Martz Administration Budget Overview

2007 Biennium

Budget Summary

This budget is structurally balanced. In other words expenditures are less than projected revenues in FY 2007. The ongoing expenditures constitute an approximate 7.6 percent general fund biennial increase over the 2005 biennium budget. The budget contains a 3 percent increase each year for the state employees pay plan; it also contains a $46 and a $51 increase in FY 2006 and 2007 for the employee benefit package. It contains approximately $7 million to address the unfunded liability of the PERS and TRS retirement programs by increasing the employer contribution to the plans over the next couple of biennia.

The major factors causing the increase in spending in this budget are the increase in federal match rates and caseloads in the Department of Public Health and Human Services; the increasing prison population in the Department of Corrections, employee pay and benefit increases, the inflation increase in K-12 base aid, and addressing the retirement liability. Altogether these account for approximately 6.5 percent of the 7.6 percent spending increase in this budget.

This budget has a projected ending fund balance of $163 million. This projected balance, is the largest ever and contains $50 million of on-going revenues and $113 million of one-time money. This balance will allow the next administration and legislature the flexibility to address other issues that will arise in the next biennium and still maintain an adequate fund balance left to allow for revenue downturns or other emergencies should they occur. See page O-24 for the budget recommendation and ending fund balance sheet.

Martz Administration History

The past four years have been challenging budget times. In FY 2003, general fund revenues were 7.8 percent less than anticipated by the 2001 Legislative session, which caused reductions in spending in the middle of the biennium. While these obstacles challenged our imaginations as to how to get through these difficult times, we did it.

A short history of the challenges follows:

- Balancing the 2003 biennium without tax increases was the first challenge. Governor Racicot's budget was reliant on increased taxes that were not acceptable to the Martz administration.

- Dealing with the short fall in revenues caused by the recession, tragedies of September 11, 2001, and the stock market decline, which eroded personal and corporate income taxes, and treasury cash account interest.

- Handling budget constraints caused by the energy crisis by requiring agencies to conserve. Also, the Governor appointed an Energy Task Force to make recommendations to solve the crisis.

- Reducing and restructuring government expenditures to maintain a balanced budget. The Governor's reductions of $23 million in FY 2003 and Special Session cuts, funding switches, and other measures totaled $58.9 million. Despite an average reduction of 4.9 percent, certain areas of the budget were affected more than others. The University system had the highest reduction at 9.2 percent and K-12 education had the lowest at 1.7 percent. These were difficult decisions that affected a lot of Montanans.

- Balancing the 2005 biennium budget without a permanent tax increase was the goal of the Martz administration. Two years ago, we had every indication that a significant portion of the fiscal crisis would be short lived and that one-time money was needed in FY 2004 to shore up the reserves. The Martz administration recommended a one-time transfer from the coal trust that would be paid off when revenues exceeded revenue estimates. Although the Legislature did not accept this proposal, it should be pointed out that with our current fund balance, we would have been able to return the money transferred from the coal trust by the end of FY 2004 when the fund balance was $109 million more than anticipated by the 2003 Legislature. By the end of FY 2005, the fund balance is projected to be nearly $163 million in excess of the level anticipated by the 2003 Legislature.

  The 2003 Legislative Session solved the one-time revenue shortfall with one-time revenue enhancements. The legislature enacted several new or increased taxes to be offset by significant income tax and capital gains reductions, but the new or increased taxes took effect prior to decreasing personal income and capital gains tax rates. The Martz Administration accepted this compromise and it became law.

Accomplishments in income tax and other tax restructuring
The Martz administration significantly reformed Montana's income tax structure. The goal was to create a more competitive environment that will lead to the creation of more good-paying jobs for our citizens. The tax reforms removed two major impediments to economic development. First, they corrected the perception that Montana's income tax is the highest in the nation. Our tax rates are now more transparent and rates more closely reflect what individuals actually pay. This is good tax policy even before we consider the economic benefits. Second, they corrected the very real problem that Montana had one of the very highest marginal tax rates on capital gains income in the country. High effective rates of taxation on capital gains income have a serious adverse impact on capital formation and investment in the state. Without capital investment, the state is deprived of many good paying jobs, and ultimately, a lower tax base.

Under the new income tax structure, the average person in every class and income bracket will pay an equal or lower tax than under the current system. For Montana taxpayers as a whole, there is an overall income tax reduction of approximately 10 percent. Much of the income tax relief is focused on capital gains tax relief. More competitive capital gains tax rates benefit taxpayers in all tax brackets and all income levels.

Replacement revenue was provided in part by non-residents through a limited sales tax on accommodations and short-term rental vehicles. Cigarette and tobacco taxes were also increased. These revenue replacements were enacted in the spring and summer of 2003 before the income tax changes, which begin January 1, 2005.

Federal Help when it was needed the most

On May 28, 2003, President Bush signed into law (P.L. 108-27) the Jobs and Growth Tax Relief Reconciliation Act of 2003 (TRRA). This act had three significant impacts to the state budget.

1) $50 million - Federal Jobs and Growth Tax Relief Reconciliation Act Funds

In FY 2003 and FY 2004 the State of Montana received disbursements from the federal government totaling $50 million in federal relief funds. These funds were to provide essential government services, cover the state costs to comply with any unfunded federal mandates and to fund expenditures "permitted under the most recently approved budget for the state", not for new programs.

Through November 8, 2004 the State of Montana has obligated a total of $49,848,031 leaving a balance of $151,969. The obligation of these funds falls into three basic categories; disaster funding (fires, floods, and winter storms), Northwestern Energy bankruptcy costs, and other allocations made by the Governor. A breakdown of the expenditures is provided in table O-1 to the right.

