sheet follows.

17-7-151, MCA - General Fund Comparison								
(in Millions)								
	Actual FY 2012	Estimated FY 2013	Requested FY 2014	Requested FY 2015	2013 Biennium	2015 Biennium	Biennial \$ Change	Biennial % Change
Beginning Fund Balance ❶	\$341.875	\$453.180	\$449.416	\$424.936	\$341.875	\$449.416	\$107.541	31.5%
Revenue								
Legislative Revenue Estimates ❷	1,870.954	1,988.754	2,044.546	2,124.162	3,859.708	4,168.708	309.000	8.0%
Legislative Prior Year Revenue Adjustments	8.751	0.000	0.000	0.000	0.000	0.000	0.000	
Supplemental Appropriations (HB 3) - Tfr from Lottery Reduction ❸	0.000	(1.500)	0.000	0.000	(1.500)	0.000	1.500	
Pension Legislation - Reduction to General Fund ❹	0.000	0.000	(17.297)	(18.391)	0.000	(35.688)	(35.688)	
Total Funds Available	\$2,221.580	\$2,440.434	\$2,476.665	\$2,530.707	\$4,200.083	\$4,582.436	\$382.353	9.1%
Disbursements								
General Appropriations Act - Ongoing ❺	1,577.269	1,628.666	1,744.213	1,790.052	3,205.935	3,534.265	328.330	10.2%
General Appropriations Act - OTO ❻	10.648	13.614	8.749	7.182	24.262	15.931	(8.331)	-34.3%
Feed Bill (HB 1) ❼	1.356	10.933	1.418	11.097	12.289	12.515	0.226	1.8%
Supplemental Appropriations (HB 3) - Ongoing ❽	0.00	38.534	0.000	0.000	38.534	0.000	(38.534)	-100.0%
Supplemental Appropriations (HB 3) - OTO ❼	0.00	85.087	0.000	0.000	85.087	0.000	(85.087)	-100.0%
Long Range Building Proposals - Cash (HB 5) ❹	0.00	0.000	16.300	0.000	0.000	16.300	16.300	
Long Range Information Technology (HB 10)-OTO ❹	0.00	0.000	8.808	0.000	0.000	8.808	8.808	
Pay Plan (HB 13) - Ongoing ❹	0.00	0.000	24.036	52.006	0.000	76.042	76.042	
Pay Plan (HB 13) - OTO ❹	0.00	0.000	4.075	0.000	0.000	4.075	4.075	
Long Range Building Proposal - Bonds (HB 14)* - Ongoing ❹	0.00	0.000	2.954	5.908	0.000	8.862	8.862	
School Funding - OTO ❹	0.00	0.300	0.000	0.000	0.300	0.000	(0.300)	-100.0%
Pension Legislation - Ongoing ❹	0.00	0.000	30.467	30.517	0.000	60.984	60.984	
Infrastructure Assistance - OTO ❹	0.00	0.000	12.000	0.000	0.000	12.000	12.000	
Water Compact Obligations - Bonds - Ongoing ❹	0.00	0.000	2.420	4.840	0.000	7.260	7.260	
Medicaid Expansion - Ongoing ❹	0.00	0.000	1.892	3.108	0.000	5.000	5.000	
Statutory Appropriations - Ongoing ❹	171.229	200.950	199.266	213.143	372.179	412.409	40.230	10.8%
Statutory Appropriations - Legislation ❹	0.000	0.000	(3.000)	(3.000)	0.000	(6.000)	(6.000)	
Transfers - Ongoing ❹	15.469	14.998	13.306	11.779	30.467	25.085	(5.382)	-17.7%
Transfers - Old Fund Legislation ❹	0.000	0.000	(7.356)	(5.652)	0.000	(13.008)	(13.008)	
Other Appropriations ❹	3.665	5.554	0.000	0.000	9.219	0.000	(9.219)	-100.0%
Reversions ❹	0.000	(7.618)	(7.818)	(8.049)	(7.618)	(15.867)	(8.249)	108.3%
Prior Year Adjustments	(5.127)	0.000	0.000	0.000	(5.127)	0.000	5.127	-100.0%
Total Disbursements	\$1,774.509	\$1,991.018	\$2,051.730	\$2,112.931	\$3,765.527	\$4,164.661	\$399.134	10.6%
Fund Balance Adjustment	6.109	0.000	0.000	0.000	6.109	0.000	(6.109)	
Ending Fund Balance	\$453.180	\$449.416	\$424.936	\$417.776	\$440.665	\$417.776	(22.890)	-5.5%
Biennial Comparison								
Total Ongoing	1,765.323	1,886.463	2,001.798	2,105.749	3,651.786	4,107.547	455.761	12.5%
Total OTO	9.186	104.555	49.932	7.182	113.741	57.114	(56.627)	-49.8%
Total Disbursements	\$1,774.509	\$1,991.018	\$2,051.730	\$2,112.931	\$3,765.527	\$4,164.661	\$399.134	10.6%
Structural Balance ❹	\$105.631	\$100.791	\$25.451	\$0.022	\$206.422	\$25.473	(\$180.949)	-87.7%

Beginning Fund Balance ❶

The general fund balance sheet shows the beginning fund balance for four fiscal years. The ending fund balance includes the difference between revenues and disbursements. For further discussion of fund balance, please refer to the [Managing Budget Volatility](#) discussion.

Revenue Estimate (SJ 2) ❷

The legislature cannot appropriate more expenditures from the general fund than can be funded through anticipated available funds. Therefore, the legislature must estimate general fund revenues. As delineated in Section 5-5-227(2) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare “an estimate of the

amount of revenue projected to be available for legislative appropriation.” The estimate and underlying assumptions are intended to be used in any estimation of revenue, including the preparation of fiscal notes. By statute, the LFD assists the revenue and transportation interim committee in performing its revenue estimating duties by submitting its recommendations and assumptions. The Office of Budget and Program Planning also presents the executive’s revenue estimates.

The three-year general fund revenue estimates between the LFD and the Governor were within \$3.25 million or .05% of each other. When RTIC met on November 19, 2012, committee members took no action on HJ 2, as by statute they are required to do. On December 3, 2012, the Joint Committee on Rules met to discuss amending the rules to allow changes to the HJ 2 process. After discussion, an amendment to the joint rules was moved that stipulated “For the 2013 legislative session only, in the event that the Revenue and Transportation Interim Committee has not caused a revenue estimating resolution to be introduced in accordance with 5-5-227, MCA, a Senate joint resolution must be introduced by the chair of the Senate Taxation Committee for the purpose of estimating revenue that may be available for appropriation by the Legislature.” This legislation has been introduced as SJ 2.

Revenue Legislation ③

Revenue legislation proposed by the Governor that would impact the balance sheet is included.

Spending: HB 2, Present Law Adjustments and New Proposals ④

HB 2

Included in the Governor’s budget submission are the base budget, present law adjustments, and new proposals. The legislative session’s appropriations process begins with the introduction of HB 2, or the General Appropriations Act. At the introductory stage, the HB 2 includes the provisions of the Governor’s budget. HB 2 is built using three key components: base budget, present law adjustments and new proposals. Generally, the base budget is adjusted spending made during the last fully completed year. Total expenditures are adjusted to remove items that are inappropriate for consideration as spending for on-going functions of state government. Among items removed from the base are statutory appropriations, budget amendments, funds transferred from other agencies (non-budgeted transfers) and one-time expenditures.

Present Law Adjustments

The present law base 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
- Elimination of nonrecurring appropriations

These changes are called present law adjustments.

New proposals

New Proposals are defined in statute as “requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.” Any proposal that is not based upon the existence of constitutional or statutory requirements is a new proposal.

Statutory Appropriations ⑤

Statutory appropriations are legislative appropriations that do not expire in two years like temporary appropriations such as those in the general appropriations act. Statutory appropriations are in the Montana Code Annotated or statute and remain in place until removed or changed by legislation.

Non-Budgeted Transfers ⑥

Non-budgeted transfers are funds transferred from one account to another. This results in less money in the General Fund for the programs it funds and more in another. These transfers and the authorizations are in statute and are not

part of the biennial budgeting process; however, they affect the amount of money available for the legislature to appropriate for various programs.

Other Spending Legislation ⑦

Two other bills which appropriate money in the current year, as opposed to the next biennium like HB 2, are the following:

- HB 1 – commonly referred to as the “feed bill” contains all appropriations needed to operate the legislative session and certain interim costs and includes provisions for session staff and printing costs
- HB 3 – contains all requests for additional general fund and state special revenue money in the current year with which to address anticipated shortfalls

Spending Reversions ⑧

Expenditures that the legislature authorized, but the agencies are not expected to fully expend which are generally based upon historic reversion levels.

Governor’s Proposed Spending in Legislation ⑨

Any general fund spending proposed by the Governor that is not contained in HB 2.

Fund Balance Adjustments

Any further adjustments that impact the fund balance.

Structural Balance ⑩

Structural balance is the difference between ongoing revenues and ongoing expenditures. Structural balance exists when anticipated revenues and ongoing expenditures are equal. A negative structural balance exists when anticipated revenues are short of ongoing appropriations.

MAJOR FISCAL ISSUES FACING THE LEGISLATURE

PENSION FUNDING SHORTFALL

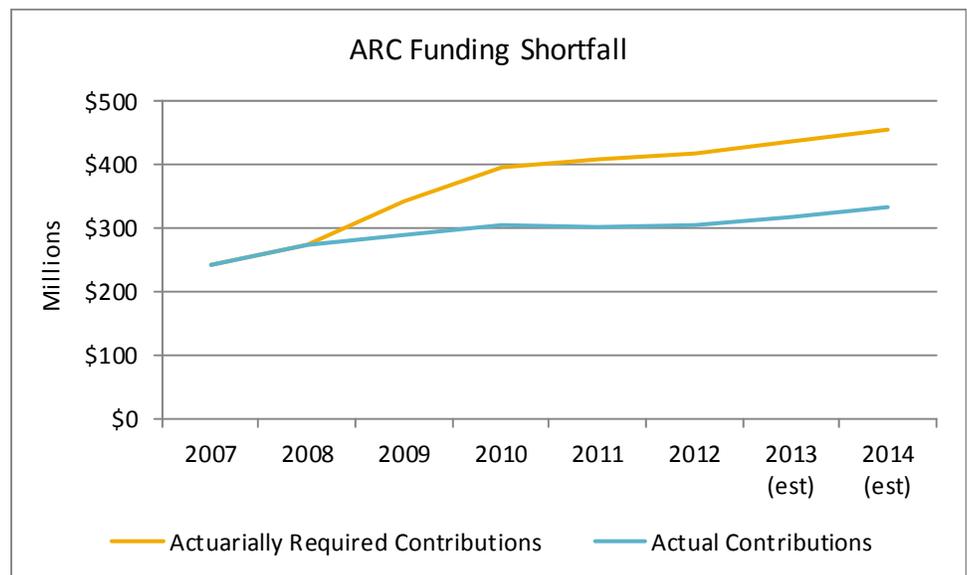
Five of Montana’s eight public pension systems face significant funding shortfalls due in combination to a prolonged period of low investment earnings and the lack of sufficient legislative actions to increase state, employee, or employer contribution levels in these times of extended economic downturn. Following is a brief description of this issue.