Table O-1
Federal Jobs and Growth Tax Relief Reconciliation Act Funds

Federal Allocation	**$50,000,000**
State Disbursements	
DNRC - Fires	$34,328,563
Dept. of Military Affairs - Fires and Winter Storm	3,151,200
Subtotal Disaster Funding	**$37,479,763**
PSC - NWE Bankruptcy	$ 354,685
Dept. of Justice - NWE Bankruptcy	712,385
Subtotal NWE Bankruptcy	**$ 1,067,070**
DPHHS	$ 4,014,000
Long Range Building	583,121
K-12	2,816,046
Higher Ed.	2,700,000
Department of Corrections	1,000,000
Other	188,031
Subtotal General Government	**$11,301,198**
Total Biennial Disbursements	**$49,848,031**
Federal Funds Available	**$ 151,969**

2) FMAP Rate "Enhancement"

Subsection 401(a) of TRRA provides temporarily, with respect to certain expenditures by eligible states, increases in the federal medical assistance percentage (FMAP), that is, the federal matching rate for states' medical assistance expenditures under their Medicaid program. Under this provision, the increased FMAP is available only for a period of five calendar quarters, the last two quarters of federal fiscal year (FY) 2003 and the first three quarters of federal FY 2004.

The FMAP percentage for these five quarters increased by 3 percent. The result of this "windfall" was that the state's payment for this period was less than it would have been without this adjustment. The savings realized to the general fund in FY 2004 from the lower match rate for Montana is reflected in a lower base budget amount of Medicaid expenditures.

Decision packages to adjust for this artificial lowering of the base are included and are identified as "Enhanced" adjustments. The impacts to the budget are described in the Health and Human Services section, beginning on page B-1.

3) Revenue Impacts
Revenue collections had an overall increase due to federal tax law changes; tax structure changes increased taxes and depreciation changes decreased taxes. The TRRA changed the federal tax structure by reducing rates, expanding the 10 percent tax bracket, and increasing the standard deduction for married couples. This structure change reduced the federal income taxes that Montanans paid and could deduct when calculating their state income tax. This increased state income tax for taxpayers who itemized deductions.

The federal law provisions to allow for accelerated depreciation and a higher dollar threshold for expensing of business equipment have lowered the state income taxes in recent years. However, starting in FY 2005, state income and corporate taxes will be higher because taxpayers who took advantage of accelerated depreciation will have lower depreciation expenses to deduct in future years.

The current general fund revenues have exceeded expectations and have developed into a strong ending fund balance for the 2005 biennium.

Current Budget Status

Anticipated fund balance at the end of the 2005 biennium
The general fund balance at the end of FY 2005 is projected to be $209 million, or nearly $163 million more than projected during the 2003 legislative session. Most of the increased fund balance is from revenues exceeding the level anticipated by the 2003 legislative session. The DPHHS Medicaid reversion of approximately $20 million over two fiscal years, as discussed further on page B-1, reduced expenditures. Offsetting the lower expenditures of FY 2004 are anticipated supplemental expenditures totaling almost $13 million in FY 2005, please see page O-22 for more details. In addition, the fund balance changes due to prior year adjustments, which has a small impact to ending fund balance.

Almost all of the FY 2005 ending fund balance is due to revenue exceeding expectations in FY 2004 and FY 2005. Total general fund collections were forecast to increase by $57.9 million (4.6 percent) from FY 2003 to FY 2004. Twenty-five of the thirty-seven revenue sources ended the year above the forecast. Four revenue sources were more than $5 million higher than the forecast. They are individual income tax ($47.3 million higher), video gaming tax ($5.7 million higher), U.S. mineral royalties ($5.3 million higher), and oil and gas tax ($14.4 million higher). Income tax collections were higher than forecast because of strong wage and salary growth and federal tax law changes. Oil and gas tax and U.S. mineral royalties are higher than forecast because natural gas and oil prices are higher than expected.

In FY 2005, the current estimate is for general fund revenue to exceed HJR2 (2003 session, adjusted for legislation) by $72 million. This is primarily due to $37 million in individual income tax growth, $32 million in oil and natural gas revenue, and $13 million in US Mineral Royalty. These three revenue sources more than offset corporate license tax being $7 million lower and treasury cash interest being $7 million lower than HJR2 and all other revenue sources together being $4 million higher than HJR2.

As seen in Table O-2, FY 2003, FY 2004, and FY 2005 revenues have exceeded the level anticipated by the 2003 Legislative Session. The result is a fund balance in excess of what is needed to maintain adequate reserves. The Governor recommends spending this one-time revenue on one-time expenditures for specific investments in state infrastructure, computer systems, and capital improvements. The details of these recommendations begin on page O-7 and are also described in decision packages through out the budget books.

Table O-2

One-time Revenue Accumulation of Three Years

Fund Balance Impact

	Revenue Above Projections	Expenditure Impact to Fund Balance	Adjustment to Fund Balance	Impact to Fund Balance
FY 2003	$ 23.66	$ 11.68	$ (8.81)	$ 26.54
FY 2004	70.7	19.7	(7.3)	83.1
FY 2005	72.1	(22.4)	3.5	53.2
Totals	**$ 166.53**	**$ 8.95**	**$ (12.65)**	**$ 162.83**
2003 Session projected ending fund balance FY 2005				$ 46.2
Projected ending fund balance FY 2005				$ 209.1

Anticipated 2007 biennium revenues

The higher level of revenue is anticipated to continue, but the growth in revenue is anticipated to slow. Although actual general fund revenue increased 11 percent in FY 2004, revenue is projected to grow only 2 percent in FY 2005, remain constant in FY 2006, and grow 3 percent in FY 2007.

Expenditure needs in the 2007 biennium

Over the past year and a half several issues have evolved that need budget action. The major needs addressed in this budget are described briefly here and in more depth in the specific agency or bill section of the overview.

- Health and Human Services – Decreased federal matching funds and increases in Medicaid eligible people are anticipated to increase present law Medicaid expenditures by $88 million from FY 2004 levels. Other primary cost drivers are mental health and other caseloads. More information is available on page B-1.

- Department of Corrections – Continued rapidly rising prison populations require a $21 million increase from the FY 2004 base level in the Corrections budget. More information is available on page O-18

- K-12 School Budget – Increases in entitlements of slightly over 2 percent per year, which are partially offset by decreases in enrollment total $17.5 million in the biennium. This entitlement increase comprises the majority of the recommended $28 million general fund and $4.4 million guarantee fund increase for K-12 schools.

- Pay Plan for State Employees – The Governor is recommending a 3 percent per year increase in state employees salaries, plus an increase of $46 per month in FY 2006 and $51 per month increase in the state contribution to health benefits. The biennial cost of this proposal is $31.5 million of general fund, which includes $1.5 million of personal services contingency funds.