Constitutional Obligation

Article VIII, section 15, of the Montana constitution requires the state’s public retirement systems to be funded on an “actuarially sound basis”. Four of the five systems facing shortfalls are governed by the Montana Public Employees’ Pension Act, wherein “actuarially sound basis” is defined to mean that contributions to each plan must be sufficient to amortize unfunded liabilities over a scheduled period of no more than 30 years (19-2-409, MCA). All five of Montana’s troubled pension systems do not meet this standard, and four are actuarially projected to eventually become insolvent at current contribution levels.

Funding Shortfall

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. 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 is approximately \$112 million per year higher than the current level of contributions to the systems. This annual shortfall is projected to increase to over \$121 million by the beginning of the next biennium.



The typical pension system is funded from three sources: employee contributions, employer and state contributions, and investment earnings. Historically, about 60% of the total funding comes from investment income, with the remainder coming from employees, employers and the state. A prolonged period of insufficient contributions into the system will eventually cause the investment portfolio to increase its proportion of highly-liquid but lower-return assets in order to directly pay retirement benefits, further driving down investment returns to the detriment of the systems overall health.

What Can Be Done To Fix The Problem?

The “problem” is too few funds coming into the system, through new contributions and investment earnings, versus projected future benefits to be paid from the system. This problem can be addressed in a number of ways including but not limited to increased contributions into the systems, reduction in benefits from the systems, changes in pension offerings to new employees, or combinations of all three. A long-term solution will not only serve to close the existing funding gap but will also position the pension systems to reasonably manage risks moving forward – so that the likelihood of the “problem” reoccurring is reduced.

Is Legislative Action Needed?

That is a decision for legislative policy-makers. Contribution rates, supplemental State support and plan benefits are set in statute. Legislative action is required if policy-makers desire to address the pension funding shortfalls by increases in contribution rates, reductions in benefits, changes for future employees, or other actions meant to change the existing retirement system statutes.

Paramount to any legislative decision is the need to understand the legal and constitutional issues associated with public pensions. Contract impairment issues are subject to the U.S. and Montana Constitutions and must be thoroughly considered. As legislative committees and individual legislators begin to focus their ideas, staff are ready to assist in analyzing the ideas through the four lenses--legal, policy, funding, and financial--and translating the ideas into legislation if desired.

Proposed Legislation

A number of bills will be before 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. Legislative research, fiscal, and legal staff have spent much time during the interim evaluating current statutes and available options and will be available during session to assist legislators upon request. For further information on interim pension activities, visit the following web pages:

<http://leg.mt.gov/css/fiscal/Pensions.asp> and

<http://leg.mt.gov/css/Committees/Interim/2011-2012/State-Administration-and-Veterans-Affairs/default.asp>

PERSONNEL AND PAY COSTS

Montana has almost 15,000 state employees who perform a number of public policy functions requiring a very broad array of skills and education. The public policy role of the legislature regarding the cost of state government personnel includes:

- Establishing the compensation system the state uses to attract and retain employees
- Providing for the costs related to the employment of personnel within the state's budget

The costs of employment, referred to in the state's budget as personal services, include both salaries and benefits and are a large part of the state's budget.

Pay Costs

Employees are paid within the structures of one of a number of compensation plans, also known as pay plans. By statute, the pay program is to be based on competency, internal equity, and competitiveness within the state's fiscal resources. By far the largest is the broadband pay plan, in which 11,920 employees are included.

The state determines salary comparison using a two-tier market analysis survey. Typically collection of salary data is obtained from neighboring states and private sector employers in Montana. At times the market analysis is customized for job occupations that are difficult to fill.

Among the challenges facing the state with regard to personnel issues are:

- Surveys show state workers' salaries are on average about 13.3% below the survey entities but benefits are higher, which reduces the estimated gap to 7.8%
- Turnover declined during the Great Recession but is again showing increases
- A large percentage of state employees are eligible for full or early retirement, creating a potential brain drain and need to attract younger workers, who are more motivated by salary and lifestyle considerations than higher benefits, where the state's advantage now lies
- The legislature did not provide a general pay increase in the 2011 or 2013 biennia; increases were provided to some employees but not to others within the allowances of the broadband pay plan and the funding availability within individual agencies, potentially exacerbating salary discrepancies among agencies. Overall the increase in personal services costs from appropriated FY 2013 to proposed FY 2014 is about 5.1%
- Some job titles and general pay bands are further from the market midpoint than others, raising issues of salary-related turnover impact
- Some agencies are closer to market midpoint than others, potentially creating retention issues compared to other agencies

For further and more detailed information refer to the Personal Services Analysis by Kris Wilkinson, Senior Fiscal Analyst. http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_Sept/Personal%20Services%20Rpt.pdf

Executive's Pay Plan Proposal

The executive has proposed a pay plan in the 2015 biennium consisting of both a salary and health benefit contribution increase each year. The plan, including a contingency fund for agencies that cannot meet their vacancy savings targets, would cost a total of \$151.8 million, including \$80.1 million general fund. A further discussion can be found at the following link:

<http://leg.mt.gov/content/Publications/fiscal/ba-2015/Volume-1/Appendix-B-Executive-Pay-Plan-Proposal.pdf>

RATES PAID TO PROVIDERS

Some state government agencies contract with private entities to provide services for the individuals served by the agency in exchange for a service rate payment to the provider. Examples of such services and the agencies associated with the services are:

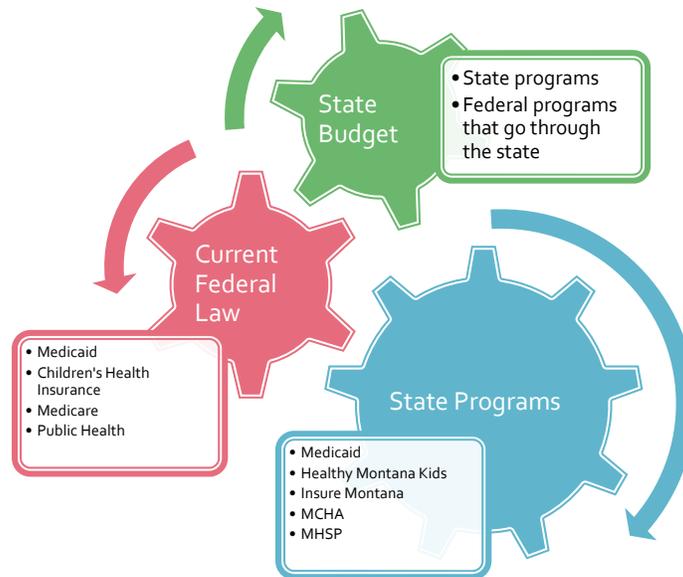
- Department of Corrections:
 - Pre-release and transitional living supervision
 - Alcohol, drug, sexual offender, driving under the influence, and methamphetamine treatment
- State Office of Public Defender
 - Contract attorney hourly rate
- Department of Public Health and Human Services
 - Medicaid service providers such as hospitals and physicians
 - Vocational rehabilitation service providers
 - Childcare providers
 - Foster care families

The rates paid to the above providers have remained static for several years, yet the costs to provide the services have continued to rise. The exception to the provider rate stagnation is that 1% increases were funded for fiscal years 2010 and 2011 for pre-release and treatment providers of the Department of Corrections and a 1% increase was funded for FY 2013 for pre-release providers. With stagnating provider rates and rising costs to provide services, the providers must cut costs or seek alternative funding to supplement state funds for services. Over the long-term the impacts of cost cutting may impact the quality and effectiveness of services received by those served.

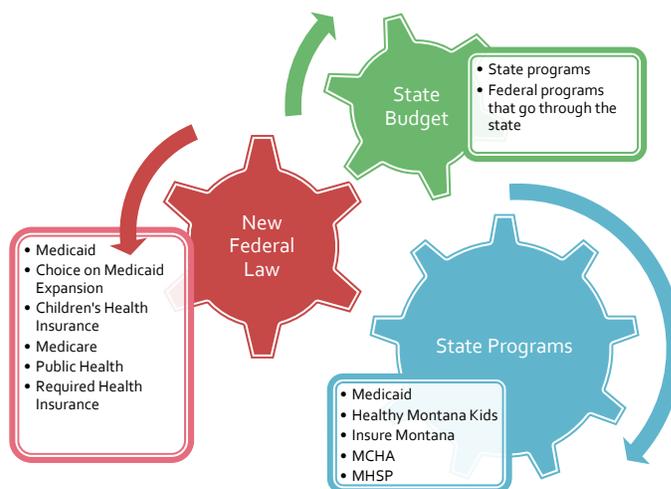
HEALTH CARE REFORM

The federal government passed the Patient Protection and Affordable Care Act (ACA) in 2010. The legislation has been largely upheld by the U.S. Supreme Court and will be implemented in phases over the next several years. Most changes related to the Medicaid program become effective January 1, 2014. ACA includes mandatory changes that impact all state Medicaid programs and it includes an optional expansion that states may elect to implement. Some pieces may require legislation to implement or determine how current service is changed to the new federal law.