- Retirement Plans - The retirement plans of the state; primarily Public Employees Retirement System and the Teachers Retirement System are suffering from market losses from the prior four years. The market losses along with the cost of living adjustments added to retirement benefits have developed unfunded liabilities in excess of acceptable levels. The state constitution requires the state to ensure that these funds are actuarially sound. The Martz administration proposes to both reduce benefits for future employees of the plans and to temporarily increase the employer contribution to the plan to make up for the losses. The current biennium cost to this proposal is approximately $7 million of general fund. For further details see page O-13.

- Montana University System Tuition – Tuition has increased at unacceptable rates over the past several years. The Martz budget recommends trying to keep tuition increases to a minimum by using state funding to fully fund the resident student share of the present law increases and not requiring tuition increases to support these adjustments. Please see page E-48 for more details.

- Economic Future of the State – Shared Leadership for a Stronger Montana Economy is a partnership between the Governor, state legislature, congressional delegation, educators, and the business community that has developed over the past two years. The goal of the partnership is to identify concrete actions that the Montana University System can take, in partnership with other government entities and the private sector, to create a stronger economy and create more good paying jobs in the state. The effort has been underway in earnest since January 2004 and has developed three priority areas:
    - Develop stronger business-university system partnerships for workforce training
    - Remove barriers to access for postsecondary education
    - Expand distance learning programs and opportunities

  For more details see page E-34.

- Backlog of Capital Needs – Over the past several biennia the need for capital improvements has developed. In response to the one-time revenue the Governor has developed a plan to spend some of this one-time-only revenue on capital infrastructure and improvements. For further details see the write up for HB 5 on page O-12.

General Fund Balance

One of the most important investments that we can make is a solid ending fund balance. It is recommended that a fund balance of $80 million or nearly three percent of the biennial general fund expenditures be adopted. This gives nearly a 2 percent reserve for unexpected changes in revenue or emergency expenditure requirements such as fires, before the Governor would need to make reductions under the provisions of 17-7-140, MCA. The advantages to an adequate fund balance will be to reduce future state budget crises. Maintaining an adequate fund balance will enable the Governor to pay for emergencies if needed. Maintaining an adequate fund balance will give a small cushion if revenues do not materialize as anticipated. This will be an asset for current and future generations of the state. Governor Martz's budget leaves a $163 million fund balance including $50 million of revenue in the biennium for ongoing expenditures and $32.5 million in excess of the recommended fund balance. See page O-24 for the ending fund balance sheet

Structural Balance

The critical test of any budget is that it is structurally balanced. With such large ending fund balances, it is critical to keep a structurally balanced budget and not allow on-going spending beyond the ongoing revenue of the state.

Table O-3 lists the annual revenues and ongoing expenditures. The Martz budget leaves $25 million in each year of the biennium available for additional ongoing expenditures to be approved by the 2005 legislature.

Table O-3

Annual Stuctural Balance

	FY 2006	FY 2007
Revenue	1,411.7	1,455.9
On-going Expenditures	1,386.6	1,430.7
Annual Stuctural Balance	**25.1**	**25.2**

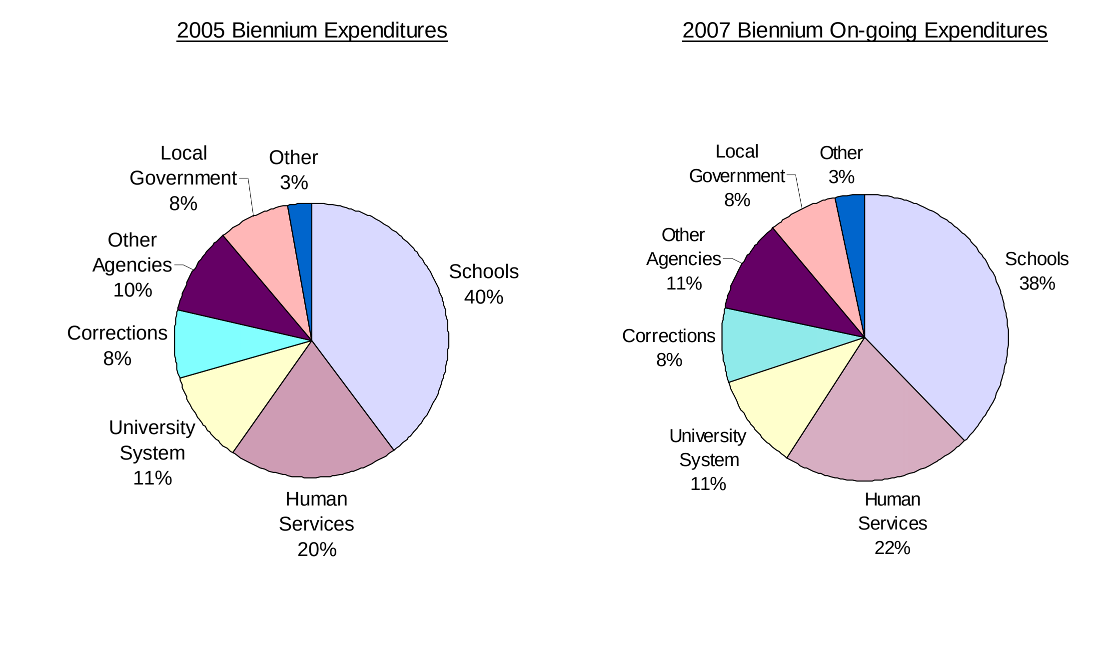
Additional One-Time Revenue

Table O-2 on page O-5 shows an ending fund balance of $209.1 million. Table O-4 on page O-8 shows $96.4 million of one-time expenditures recommended in the Martz budget. Assuming an adequate ending fund balance of $80 million, this leaves $32.5 million in additional one-time expenditures to be designated by the Legislature.

Biennial Expenditures

Chart O-3 shows pie charts of the ongoing expenditures for the 2005 biennium compared to the 2007 biennium. Major observations about the pie charts are: Schools decrease 2 percent, Human Services increase 2 percent, and all other change less than 1 percent.