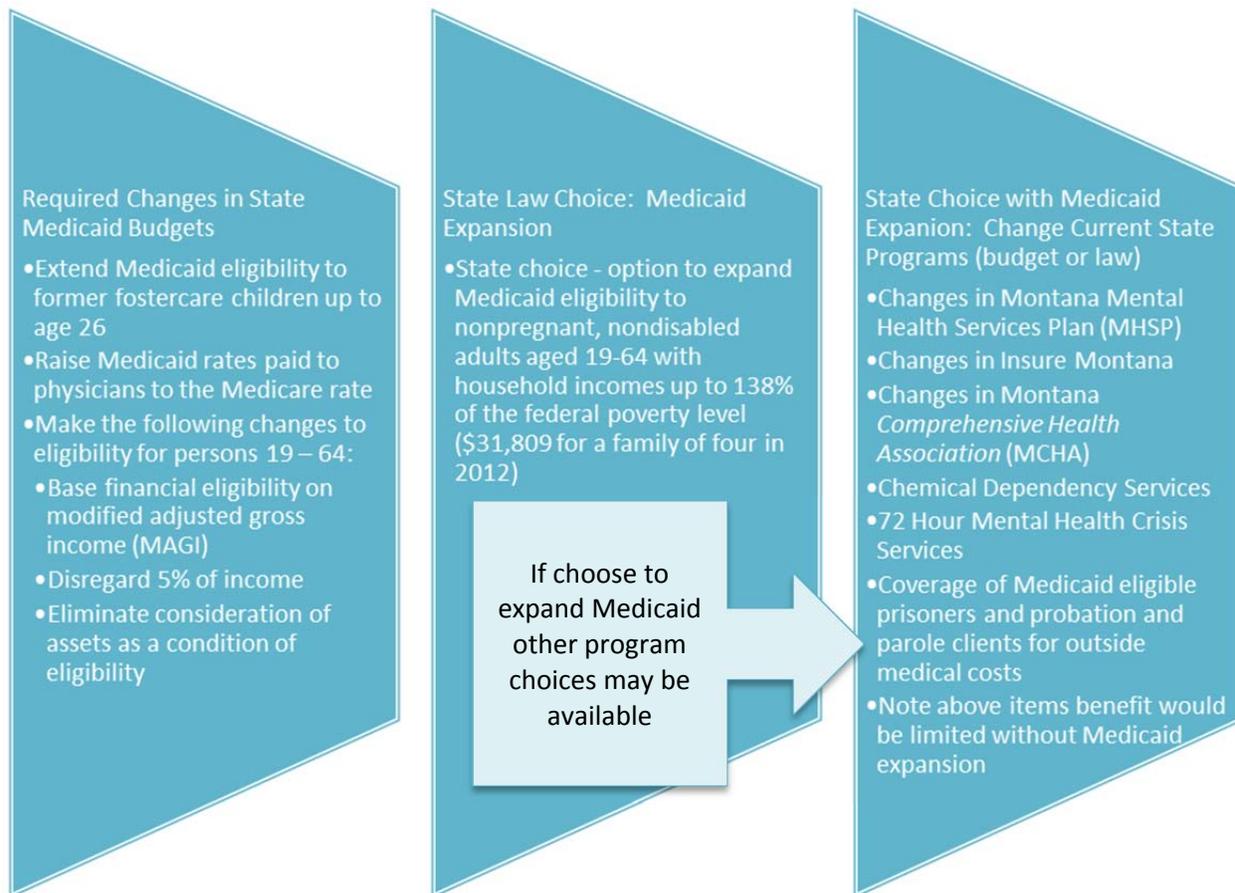
The current state health system and budget are integrated with existing federal law. These programs, laws, and budgets are built to work together.



The new federal law already has made and will continue to make changes that impact Montana's health programs. Given that significant changes in federal law will occur January 1, 2014 prior to the legislature meeting in 2015, federal funding changes will impact the 2015 biennial budgets. In addition, the Legislature will determine how Montana law and budgets will interact with these federal changes.



Some changes in federal law require changes in state funding, others are offered as a choice for Montana. Some of the new federal health care programs partially overlap with existing state programs and the legislature may wish to adjust these programs. The legislature has a choice whether to expand Medicaid eligibility to additional citizens and if so, to what level.



Governor Schweitzer included the Medicaid expansion in his budget request via LC0900. Governor Schweitzer also recommends funding to implement most of the changes required by ACA.

The following additional information regarding budget and program changes will be available during session:

- Monica Lindeen, State Auditor contracted with the University of Montana Bureau of Business and Economic Research and LIEF and Associates to do significant actuarial, economic and demographic analysis of Montana specific impacts of the new ACA federal law. The reports are expected by the start of the legislative session.
- Legislative Branch collection of national and other state studies of the impacts of healthcare reform at the bottom of the page of the following link:
<http://leg.mt.gov/css/For-Legislators/federal-health-care.asp>

FEDERAL FISCAL CLIFF: REVENUE AND SPENDING IMPACTS

The Bottom Line

In August 2011, Congress passed the Deficit Control Act of 2011 (DCA). Two types of reductions were scheduled to go into effect in January 2013:

- A reduction in the spending caps of the federal appropriations bills
- A further (initially) across the board reduction (sequestration)

Currently, there is uncertainty whether sequestration will remain in its current form, how the law will be interpreted, and what the actual impacts on funds coming into the state will be. However, there appears to be a general consensus that both the long and short-term outlook is for reduced federal support coming to the states for a wide array of discretionary programs.

Only about 20% of total federal outlays in Montana (estimated at \$10 billion in FY 2009) actually go through the state budget. Therefore, any discussion of the impact of federal deficit reform on the state budget does not address the overall impact on Montana's economy or individual Montanans. However, among the federal outlays that do not pass through the state that are known to be exempt is the largest, social security payments, as well as various veterans' programs and retirement and disability funds.

Among the federal programs that do not pass through the state and will be subject to reduction are Medicare payments (limited to a 2% reduction) and military installations.

Among the federal programs that pass through the state, and will be subject to reductions are (but are not limited to) various grants in the following program areas:

- Education
- Justice
- Environmental
- Fish and Wildlife
- Public health (excluding Medicaid)

Among the programs known to be exempt are the two largest federal fund sources, accounting for over half of total federal spending in HB 2 in FY 2012: 1) Medicaid; and 2) highways.

An estimate by Federal Funds Information for States (FFIS) is that about 80% of federal funds that pass through the state budget will be exempt, leaving about 20% subject to reduction. The estimated Montana impact from FFY 2011 to FFY 2013 is over \$50 million or an estimated 9% reduction in state and local grant programs, with further reduction in subsequent years. For additional information on how the current budget sequestration would work refer to [Federal Deficit Reduction Implications](#) by Taryn Purdy.

Governor's Proposal

Governor Schweitzer does not include any changes in anticipation of either the current Deficit Control Act or a general or specific reduction in funds.

WILDFIRE COSTS

Montana had a severe 2012-2013 fire season. As a result, a large supplemental request has been submitted to pay those costs that are determined to be the responsibility of the state. The following figure shows the total current fire costs, and how those costs would be funded. As shown, the total is \$59.4 million, of which all but \$9.1 million, or \$50.3 million, is the responsibility of the state.

Funding Component	Amount
Current Fire Costs	\$59.4
Reimbursements from Other Entities	9.1
FY 2013 Fire Suppression Fund Balance	4.1
Governor's Emergency Fund (estimated)	<u>12.0</u>
Total Required Supplemental	<u>\$34.2</u>

The existing fire suppression fund will be exhausted this year. The Governor has an emergency fund of \$16.0 million over the biennium, of which as shown the executive plans to use \$12.0 million on fire suppression. The remaining costs must come from a supplemental appropriation. This supplemental projection does not include any funding for potential spring 2013 fire costs.

The Governor has proposed the following in legislation:

- Appropriate \$50.0 million for fire costs, or \$15.8 million more than the projected required supplemental level using current estimates. Average yearly fire costs, based upon a rolling 7-year average in which the high and low years are removed, are \$23.8 million
- Use any excess supplemental appropriation authority at the end of the fiscal year to replenish the fire suppression fund
- Transfer the ending balance of the Governor's emergency fund to the fire suppression fund at the end of this biennium and each biennium following
- Transfer general fund dollars in excess of certain triggers:
 - Any amount above 0.5% of general fund reversions as long as no reductions are required provided in 17-7-140, MCA
 - Three year temporary transfer tied to the executive's corporation license tax revenue estimates
- Cap the fire fund at \$100 million
- Make appropriations from the fire suppression fund statutory

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

http://leg.mt.gov/content/Publications/fiscal/ba-2015/section_c/res_con_summary.pdf

NATURAL RESOURCES DEVELOPMENT ISSUES

Natural resource development in Montana and North Dakota is expected to continue for the foreseeable future. This development impacts state and local services in a variety of ways.

Local Government Impacts

Extraction activities bring additional populations to communities which cause pressure on the local government infrastructure and services. Many of the affected communities have struggled to find the means to fund these infrastructure and local service demands. In addition, local governments compete for employees with the natural resource industry and have challenges from rising housing costs for their employees.

Current distribution of natural resource taxes allocates revenue to Montana county governments. Cities and towns do not receive significant revenues from natural resource extraction. An additional factor in the funding issues is timing of the tax receipts. While service demands are the greatest during the drilling and fracking phase of extraction, revenues from extraction begin six months to two years after the drilling and fracking is complete.

K-12 Public School Impacts

Schools in impacted areas also have challenges:

- Additional enrollment for which the district may or may not have capacity to serve
- Many students are transient and do not stay the full year
- A higher proportion of students with special needs are enrolled
- Recruitment, retention, and high housing costs described for local governments are also issues for schools

Funding issues for impacted schools are similar to those of local governments. Districts in which oil wells are located receive revenue from these wells that helps offset the costs. However, other nearby districts without wells or oil revenue face some of the same impacts without additional funding. The revenue timing issues mentioned for counties also impact school districts. Finally, the state's K-12 funding formula does not recognize impacts related to rapid natural resource development.

State Government Impacts

Natural resource development has broad implications on a statewide level as well. Regional transportation challenges, public works improvements, and the same recruitment, retention, and housing cost issues impact state employees as well as local government employees.

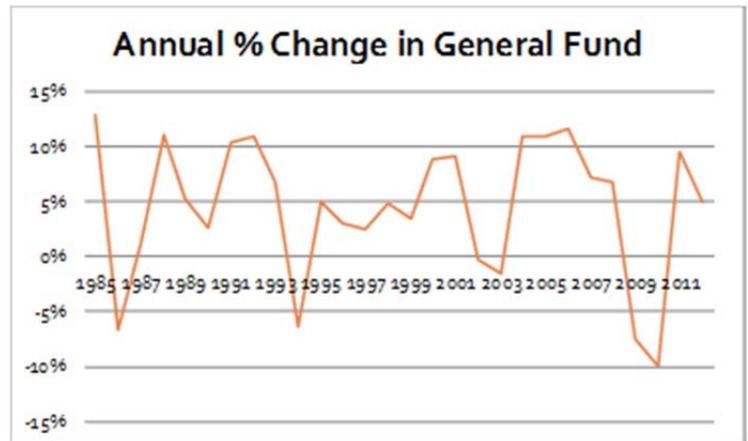
A number of state-administered capital improvement programs both benefit from and are affected by natural resource development. Most of these state programs directly benefit local communities through improvements to local government, school district, and university infrastructure and buildings. The increased demand for infrastructure within affected communities will cause increased demand for these programs.

Proposed Legislation

A number of bills intended to address these issues will be before the 2013 Legislature, including proposals by Governor Schweitzer and various legislators. Initial drafts of Governor Schweitzer's proposal create a one-time \$12 million municipal infrastructure grant program, establishes criteria and priorities for distribution of funds to impacted municipalities, and sunsets June 30, 2017. A number of similar infrastructure-focused bills are in the drafting stage, many of which will create ongoing programs to provide funding assistance to oil and gas impacted communities – including incorporated and un-incorporated governmental entities. Legislative research, fiscal, and legal staff are available to assist legislators in the creation of additional proposals upon request.

MANAGING VOLATILITY

In Montana, volatile revenue streams are nearly an expectation. Annual general fund revenue growth has varied from -10.0% to +12.8% since 1985. While some of these changes are predictable, many are not. Consequently, the ability to anticipate changes in revenue has been challenging.