Chart O-3
Comparison of Biennial Expenditures



Outstanding Expenditure Issues

School Funding – The Supreme Court will not rule until after our budget has been completed. Until resolution of the litigation is reached, it is premature to make recommendations to the legislature. The legislature may choose to use all or a portion of the $50 million ongoing general fund revenue remaining in the Martz budget for school funding issues.

Tobacco Tax increase – The people of the state of Montana passed an initiative increasing the tobacco tax and using the revenue for health care initiatives. The Martz Administration is leaving the determination of how to use the funding provided in this initiative to the legislature.

One-Time Revenues Will Be Spent On One-Time Expenditures

Table O-2 on O-5 shows a $209.1 fund balance. The majority of this fund balance can be spent on one-time expenditures. The goal of the Governor was to provide a lasting impact with the excess fund balance available. These revenues may never be available again, and the Governor recommends strategic investments that will benefit the state in the long term through: paying off long-term obligations, investing in infrastructure, investments to improve services, and equipment. Recommended investments are shown in Table O-4 and are described below.

Paying off debts:

Pay off IRIS Debt

Paying off the Department of Revenue integrated tax system loan of $16 million from the Board of investments reduces approximately $3 million per year in payments for the next 5.5 years. The reduction of these payments eliminates the assessment against the personal income tax revenue and results in about $3 million of additional ongoing general fund revenue each year of the biennium. This proposal also addresses a Legislative audit concern in the Department of Revenue.

Table O-4

One-Time Only Expenditures

(millions)

		Biennial Appropriation
Pay off Debts		
Pay off the Department of Revenue computer system loan (IRIS phase I & II)	$	16.00
Replacing Cultural Trust revenue used to buy Virginia and Nevada Cities		3.91
Completing payments for the Crow Tribe Water Compact Agreement		9.00
Deferred Maintenance and other capital needs		30.00
Investment in information technology infrastructure		
Dept of Revenue completion of POINTS computer system replacement		4.00
Department of Correction Computer system to track offenders		1.60
Department of Revenue property tax system replacement		5.50
Judiciary computer system completion		1.35
Gambling Control computer system		1.10
Preparing for the future		
Nothern Tier Emergency Telecommunications Infrastructure Completion		4.10
Department of Revenue protested property tax reserve		4.00
Department of Revenue agricultural land reevaluation		1.40
Montana University System Shared Leadership		3.94
Equipment needs		
Montana University System equipment for two-year programs		5.00
Other		
Department of Corrections License plate issue		4.35
Other		1.19
Total all OTO Expenditures	**$**	**96.44**

Return Funds to Trust

Repay the Cultural Trust for an obligation created in the 1997 legislative session when the legislature authorized the use of $3.9 million from the trust toward the purchase of Virginia City and all of Nevada City. Since that time the legislature has authorized a general fund appropriation in HB 9 to replace lost interest revenue. With this deposit into the trust, the Cultural and Aesthetic Grants program will no longer need this $250,000 annual appropriation. See details of this HB 9, Cultural and Ascetic Grants bill on page O-13.

Complete Payments to the Crow Tribe Settlement

The June 1999 Special Session of the Montana Legislature approved the water rights and coal severance tax litigation settlement with the Crow Tribe (85-20-901 thru 85-20-902, MCA). The state also authorized a "contribution to settlement" of $15 million. "The State agrees to contribute the sum of $15 million, in equal annual installments for a period of no more than 15 years beginning July 1, 1999, to a fund for the use and benefit of the Tribe" (Article VI.A.1. of the Crow Water Rights Compact). Pending final effectiveness of the compact, these funds are paid into escrow (85-20-904, MCA).

The State has paid $6 million of this obligation to date. A one-time only appropriation of $9 million would fulfill the state's obligation under this settlement and free up $1 million a year of on-going general fund revenue.

Deferred maintenance and other capital needs of the state.

For many years, the capital needs of the state have been delayed due to the limited revenue. Investments include steam tunnel work on the University of Montana Missoula, new roofs; replace boilers; demolition of long abandon buildings; improved use of buildings by remodeling; and many other needed improvements. The Governor is recommending a one-time investment of $30 million to take care of this long list of capital investments and maintenance projects. See the details of this proposal on page O-12 HB 5 explanation and Volume 4, Long Range Building Recommendations.

Investment in computer systems

Many computer systems of the state have been delayed or under funded. This one-time investment will bring many of the state’s computer systems up to current technology.

Complete the shut down of POINTS as directed by the 2003 Legislature

The Department of Revenue will use $4 million dollars of this one-time money to complete the transition to the new IRIS system. This funding will allow the department to contract for the implementation of the remaining tax types including consumer counsel, contractor’s gross receipt’s, electrical energy, metal mines, nursing facility bed, public service regulation, resource indemnity trust, retail telecommunication excise, wholesale energy transaction, 911, abandon property, coal gross proceeds, coal severance, other tobacco products, telephone device for the deaf (TDD), and liquor (beer, wine and hard cider).

Property Tax Computer System

The Department of Revenue is responsible for the valuation and assessment of all real and personal property in the state for property tax purposes. This process involves over 850,000 pieces of real and personal property and hundreds of millions of dollars in annual property tax collections. Use of the existing obsolete property tax computer system technology now places the entire property tax system in serious jeopardy. Therefore, the executive is recommending the use of one-time-only money of approximately $5.5 million for the biennium to develop and implement a new technologically sound property tax computer system. The new system would interface with IRIS and provide increased functionality for the other taxes the department administers.

Offender Tracking System

The Department of Corrections wishes to join a consortium of states, which are using O-TRACK (Offender-Track) as their offender management system. The consortium will provide Montana DOC the O-TRACK program code for free. A $1.6 million investment of one-time-only money will pay to implement the system in Montana. O-TRACK, originally developed by the Utah Department of Corrections, is a state-of-the-art, 4th GL database system that manages state level offender populations. The system provides all pertinent information for managing offenders in secure facilities as well as in community settings, on probation, or parole.

Judiciary Computer System Completion

The expenditure of $1.35 million one-time-only money is needed to purchase initial software application licenses for District Courts and the remaining Courts of Limited Jurisdiction. The court software, called "JSI-FullCourt Case Management System" has already been rolled out successfully in 86 Courts of Limited Jurisdiction and no District Courts.