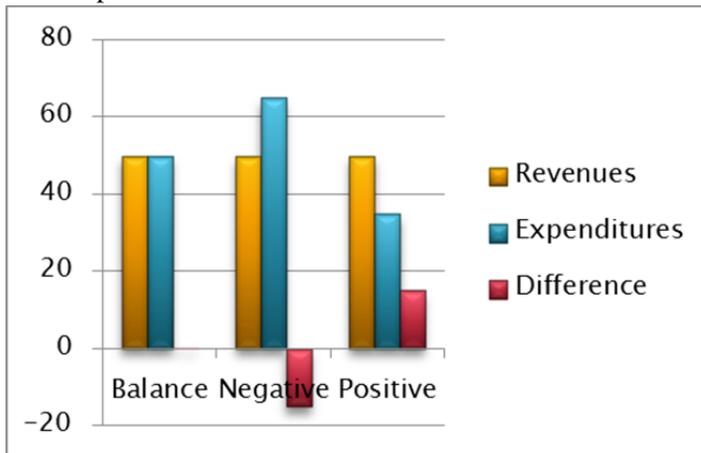


Structural Balance

Structural balance is defined as the difference between ongoing revenues and ongoing expenditures during a fiscal year. Per the chart below, consider structural balance in three different scenarios.

1) Balance – Structural balance exists when revenues and ongoing expenditures are equal.

2) Negative – A negative structural balance exists when revenues (yellow bar) fall short of ongoing appropriations (blue bar). When this occurs, the ending fund balance could be utilized to supplement revenues to meet the expenditure demands. The short fall can come from revenue volatility, costs of natural disasters, or other unanticipated costs.



3) Positive – A positive structural balance exists when ongoing revenues (yellow bar) exceed ongoing expenditures (blue bar). When this occurs, the ending fund balance is increased by the difference. The increase can come from revenue volatility and/or reduced expenditures

Ending Fund Balance

The general fund ending fund balance is effectively the “checking account balance” of the state. It is often equated to “surplus” funds, yet to be truly “surplus” the funds would not be serving a purpose of the legislature or the State of Montana. In contrast a “Rainy Day Fund” is understood as funds that are needed for

managing volatility. An ending fund balance can be used to manage volatility much like a statutorily defined “Rainy Day Fund”. In recent years, Montana has used the general fund ending fund balance for managing volatility.

The Legislative Finance Committee considered this topic in the interim and further information on managing volatility can be found at:

http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_Sept/Volatility%20report.pdf

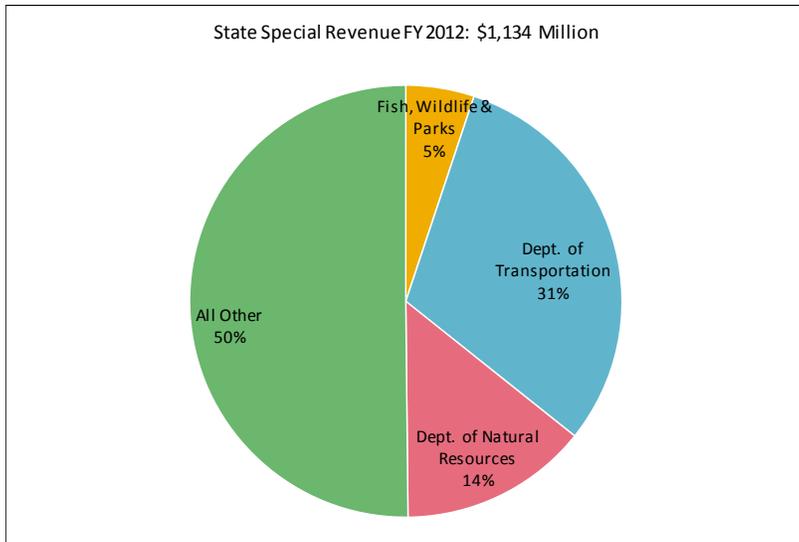
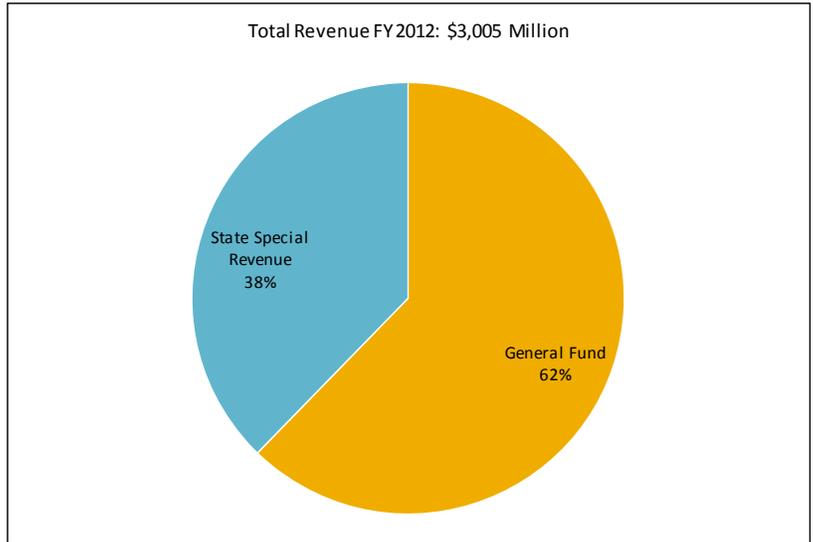
REVENUE

Most general taxes are deposited in the state general fund. The general fund is used for most broad purposes of state government; education, health, and corrections are the predominant uses of this fund. State special fund revenues are raised and used for specific purposes. For example the state levies a gas tax that is dedicated for use on state roads and highways. Details of all general fund and most major state special fund revenue distributions and allocations are contained in the Legislative Fiscal Division’s revenue estimate analysis.

GENERAL FUND AND OTHER STATE REVENUE SOURCES

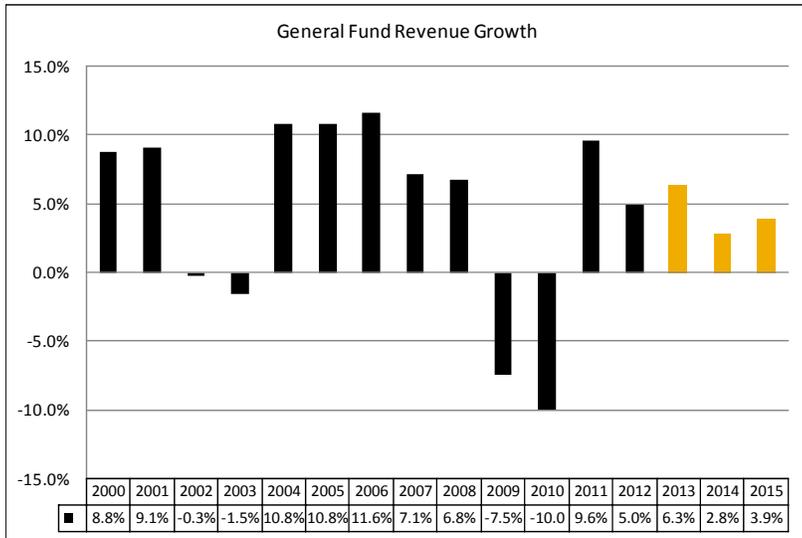
Most of the focus during session tends to be on the state general fund which accounts for 62% of total share revenue. Note that trusts or direct services funds such as unemployment insurance and workers’ compensation insurance are not included in the adjacent chart. In addition, there is limited double counting as some sources of revenues are transferred between funds.

The largest sources of state special revenue are gasoline tax, which is collected by the Department of Transportation; natural resource revenue, which is mostly collected by the Department of Revenue; and hunting and fishing fees, which are collected by the Department of Fish, Wildlife & Parks.

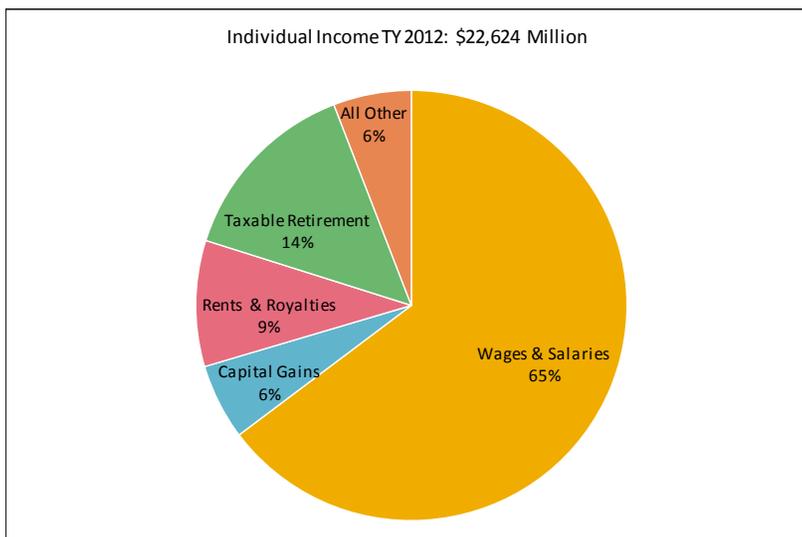
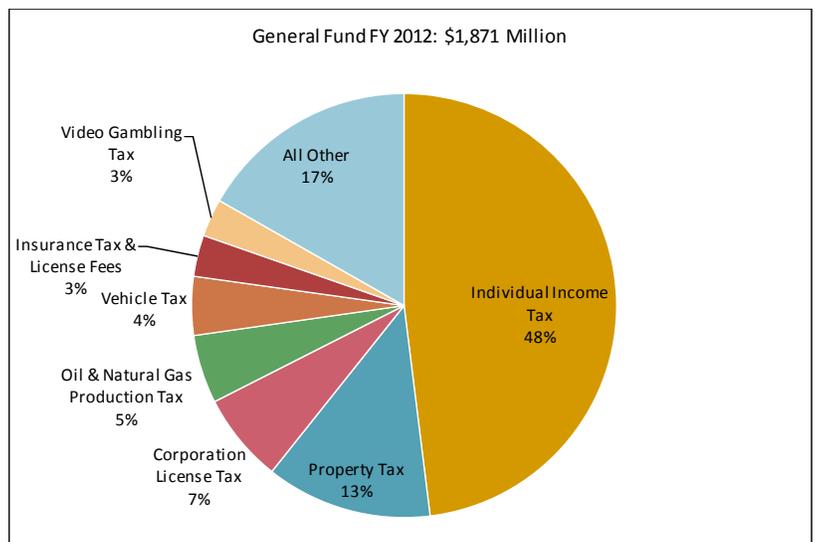


In the past several years, the general fund revenue has been relatively volatile as revenues fell nearly 17% from the historic high of \$1,954 million in FY 2008. In FY 2013, revenues are expected to exceed the FY 2008 high and reach \$1,989 million. The chart on the next page shows the annual percent change in revenue. FY 2013-2015 shows estimated revenues contained the LFD revenue estimates. Estimated annual growth in general fund revenue for FY 2013 is 6.3%, for FY 2014 is 2.8% and for FY 2015 is 3.9%. The forecasted slow revenue growth reflects the anticipated slow growth in the national economy.