Gambling Control System

The Gambling Control Division has been pursuing the options for enhancements/updates to the existing antiquated gambling revenue tax accounting system. The executive is recommending the appropriation of $1.5 million one-time-only money in the 2007 biennium to add a gambling tax module to the existing GenTax system maintained by the Department of Revenue. This request is $1.1 million general fund, $340,000 state special revenue (gambling tax), and $60,000 proprietary (liquor account).

Preparing for the Future

Emergency telecommunications infrastructure - the Northern Tier Interoperability Project.

The Northern Tier Interoperability Project (NTIP) is a partnership of local, state, tribal, and federal government agencies, each with challenging requirements for radio communications. Several have projects already underway and NTIP will interconnect standards-based systems to make the most of existing resources, extend them to neighboring cooperators, and expand capabilities for all. The Montana National Guard's homeland security mission will be enhanced through highly reliable, redundant communications capabilities to its Highline armories.

The anticipated cost for the entire project is $13.4 million. Of this total cost, $5.7 million will be paid by federal revenue through the Office for Domestic Preparedness (ODP). The Montana Board of Crime Control will provide $1.4 million through their Law Enforcement Terrorism Prevention funding. Collaborating with the Montana National Guard will cover $2.2 million of the expenses. The total funds currently available are $9.3 million ($5.7 + $1.4 + $2.2). The remaining $4.1 million will be provided by a one-time restricted general fund appropriation to the Department of Administration.

Department of Revenue Protested Property Tax Reserve Fund

To provide stability of revenues available for the general fund, the Governor recommends establishing a state special revenue fund for centrally assessed protested property taxes. It is estimated that at the end of fiscal year 2005, setting aside 50 percent of the protest amount held by the state would use approximately $4 million of the one-time general fund money. This fund will be used to pay any refunds due upon resolution of the protest, thereby reducing the impact to on-going general fund revenue. For more information see page O-13.

Agricultural/Forestland Classification and Valuation System

The Department of Revenue requests funding for a Montana agricultural/forestland classification and valuation system. This request totals $1.4 million of one-time-only money for the biennium. The department is proposing to implement a new agricultural and forestland classification system for the 2009 tax year. The proposed system would update Montana's current agricultural and forestland classification and productive grading system, and bring the state into compliance with current law that requires classification and grading of agricultural and forestland be kept current and that it be "equitable and uniform". That is clearly not the case now. Based on that fact, the new system would resolve potential lawsuits that might occur where individuals or groups believe inequities exist between Class 4 - residential and commercial property and Class 3 – agricultural land because the department has not been able to maintain current classifications and grade determinations for agricultural and forest land.

Montana University System Shared Leadership

A portion of the Shared Leadership proposal beginning on page E-34 is a one-time investment. The areas of one-time investment are the two-year education improvements, Montana Tech Economic Development Resource Center, a program to increase the supply of health care workers, distance learning, and business and economic outreach.

Equipment Needs – Montana University System

Our two-year programs within the Montana University System and Community Colleges have a wide array of serious equipment deficiencies, particularly in industrial and trade programs. Montana industry needs students trained with the current equipment and technology employed in most private industry around the state. In areas ranging from welding/metal fabrication to automotive maintenance to HVAC installation/repair our institutions are teaching with outdated and marginally functioning equipment. In some cases this lack of relevant training equipment creates worker shortages in high demand, high wage occupations. In addition, the University System also increasingly facing safety concerns in some of these programs using outdated equipment.

To be an effective economic development partner, these two-year programs must provide current and relevant training experiences. This requires familiarity with the equipment the students are expected to master when they take jobs here in Montana. A one-time appropriation of $5 million to the Board of Regents, that will require an equal match from the university system to fund the purchase and update of equipment for the two-year programs within the Montana University System and Community Colleges, will have a tremendous impact on the ability of higher education to serve Montana's students and businesses and the continuing efforts to improve economic development.

Other

Reissue License Plates

License plates are required to be reissued by 61-3-332, MCA. The Montana Correctional Enterprises license plate factory estimates that 2.7 million plates will need to be produced in FY 2006 and 735,000 plates in FY 2007. The cost of this increased production is estimated at $3,853,751 and $496,837 respectively of one-time revenues. The state will see an offsetting revenue increase with this reissue.

Small one-time items

- Purchase $170,000 of audiology equipment for schools in the biennium. The Office of Public Instruction (OPI) Hearing Conservation Program (HCP) has many equipment units, which need replacement. Usual reasons for replacement needs are: 1) age (too old to be reliable or to hold a calibration), 2) replacement parts are no longer available, and 3) the old unit being taken off line (in some cases, long ago) for being obsolete.

- Build a fire-fighting helicopter in the Department of Natural Resources and Conservation (DNRC) for $200,000 in the biennium. DNRC will build an additional UH-1 helicopter to increase the fire fighting capabilities of the state helicopter fleet. The cost to build the additional UH-1 helicopter is $256,000 based on a FY 2005 project completed in July 2004. DNRC would utilize $56,000 of their existing proprietary budget authority to complete the project. The additional helicopter is expected to save significant fire fighting costs.
- One-time expenditure for equipment for the Department of Environmental Quality TMDL water quality program described on page C-27.
- Allow the Department of Administration to expend up to $300,000 to reimburse the federal government for the federal share of the State Old Fund that was transferred to the general fund in FY 2003 and FY 2004.

Summary Of Bills Impacting The General Fund Balance

HB 5 – Long Range Building
The Long-Range Building Program (LRBP) was initiated in 1965 to provide funding for construction and maintenance of state buildings. The LRBP was developed in order to present a single, comprehensive and prioritized plan for allocating state resources for capital construction and maintenance of state-owned facilities.

Since the 1980-81 biennium, Long Range Building Account revenues, which are the primary recurring revenue source for major repairs and maintenance at State facilities, has declined from an annual amount of 1.74 percent of building replacement value to a current (2004-2005) amount of 0.15 percent of building replacement value. The State Architecture & Engineering Division has estimated that between 1.0 and 1.25 percent of building replacement value should be re-invested in state-owned facilities annually in order to avoid adding to the state backlog of major repair and replacement needs. This percentage is to address those construction needs beyond what would be considered typical operations and maintenance (O&M) included in the operational budgets of state agencies. In simple terms, this would require between $22 and $27.5 million on a biennial basis in order to preclude an increase in the backlog of deferred maintenance for the $1.1 billion of state-owned buildings that receive some general fund support.

The 2006-2007 Long Range Building Program proposal represents a determined effort by the State to halt the increase, and provide a partial rollback, in the backlog of major repairs and maintenance projects within State-owned facilities and campuses. Of the total $115 million in project requests, this LRBP proposal recommends $35.1 million for major repairs, maintenance, replacement and renovation projects. All of these projects either directly address facility repairs, renovations, and deficiencies or completely replace deteriorated components or buildings. None of the proposed projects will result in additional continuing costs upon completion. No bonded construction program is proposed.

To realize this goal of shrinking the state’s major repair and maintenance backlog, a one-time transfer of $30 million from the General Fund to the Long Range Building Fund will be required. This transfer will augment the projected revenues of $5.1 million in the LRB fund to arrive at a total available amount of $35.1 million.

HB 9 – Cultural and Aesthetic Grants
MCA, 22-2-304 requires that the legislature to appropriate funds from the Cultural and Aesthetic trust fund income for cultural and aesthetic projects. These projects are contained in House Bill 9. In addition to the projects, this bill appropriates $3,912,500 general fund one-time-only to the Cultural and Aesthetic Trust Fund.

Previous biennia HB 9 contained approximately $250,000 of general fund money each year to support the grant awards. This general fund appropriation is removed from House Bill 9 because the $3.9 million appropriation to the trust will enable approximately the same level of income to be earned in the Cultural and Aesthetic Trust fund.

On April 23, 1997, the Montana legislature authorized the purchase of the Charles and Sue Bovey properties in Virginia City and Nevada City for $6.5 million ($5 million for the artifacts and $1.5 million for the buildings and land). The purchase was finalized in May 1997, resulting in state ownership of about half the historic structures in Virginia City and all of Nevada City. These acquisitions were purchased with money from the Cultural and Aesthetic Trust Fund ($3,912,500) and with proceeds from the sale of general obligation bonds ($3,912,500).

Department of Revenue Protested Tax Reserve Fund LC 166
SB 294 (2003 session) required the counties to send the 95-mill and 6-mill levy portion of protested property tax payments made by centrally assessed companies to the state. The settlement of large protests takes considerable time and it is not possible to predict the year the current $8.1 million of protested taxes will be settled or the resolution of the settlement. Therefore, the Governor proposes to put half of the protested property tax payments or approximately $4 million of the one-time revenue into a state special revenue account so that a reserve will be there to pay any refunds to the companies due upon resolution of the protest.

Protested taxes received in FY 2006 and there after would be split 50 percent to the state special Protested Tax Reserve Fund and 50 percent to the general fund or six-mill levy fund as appropriate.

Retirement Systems Actuarial Funding
Teachers Retirement System Bill to Actuarially Sound Funding LC 99
Public Employees Retirement System Bill to Actuarially Sound Funding LC 96

The Montana Constitution requires that the legislature actuarially fund all public retirement systems. Montana has two main systems, the Public Employees' Retirement System (PERS) and the Teacher's Retirement System (TRS). Like most retirement systems in the country, PERS and TRS have seen a significant decline in the fair market value of pension assets since 2001. The Boards of both systems have recommended a mix of contribution rate increases and system design changes to address the significant unfunded liabilities of the plans.

PERS has two recommendations for system design changes for employees hired after July 1, 2005: modify the final average salary definition from 3 year to 5 year average, and cap the GABA at the CPI rate. In addition, an employer contribution rate increase of 0.66 percent in the 2007 biennium and an additional 0.67 percent in the 2009 biennium will be required to actuarially fund the plan. This combined with changes in other smaller plans of the Public Employee Retirement Division equals an increase of $2.5 million general fund over the 2007 biennium.

TRS has recommended four changes in system design for employees hired after July 1, 2005: modify the final average salary definition from 3 year to 5 year average; change normal retirement age to 30 years of service plus age 55; change early retirement age to 5 years of service plus age 55; and credit members' accounts with interest based on a prudent standard. The employer contribution increase required to actuarially fund the TRS system, in addition to these changes, is 1.2 percent in the 2007 and the 2009 biennia. This equals an increase of $4.6 million general fund over the 2007 biennium.

Other Bills Affecting General Fund Balance

1) The Department of Justice is submitting a bill to create a statutory appropriation for certain vehicle fee collections that are required to be transferred from the general fund to the highway patrol retirement fund. This will not change the obligations of the state, but will provide a mechanism for transferring the money.
2) The vehicle laws changed in the 2003 legislative session inadvertently reduced some vehicle transfers to state agencies for the period January 1, 2004 to June 30, 2005. In additional, the coordination for the search and research program to receive additional fees intended for their program did not occur. The general fund was increased due to these oversights. LC0164, by the Revenue and Transportation Committee, is to correct these oversights. These corrections are funded in the executive budget.

Major Expenditure Highlights

K-12 Education

K-12 education comprises approximately 38 percent of the state general fund expenditures. The Governor's recommended budget for schools provides a present law increase plus other inflationary items. Inflation has been applied to basic and per ANB entitlements as required by 20-9-326 MCA. The same inflation rate has also been applied to special education state contribution. Increases have been provided for facility bond payments, block grants, transportation, and county school retirement GTB required by increasing entitlements. In addition, increases will be provided for the county retirement GTB for schools to pay the state share of the cost increase in the employer share of the retirement contribution required in these bills.

The Governor recommend the approval of the new funding for the "Indian Education for All" program at the Office of Public Instruction. The Governor has supported this program in the current biennium with $60,000 from the federal Jobs and Growth (TRRA) funds. The new appropriation will be funded with general fund at $250,000 per year. It will provide funds to preserve the distinct and unique cultural heritage of American Indians.