The estimate of general fund revenue is derived from estimating the underlying sources of revenue and the economic drivers of those sources. The methodology of estimating each source of revenue is reviewed each biennium to determine if another method could be more accurate. Each biennium, improvements are made to the analysis. During session, the current FY 2013 year to date revenues will be examined. If significant difference occurs between the FY 2013 estimate and the actual revenues received, updates will be provided to the legislature.



A summary of the major sources, the significant economic drivers and their influence on the general fund is outlined in the next section. More details on all sources of revenue can be found in the Legislative Fiscal Division's revenue estimates.

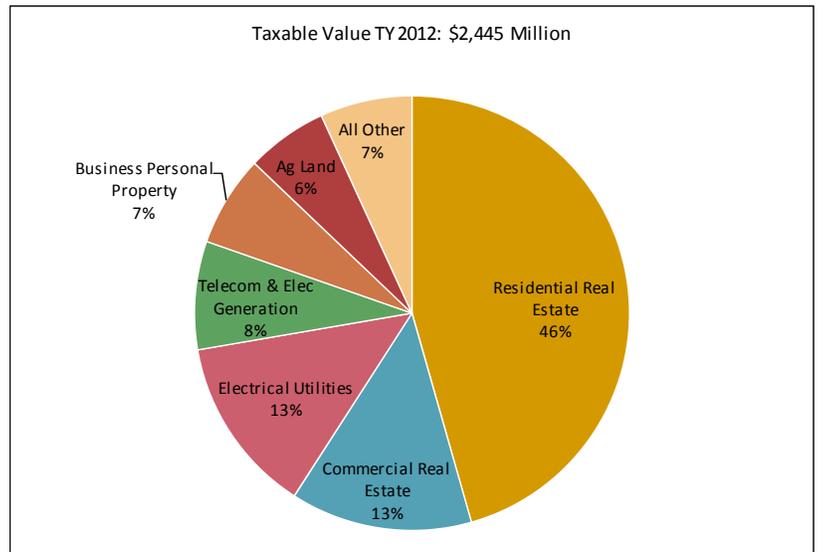


INDIVIDUAL INCOME TAX

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. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result, the tax rate on capital gains income is less than the tax rate on ordinary income by 2% in tax year 2007 and beyond.

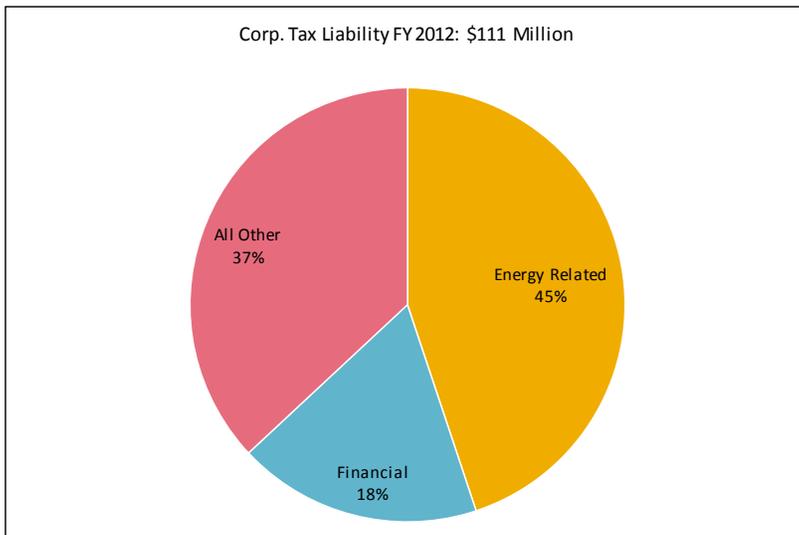
PROPERTY TAX

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



CORPORATE LICENSE TAX

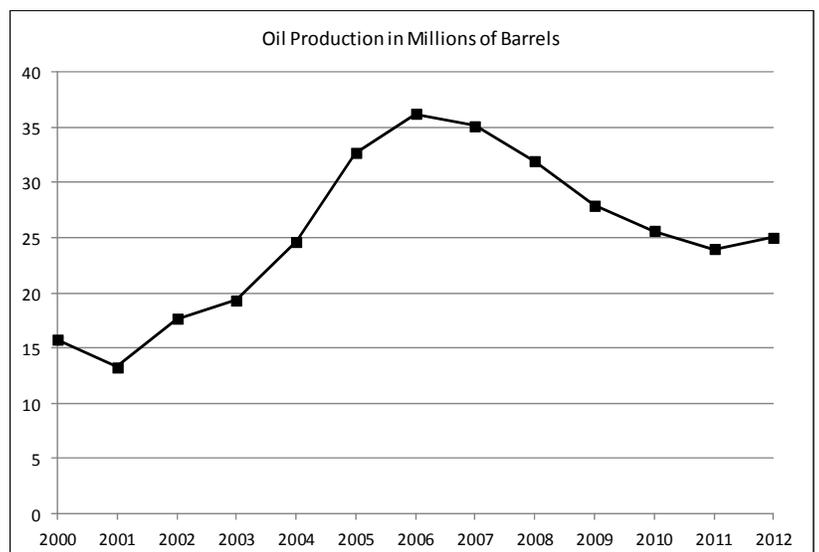
The corporation license tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is

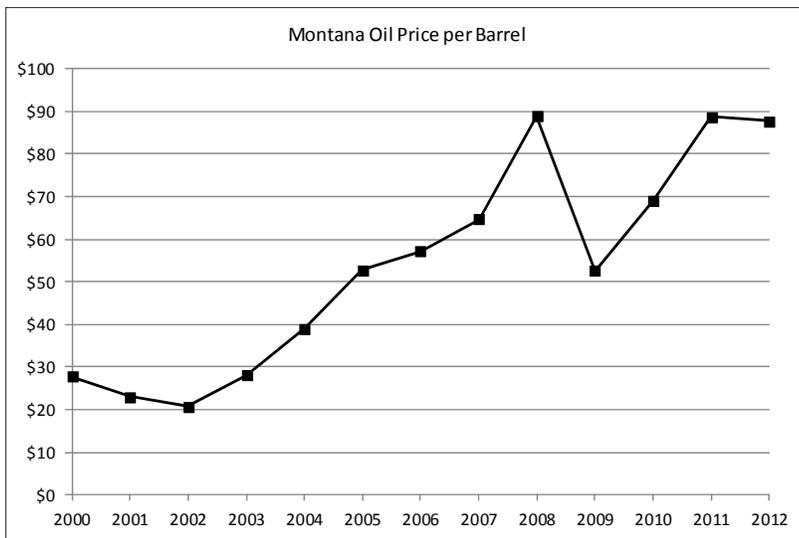


imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all tax liability is adjusted for allowable credits. The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

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.





Oil production peaked in Montana in 2006 and fell 34% by 2011. Recent drilling has stopped the production decline. Production is anticipated to increase gradually as additional new drilling offsets the decline in production from older wells.

The price of oil produced in Montana is less than the most quoted prices, like the West Texas Intermediate price due to transportation costs to major markets. The price of oil is expected to decline slightly over the next several years.

These larger sources are combined with all other sources to develop the overall general

fund revenue estimate. For more information please see the revenue estimates.

SUMMARY AND COMPARISON TO THE EXECUTIVE REVENUE ESTIMATE

Revenue estimates for the general fund were calculated in November of 2012. These estimates will be updated throughout the legislative session using a monthly review of year-to-date revenue collections and updating models with new economic data from IHS Global Insight and other sources. Information from IHS Global Insight will include updated impacts from the Federal fiscal cliff decisions anticipated in coming weeks and months. Other information includes current activity on natural resource production.

The following table outlines the differences between the LFD and the Executive revenue estimates. Over the three year period and in total, general fund revenues are virtually identical; however, individual estimates are materially different. These differences will be considered by House and Senate Tax as these committees review both revenue estimates. The legislature sets the level of revenue that will be used throughout session for the purposes of balancing the budget.

Comparison of Estimates for Total FY 2013 through FY 2015 General Fund Revenue				
(in Millions)				
Source of Revenue	LFD	OBPP	Difference	% Difference
Individual Income Tax	\$3,107.193	\$3,041.910	\$65.283	2.1%
Property Tax	743.012	734.230	8.782	1.2%
Corporation License Tax	456.139	533.820	-77.681	-17.0%
Vehicle Tax	304.190	308.500	-4.310	-1.4%
Insurance Tax & License Fees	162.773	168.110	-5.337	-3.3%
Coal Trust Interest	73.384	72.180	1.204	1.6%
US Mineral Royalty	91.299	90.560	0.739	0.8%
All Other Revenue	97.553	99.550	-1.997	-2.0%
Tobacco Settlement	10.557	9.890	0.667	6.3%
Telecommunications Excise Tax	69.741	65.070	4.671	6.7%
Video Gambling Tax	179.769	173.230	6.539	3.6%
Treasury Cash Account Interest	10.517	9.220	1.297	12.3%
Oil & Natural Gas Production Tax	296.349	294.980	1.369	0.5%
Public Institution Reimbursements	52.276	46.800	5.476	10.5%
Lodging Facility Use Tax	55.132	52.460	2.672	4.8%
Coal Severance Tax	43.596	49.160	-5.564	-12.8%
Liquor Excise & License Tax	57.898	56.300	1.598	2.8%
Cigarette Tax	89.371	94.410	-5.039	-5.6%
Investment License Fee	22.333	22.310	0.023	0.1%
Lottery Profits	44.364	41.910	2.454	5.5%
Liquor Profits	33.195	30.000	3.195	9.6%
Nursing Facilities Fee	14.219	14.180	0.039	0.3%
Electrical Energy Tax	13.528	13.690	-0.162	-1.2%
Metalliferous Mines Tax	31.538	31.560	-0.022	-0.1%
Highway Patrol Fines	13.407	14.030	-0.623	-4.6%
Public Contractors Tax	7.658	10.150	-2.492	-32.5%
Wholesale Energy Tax	12.395	10.460	1.935	15.6%
Tobacco Tax	18.038	17.880	0.158	0.9%
Driver's License Fee	12.197	13.560	-1.363	-11.2%
Rental Car Sales Tax	11.030	11.670	-0.640	-5.8%
Railroad Car Tax	6.931	6.510	0.421	6.1%
Wine Tax	6.686	6.790	-0.104	-1.6%
Beer Tax	9.212	9.150	0.062	0.7%
Total General Fund	\$6,157.480	\$6,154.230	\$3.250	0.1%

In addition to the general fund revenue projections, estimates of other major sources of revenue are tracked. In particular, those sources that have indirect impacts on the general fund. The most significant of these sources is the Guarantee Account for school funding. The LFD revenue estimate for this fund exceeds OBPP by \$20.9 million over the 3 years FY 2013 through FY 2015. Most of that amount can be attributed to four factors: 1) \$10.0 million more in interest earnings due to lower OBPP interest rates; 2) \$17.0 million more in oil & gas bonus payments; 3) \$6.5 million more by the LFD in agricultural and grazing leases; and 4) the prior amounts offset by \$9.0 million less in LFD SB 329 payments than OBPP estimated.