Health and Human Services

The Department of Public Health and Human Services (DPHHS) expended $1.12 billion in FY 2004 in all funds: general fund, federal funds, and other state special funds to provide a wide range of services to the citizens of Montana. Approximately 21 percent of the total state's general fund expenditures are spent on programs managed by this agency. Though DPHHS has a multitude of programs for which it is responsible, the Medicaid program is, by far, the largest and influences many other services provided by the department. Medicaid general fund expenditures equate to approximately 48 percent of the DPHHS general fund expenditures; put another way, this program uses nine percent of the entire general fund of the state.

Current Issues in Health and Human Services

There are several major issues facing Health and Human Services that are addressed in the Governor's budget:

- The increases in match requirements and caseloads in the Medicaid budget can be bound on page B-1.
- The balance of funding for public assistance and child care services can be found on pages B-4 to B-8.
- The settlement, through mediation, of the Travis D. lawsuit which relates to the delivery of developmental disability services and the development of a new rate structure and improved service delivery system with more consumer choice and portability in the Developmental Disabilities Program, see pages B-31 to B-35.
- The use of tobacco settlement funding to support the delivery of services in several key programs, most importantly in the mental health services plan, resulting from legislation passed in the 2003 legislative session, see page B-2 of the budget for more information.
- The improved mental health services for Montanans with the formation of Programs for Assertive Treatment (PACT), see page B-52.
- The Medicaid redesign study as shown below.

Montana's Public Health Care Redesign Project

As a result of state revenue shortfalls during the last two legislative sessions (the 57th Legislature in 2001 and the 58th Legislature in 2003), the Department of Public Health and Human Services was forced to make a series of very difficult decisions that resulted in significant reductions in the state's Medicaid program. Given the short time frame of a 90-day legislative session, the complexity of the issues, and the potential for significant harm to recipients through unintended consequences, the department was determined to avoid similar crisis management in future legislative sessions. To accomplish this, the department requested legislation to formalize the view of the public health programs administered by the department. The resulting legislation, HJR 13, directed the department to conduct a study regarding the health programs administered by the department and provide a report to the 59th Legislature outlining options that may be undertaken to redesign the health programs administered by the department. To meet this legislative mandate, the department has undertaken a comprehensive review of not only the existing eligibility criteria and health benefits provided but also the structure and values that are the fundamental underpinnings of the state's Medicaid system.

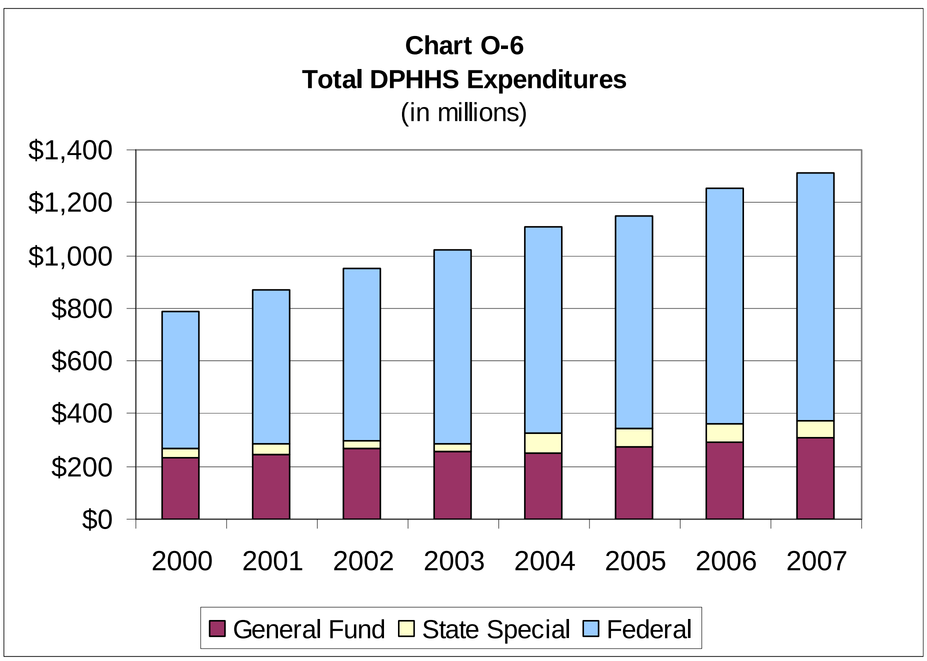
The Medicaid Redesign Project was not intended as a cost-cutting exercise. Rather, the redesign project was intended to reframe Montana's Medicaid program in a fashion that is financially sustainable into the future. The growth dynamics of Medicaid are closely tied to growth in private health-care spending, and individual states cannot control health-care costs on their own. However, strategies that can slow the rate of Medicaid growth by even 2 percent to 3 percent can result in millions of dollars in savings. Though increased costs are inevitable across the entire health-care system, it is anticipated that Medicaid costs will experience some level of increase. The goal of the redesign is to insure that such increases are reasonable and within budgetary constraints, and that scarce resources are appropriately allocated to most effectively and efficiently meet the health-care needs of Montana's most vulnerable citizens. Although the redesign is composed of a series of discrete proposals involving major programmatic and administrative changes, it is the synergy of the interrelationship of the collective changes that will ultimately result in real and significant cost containment and a program that is financially sustainable into the future.

The series of recommendations put forward in a report by the advisory council did not encompass every unique aspect of the Medicaid program. The DPHHS deliberately narrowed the focus of the redesign to those areas of greatest concern and to those areas where the department felt there was a reasonable chance of effecting change in the current economic and political environment. The collective impact of the recommendations contained in the council's report met the overall objectives of a comprehensive redesign project that will result in greater stability, cost containment and the focus of health-care resources on those most in need.

There were 18 recommendations with corresponding actions that were developed in close collaboration with the Public Health Care Advisory Council, with significant input from the general public, and countless hours of work by staff of the Department of Public Health and Human Services. Many of the recommendations are being integrated into the current operations of the DPHHS. Other recommendations will require action by the state legislature and/or the federal government. The DPHHS has included legislative requests and has initiated preliminary negotiation with the federal agencies. Actual implementation of the recommendations will not occur until after the legislative session and/or final approval by the federal government. See page B-2 to find more information about specific Medicaid Redesign proposals.