EXECUTIVE LEGISLATION

The Executive Budget contains one proposal, which would impact state general fund revenue. This proposed legislation specifically addresses the unfunded liability and actuarial soundness of the PERS defined benefit plan (PERS-DB) by directing all non-dedicated revenue from coal severance taxes to the trust fund. The anticipated revenue impact of this proposal is \$17-18 million/per year using the Governor's revenue estimates.

STATE EXPENDITURES

EXECUTIVE PROPOSED SPENDING BY SOURCE OF AUTHORITY

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

Figure 1

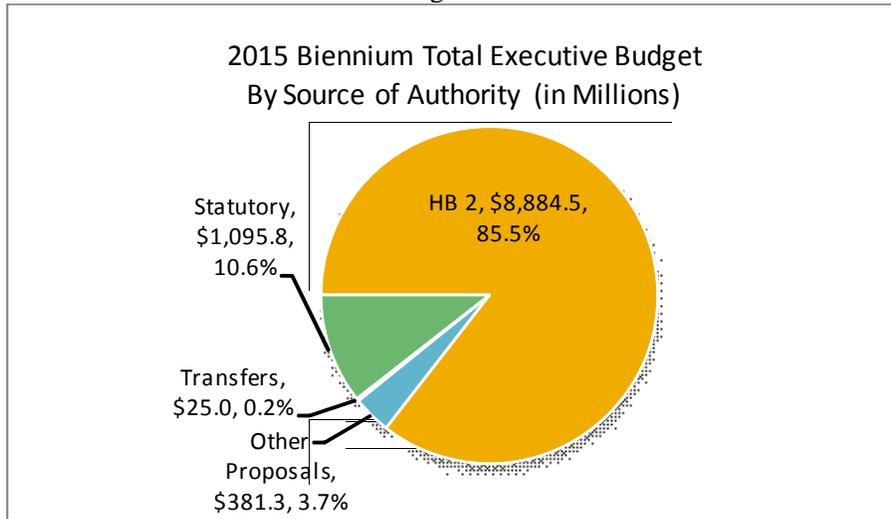
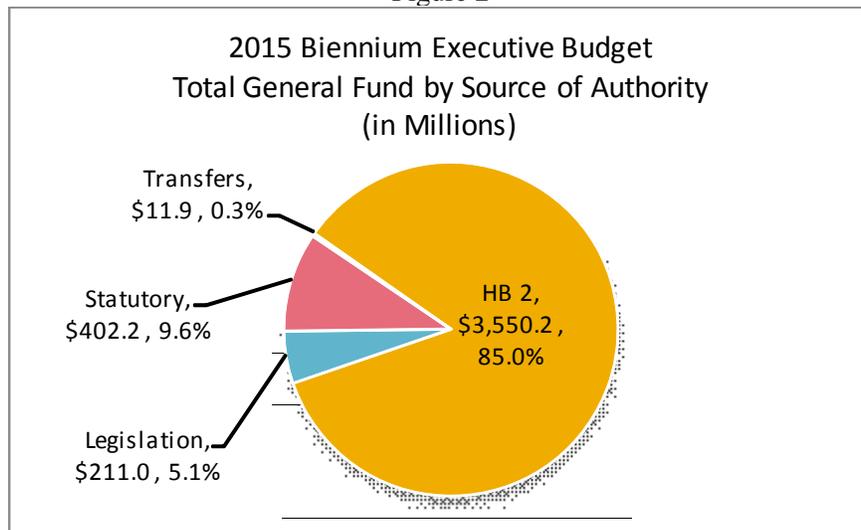


Figure 2 shows the general fund budget proposed by the executive by source of authority. Please note that “Legislation” includes the Long Range Planning, which is discussed separately.

Figure 2



The executive would increase total general fund expenditures in the 2015 biennium by \$388.0 million or 10.3% from the previous biennium, and total funds by \$222.0 million or 2.2%. The following sections discuss the various components, beginning with HB 2.

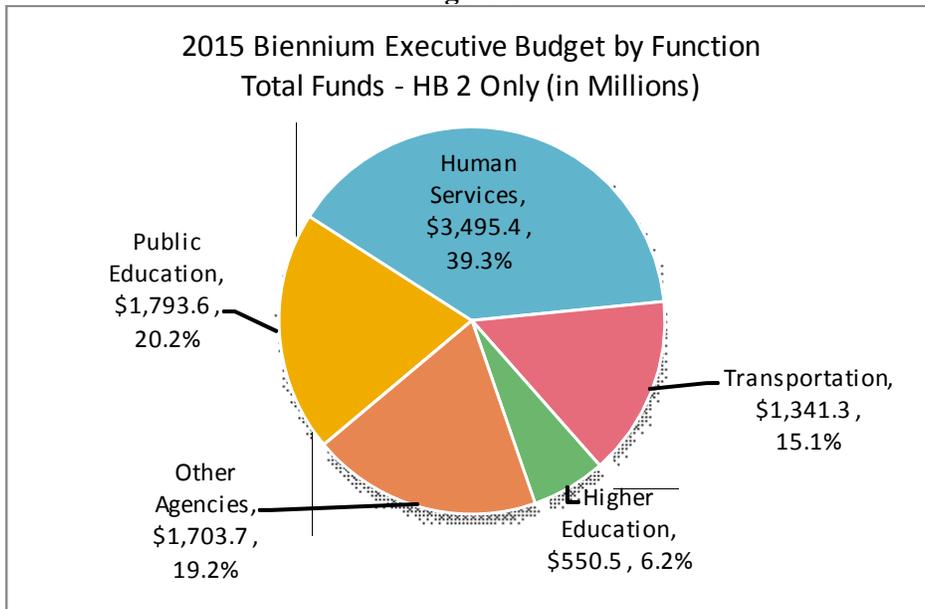
PROPOSAL BY SOURCE OF AUTHORITY – HB 2

HB 2 is the general appropriations bill, in which about 85% of general fund would be appropriated in the 2015 biennium in the executive budget.

FUNDING BY FUNCTIONAL AREA

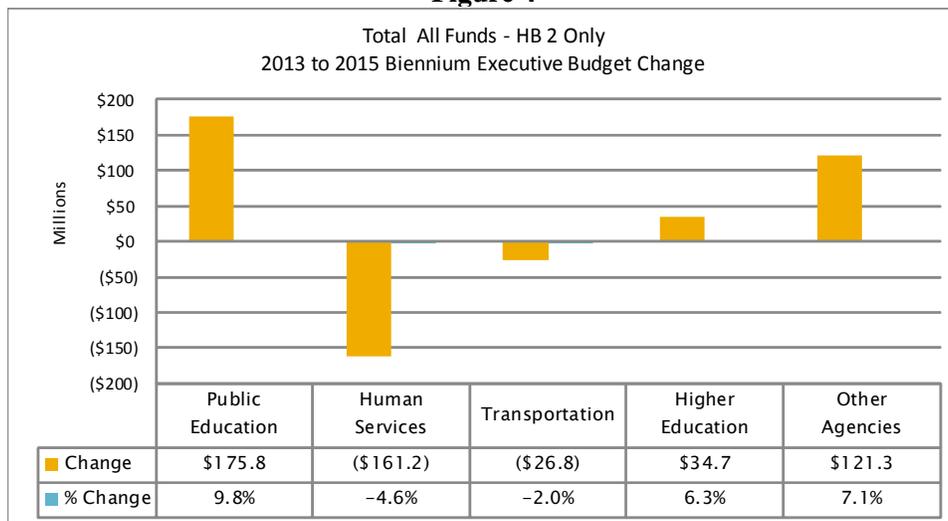
The following shows the allocation of total funds in HB 2 by functional area. Education, human services, and transportation are almost 81% of the total.

Figure 3



The following shows the changes in total funds by functional area. The reduction in human services is due to a proposed change in funding source for SNAP (food stamps) benefits from HB 2 to a statutory appropriation.

Figure 4



TYPE OF FUNDING

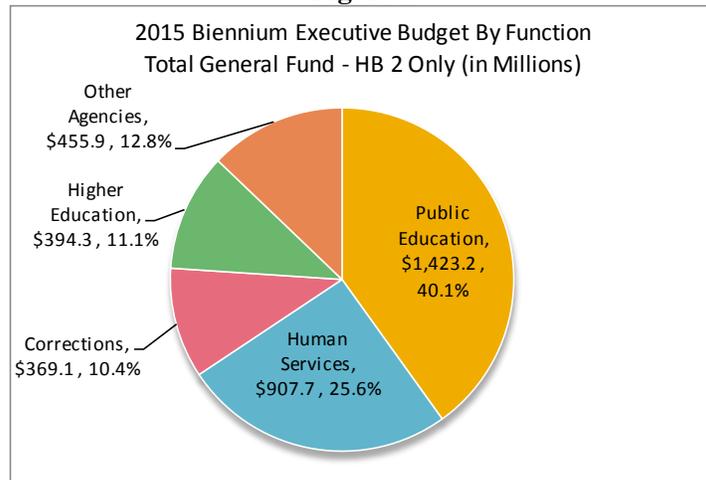
The largest source of funding for operations of state government is federal funds. In the 2015 biennium federal funds would go down as a share of state funding compared to the 2013 biennium because of the proposed change in the appropriation source for SNAP (food stamps) from HB 2 to a statutory appropriation, which reduces federal funds by over \$400 million.

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

EXECUTIVE PROPOSED GENERAL FUND

The following shows total HB 2 general fund as proposed by the executive, by government functional area. Education, human services, and corrections are 87% of the total proposed expenditures.

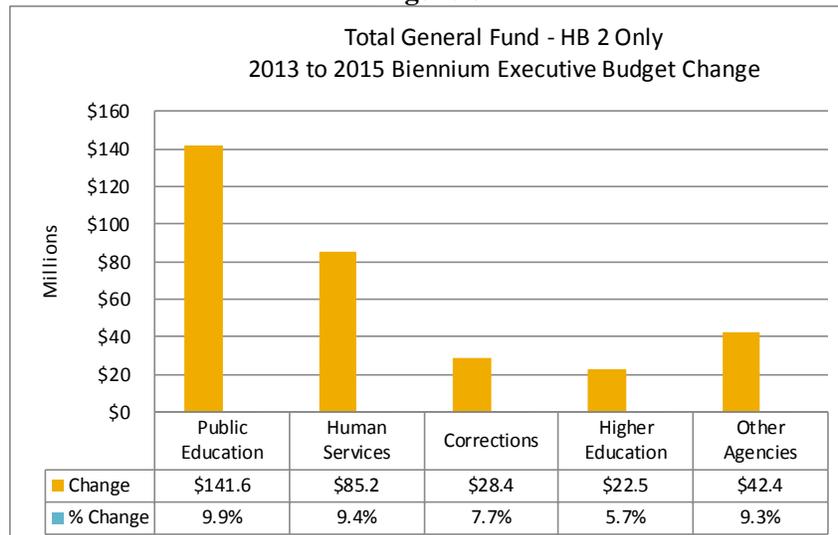
Figure 5



GOVERNOR'S PROPOSAL

The Governor would increase HB 2 general fund expenditures by over \$320 million, or 9.9%. Increases for K-12 education and human services are almost 71% of the total increase.

Figure 6



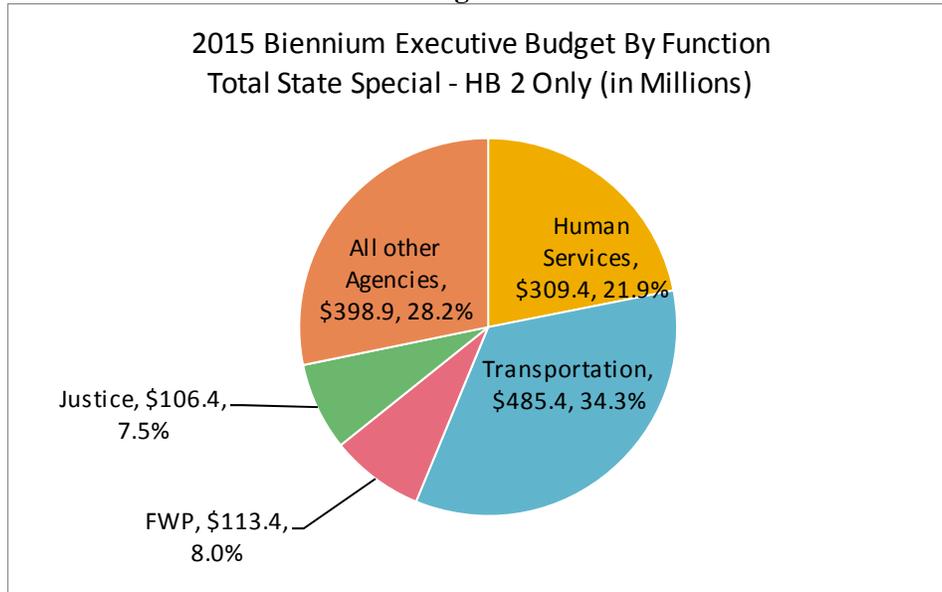
Major increases and policy proposals include:

- K-12 – Replacement of one-time guarantee account funds and lower revenue estimate (\$93.7 million), Base Aid inflation (\$22.1 million), SB 372 reimbursements to school districts (\$13.7 million), and ANB enrollment adjustments and FY 2013 inflation (\$11.5 million)
- DPHHS – Medicaid caseload and utilization increases (\$52.6 million general fund, \$213.4 million total funds), and a proposed 2% provider rate increase each year (\$46.9 million general fund, \$47.6 million total funds). The executive includes funding for Medicaid expansion in separate legislation
- Corrections - Annualize contract bed and assisted living beds funding (\$10.3 million), inflation of outside medical costs (\$3.7 million), correction pay career ladder, 2% per year provider rate increase, prevailing wage adjustment (\$5.7 million), and
- Additional community corrections beds and placements (\$1.1 million), Higher Education – An overall increase for the educational units and research facilities of 7.5%, generally funded at 82% general fund (\$27.2 million); and a 9.3% increase in funding for the community colleges (\$2.0 million)
- Office of the Public Defender – Additional staff and operating expenses to address workload/caseload issues (\$8.4 million)
- Revenue – 6-year re-appraisal cycle, enhanced e-services (\$1.9 million)
- FWP and Agriculture – Continuance of aquatic invasive species activities
- Livestock – Continuance of brucellosis containment and monitoring activities (\$1.0 million)
- All agencies – Statewide present law adjustments (\$21.5 million)

State Special Revenue

State special revenue is earmarked for specific purposes and comprises \$1,413.5 million or 16% of total proposed expenditures in the 2015 biennium in HB 2. The following chart shows total state special revenues by function for HB 2 only.

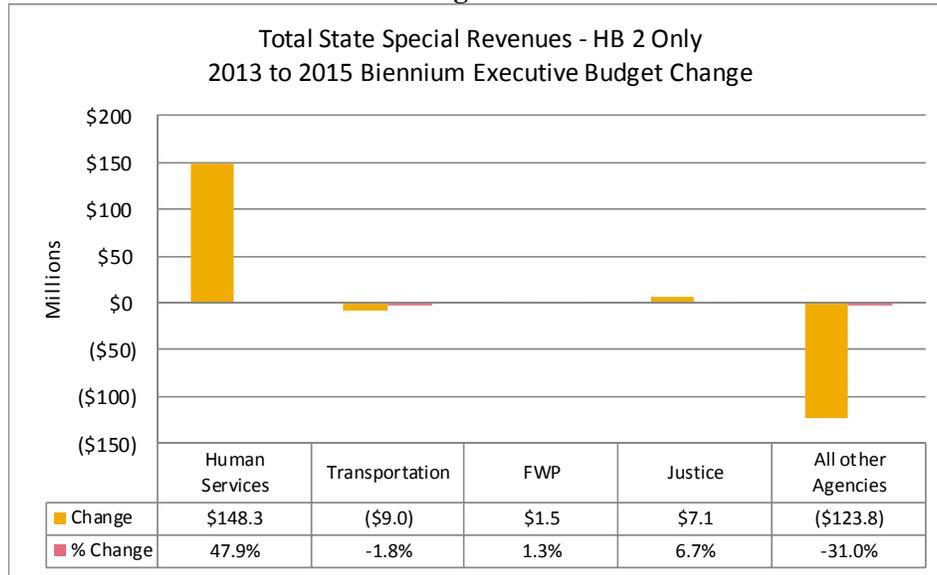
Figure 7



Governor's Proposed Spending

State special revenue would increase by \$24.1 million, or about 1.7%.

Figure 8



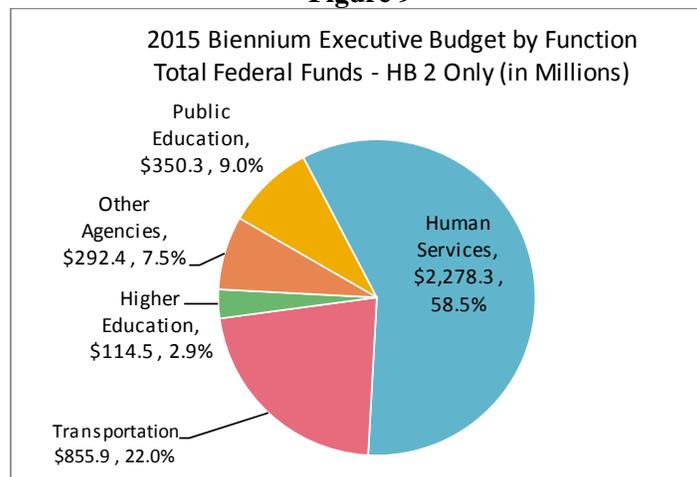
The executive is proposing a number of changes in various agencies. The most significant policy adjustments proposed by the Governor include the following:

- State Auditor – Elimination of the Insure Montana program
- 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. In HB 2, it comprises \$3,891.5 million or 44% of total proposed expenditures in the 2015 biennium.

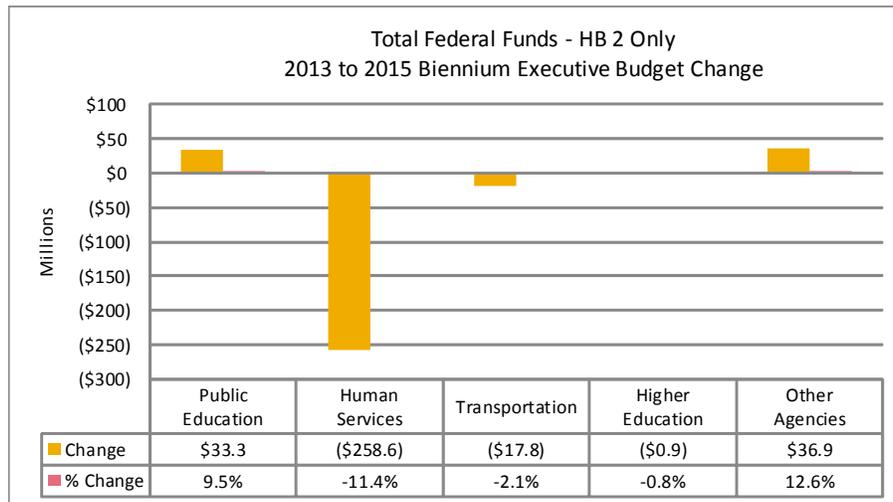
Figure 9



Governor's Proposed Spending

Federal funds for ongoing expenditures would be reduced by \$207.2 or 5.1%. However, this reduction is due to a proposed change in the funding of SNAP (food stamps) in DPHHS from HB 2 to a statutory appropriation, which reduces funds by \$410.6 million but not total expenditures. If this proposal is factored out, federal funds would increase by \$203.4 million and 5.0% from the previous biennium, and the change in DPHHS would be a \$152.0 million or 6.0% increase.

Figure 10



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

- DPHHS – Caseload and utilization increases and a 2% provider rate increase per year
- Transportation – Anticipated federal construction funds, and reductions due to the winding down of federal stimulus projects
- Public Education – Addition of a Montana Striving Readers Project (\$15 million) and other increased federal grants
- Commerce – Various grants adjustments
- Military Affairs – Additional homeland security grants (\$22 million)
- All agencies – Statewide present law adjustments

**LFD
COMMENT**

The Governor has not made any adjustment for a potential loss of funds due to federal budget deficit actions. A number of areas are subject to reduction under current (December 2012) deficit reduction proposals. For a further discussion see:

<http://leg.mt.gov/content/Publications/fiscal/ba-2015/Volume-1/fed-fiscal-cliff.pdf>

PROPOSAL BY SOURCE OF AUTHORITY – LONG RANGE

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

GOVERNOR’S PROPOSAL

The Governor’s budget proposes total funds spending of \$353.1 million for LRP budgets. In the 2015 biennium, the legislature will be considering proposals for nine LRP programs.

The figure below shows a summary of the proposed appropriations for the LRP programs included in the Governor’s budget. The appropriations shown have been adjusted to agree with the executive budget revisions of December 15, 2012.

Figure 11

Long-Range Planning Budget Comparison (millions) (as revised for 12/15 executive budget proposal)				
Budget Item	Budget FY 12-13	Budget FY 14-15	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>		
Long-Range Building Program (LRBP)	\$82.3	\$267.9	\$185.6	225.4%
State Building Energy Conservation Program (SBECP)	0.0	3.5	3.5	-
Long-Range Information Technology Program (LRITP)	0.0	18.2	18.2	-
Treasure State Endowment Program (TSEP)	14.8	19.3	4.6	31.1%
Treasure State Regional Water Program (TSEPRW)	3.9	8.9	5.0	128.2%
Renewable Resource Grant and Loan Program (RRGL)	21.4	16.2	(5.3)	-24.5%
Reclamation and Development Grant Program (RDGP)	7.1	6.2	(0.8)	-11.9%
Cultural and Aesthetic Grant Program (C&A)	0.7	0.6	(0.1)	-19.0%
Quality Schools Grant Program (QSFP)	12.1	12.3	0.2	1.7%
Total Costs	\$142.3	\$353.1	\$210.9	148.2%
Capital Projects Fund (Capital)	\$2.7	\$23.4	\$20.7	776.4%
General Fund (GF) ¹	0.0	25.1	25.1	-
State Special (SS)	85.4	88.4	2.9	3.4%
Federal Special (FS)	25.8	26.2	0.3	1.3%
Bonds and Loans (Bonds)	13.7	95.3	81.6	594.6%
Proprietary Fund (Prop)	0.3	1.0	0.7	280.0%
Authorization (Author)	14.3	93.8	79.5	554.3%
Total Funds	\$142.3	\$353.1	\$210.9	148.2%

¹General Funds are transfers to the Long-Range Capital Project Funds - as revised for 12/15 executive budget proposal

The LRBP appropriations would fund the construction of seven new state buildings, additions and renovations at five state buildings, and a significant reduction of the state’s deferred maintenance backlog through the overall budget of building maintenance. New buildings would feature the Montana Heritage Center in Helena, replacement of the Low Side Units at the state prison in Deer Lodge, and construction of the new Missoula College of Technology in Missoula. The LRBP projects are funded with a combination of all fund types and include a \$16.3 million transfer of general fund to the LRBP capital projects fund. In the 2015 biennium, funding for the LRBP projects also includes \$87.9 million of bond proceeds.

The executive proposal includes investments of \$18.2 million in information technology capital projects, where significant projects for five state agencies and the Legislative Branch will be deliberated by the legislature.

A significant investment in local government infrastructure is also included in the LRP programs, with an increase of funding in the TSEP, including a total of \$16.2 million in grants primarily for bridge and water and wastewater infrastructure projects. For more information on all the LRP programs and projects, refer to Section F of the Legislative Fiscal Division, Legislative Budget Analysis.

PROPOSAL BY SOURCE OF AUTHORITY – STATUTORY APPROPRIATIONS

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. However, all statutory appropriations are available for the legislature to review, prioritize and change if desired.

Valid statutory appropriations are contained in a list in 17-7-502, MCA. The list provides statutory citations for each statutory appropriation. In addition, statutory appropriations are intended for limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA.

The Legislative Finance Committee periodically reviews statutory appropriations. See Appendix B for policy statements and legislation introduced by the committee.

The following table shows each individual general fund statutory appropriation estimated by the Legislative Fiscal Division that has been included in the general fund balance sheet for FY 2013-2015.

Figure 12

General Fund Statutory Appropriation Estimates										
Fiscal Years 2012-2015										
(Millions)										
MCA Cite	Bill/Purpose	Legislative Session	Fiscal 2011A	2013 Biennium			2015 Biennium			
				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 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(3)	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	
Total			\$170.849	\$172.548	\$200.950	\$373.497	\$199.266	\$213.143	\$412.409	

GOVERNOR'S PROPOSAL

The Governor's proposed changes for statutory appropriations include the following:

- To partially offset the loss of general fund revenue, the executive is proposing to reduce general fund statutory appropriations for the growth through agriculture program and the research and commercialization account resulting in general fund expenditure reductions of \$6.0 million over the 2015 biennium.
- The executive is proposing the sale of \$159.9 million of general obligation bonds for debt service payments of \$16.1 million over the 2015 biennium paid with a general fund statutory appropriation.

PROPOSAL BY SOURCE OF AUTHORITY – GENERAL FUND TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper legislative authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and authorizations are in statute (or sometimes contained in un-codified legislation) and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs. Because they are in statute, they remain in place until removed or changed by the legislature.

The following table shows each individual general fund transfer estimated by the Legislative Fiscal Division that has been included in the general fund balance sheet for FY 2013-2015.

General Fund Non-budgeted Transfer Estimates									
Fiscal Years 2012-2015									
(Millions)									
Authorization	Name	Legislative Session	Fiscal 2011A	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	0.065	\$0.059	\$0.065	\$0.124	\$0.071	\$0.079	\$0.150
15-1-122(3)(a)	DEQ-Junk vehicles	2001	1.474	1.477	1.499	\$2.976	1.584	1.598	\$3.182
15-1-122(3)(b)	Agriculture-Noxious weeds	2001	1.494	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	0.717	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	In above	In above	In above	In above	\$0.000
15-1-122(3)(c)(iii)	FWP-Motorboats	2001	In above	In above	In above	In above	In above	In above	\$0.000
15-1-122(3)(d)	MA-Veterans' services	2001	0.677	0.692	0.689	1.381	0.728	0.734	\$1.462
15-1-122(3)(e)	DOT-Disabled seniors transportation	2001	0.299	0.299	0.304	0.603	0.321	0.324	\$0.645
15-1-122(3)(f)	MA-Search and rescue	2001	In above	In above	In above	In above	In above	In above	\$0.000
Sub-total			\$4.727	\$4.728	\$4.804	\$9.532	\$5.079	\$5.133	\$10.212
Other Transfers									
Unknown	DPHHS Nonbudgeted		\$0.016	\$0.136	\$0.136	\$0.272	\$0.136	\$0.136	\$0.272
Unknown	Other Agencies Nonbudgeted		0.000	0.016	0.016	\$0.032	0.016	0.016	\$0.032
15-1-122(5)	HB 622 - Livestock loss reduction and mitigation	2011	0.000	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	0.000	0.285	\$0.285	0.171	0.375	\$0.547
17-1-511(2)	SB 553 - Incentative for rural physicians	2007	0.170	0.227	0.227	\$0.454	0.227	0.227	\$0.454
39-71-2352(6)	Old state fund shortfall	2002 SS	0.050	10.042	9.290	\$19.332	7.356	5.652	\$13.008
77-1-108(4a)	HB 19 - To trust land administration account	2007	0.000	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	0.033	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	In above	In above	In above	In above	In above	In above	\$0.000
Sub-total			\$0.270	\$10.741	\$10.194	\$20.935	\$8.227	\$6.646	\$14.873
HB 645 - 2009 Session									
Uncodified	HB 10 - To long-range information technology capital projects	2009	\$3.433	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To the long-range building Capital projects account	2009	6.545	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To the long-range building Capital projects account	2009	1.793	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To state energy conservation repayment account	2009	0.750	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To MUS energy conservation improvements	2009	6.150	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To U of M Western main hall	2009	3.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To state energy conservation account	2009	0.750	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To Secretary of State information management system	2009	0.750	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To TSEP regional water system	2009	4.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To TSEP for infrastructure	2009	11.500	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To the renewable resource grants & loans account	2009	2.074	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Uncodified	HB 645 - To the reclamation grants & loans account	2009	0.897	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Total			\$41.642	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Total			\$46.639	\$15.469	\$14.998	\$30.467	\$13.306	\$11.779	\$25.085

The Legislative Finance Committee has approved a policy that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. See more about this and an issue concerning general fund transfers in Appendix B.

EXECUTIVE BUDGET GENERAL FUND TRANSFER PROPOSALS

The executive is proposing one-time general fund transfers totaling \$25.1 million to the long-range information technology account and the long-range building account.

Two other proposals would transfer general fund to the fire suppression fund based on unused amounts of the general fund emergency statutory appropriation authorized in 10-3-312, MCA, and proposed triggers based on corporation license tax collections.

The executive is also proposing to eliminate the need for a general fund transfer to the State Workers Compensation “old fund” and replace the revenue with surplus and reserves from the “new fund” for a general fund savings of \$13.0 million over the 2015 biennium.

A further discussion of the governor’s proposals along with LFD comments, can be viewed in Appendix B

PROPOSAL BY SOURCE OF AUTHORITY – OTHER LEGISLATION

Other than the HB 2, Long-Range Building, statutory authority and non-budgeted changes described above, the executive proposes other legislation that would increase general fund spending by an additional \$177.1 million. The following figure illustrates:

General Fund Proposals - Other Legislation Executive Budget 2015 Biennium	
Proposal	2015 Biennium
Feed Bill (HB 1)	\$11,706,000
Pay Plan (HB 13)	80,117,207
Pension Legislation	60,984,000
Infrastructure Assistance	12,000,000
Water Compact Obligations	7,260,000
Medicaid Expansion	<u>5,000,000</u>
Total	\$177,067,207

- Feed bill – The executive assumes \$11.7 million in the feed bill used to fund the operations of the legislature during the biennium
- Pay plan and contingency – The Governor proposes a state employee pay plan that would provide:
 - A 5% per year increase in salary
 - A 10% increase in health benefit contribution, from \$733 per month to \$806 per month in FY 2014 and \$887 per month in FY 2015
 - A contingency fund of \$4.0 million general fund (\$7.0 million total funds) for distribution to agencies that cannot meet their vacancy savings targets, plus \$75,000 for training
- The pay plan is discussed in further detail in Appendix B
- Pensions - the Governor proposes a number of initiatives designed to address the unfunded liability the public employees’ retirement and teachers’ retirement funds. The \$61.0 million described in this expenditure table is in addition to the \$35.7 million in general fund revenue diverted to support pensions. For a further discussion of the unfunded pension liabilities, see “Pension Funding Shortfall” in this volume.

- Infrastructure Assistance – The executive would provide general fund to the Board of Oil and Gas for distribution to communities impacted by oil and gas development. For a discussion of impacts of natural resource development, see “Natural Resource Development Issues” in this volume.
- Water Compacts – The executive proposes to sell general obligation bonds totaling \$72 million for the state’s obligations in the water compact settlements negotiated with the Confederated Salish and Kootenai Tribes, Blackfeet Nations, and Fort Belknap Tribes. The general fund would be used for debt service on the bonds.
- Medicaid Expansion – The executive is proposing legislation that would expand Medicaid and fund a portion of the present law changes resulting from the Affordable Care Act. A further discussion is in the Summary section of the Department of Public Health and Human Services narrative here http://leg.mt.gov/content/Publications/fiscal/ba-2015/section_b/dphhs-summary.pdf