Health and Human Services Conclusions

Finally, it is useful to review the level of state funding that has been available for the wide range of services provided by the DPHHS over the last few years. Current revenue concerns should be considered, as all of state government is being required to slow the growth of spending. Chart O-6 shows the historical growth in appropriations for the department. There have been significant increases in non-general fund support. State Special Revenues have increased, particularly the Prevention and Stabilization Account, Nursing Home and Institutional Bed Taxes, and Intergovernmental Transfers. There are also several activities that have increased substantially and are funded with 100 percent federal funds. Most notable in this category are the Food Stamp Program and Indian Health Services, as well as several budget-amended activities such as the Bioterrorism and grants.



Montana University System
The Montana University System expenditures comprise approximately 11 percent of the state general fund expenditures. In the 2007 biennium, the Governor is recommending an appropriation of $300.4 million of general fund excluding the pay plan. The recommended pay plan will increase this general fund support by approximately $11 million. Within the $300 million, there is, state support for the educational units of $225.3 million of general fund. In addition to general fund the six university units receive $27.1 million in six-mill levy revenue.

For FY 2004 the Montana Board of Regents enacted an approximate 11 percent average system-wide permanent tuition increase for the 2005 biennium per year. The percent increase is approximately 4 percent over the FY 2003 tuition increase when taking into account the tuition surcharge due to the 2002 Special Session. Tuition generated between FY 2005 and the base year, FY 2004, adds approximately $18 million to the educational units current unrestricted budget.

Buy Down of Tuition in the 2007 Biennium- The executive has funded present law adjustments at a level that fully funds the resident student share of the increases in order to keep tuition levels as low as possible. The tuition increase needed to fund the 2007 Biennium Executive Budget is 1 to 2 percent above the FY 2005 tuition rates.

Equipment Needs- As described on page O-11, the executive proposes to provide $5 million of one-time funding that requires an equal match from the University System for equipment for two-year programs.

Shared Leadership Group
Shared Leadership for a Stronger Montana Economy is a partnership between the Governor, state legislature, congressmen, educators, and the business community. The goal of the partnership is to identify concrete actions that the Montana University System can take, in partnership with other government entities and the private sector, to create a stronger economy and create more good paying jobs in the state. The effort has been underway in earnest since January 2004 and has developed three priority areas:

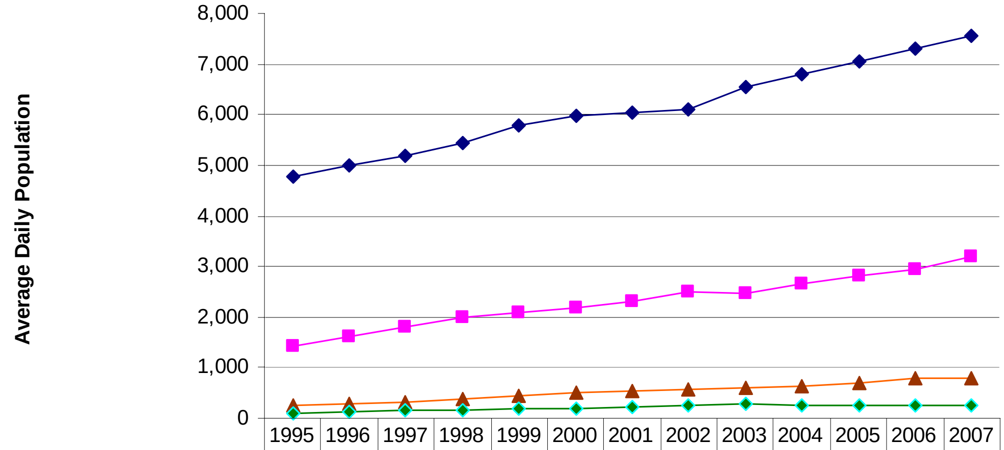
- Develop stronger business-university system partnerships for workforce training
- Remove barriers to access for postsecondary education
- Expand distance learning programs and opportunities

An important objective of the "Shared Leadership" initiatives is to better coordinate statewide activities of the University System. All funding is provided with an understanding that the University System will provide the amount of matching funds indicated on page E-34.

Department of Corrections
The Executive is requesting $234.8 million general fund for the 2007 biennium. In the agency's request, there were a number of substantial increases that the Governor recommends be approved to deal with increasing adult populations, estimated to grow over 5 percent per year, by increasing the use of community corrections supervision. There are a number of decision packages requested to deal with the growing populations dilemma including adding 15 probation and parole officers in FY 2006 at a general fund cost of $640,247 and 19 officers in FY 2007 at a general fund cost of $782,230. Another request aimed at coping with the increasing populations is a request to increase the number pre-release beds in the system at a cost of $1,335,622 general fund per year.

Due to the anticipated growth in the adult population, the department is also requesting an increase in contract beds of $4,219,294 in FY 2006 and $8,935,099 in FY 2007 to provide adequate hard-cell housing for inmates not eligible for community corrections.

Chart O-7
Average Adult Daily Population FY 1995 - FY 2007



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
P&P	4,771	4,993	5,176	5,431	5,787	5,963	6,047	6,104	6,552	6,813	7,052	7,298	7,554
Secure Custody	1,408	1,612	1,809	1,984	2,094	2,178	2,301	2,483	2,470	2,653	2,815	2,954	3,206
Pre-Release	256	288	312	380	445	508	534	582	613	632	682	776	776
ISP	110	121	156	156	184	194	226	252	277	255	260	260	260

Department of Revenue
The Department of Revenue's budget includes a present law budget plus four significant one-time only proposals as described in more detail on page O-10. The four proposals are approximately $4 million to complete conversion the to IRIS; pay off the IRIS loan from the Board of Investments for approximately $16 million; $5.5 million for the biennium to develop and implement a new technologically sound property tax computer system; and finally a Montana agricultural/forest land classification and valuation system of $1.4 million. These proposals will be one-time-only appropriations. Funding these proposals will result in significant general fund savings in the long run.

Department of Justice
Major issues in the Department of Justice include:

Gambling Control Computer System
The Gambling Control Division has been pursuing the options for enhancements/updates to the existing antiquated gambling revenue tax accounting system. This system is authorized by a one-time only appropriation as described on page O-10.

IT – Team261 Title and Registration status/update
HB 261 authorizes the department to borrow from the Board of Investments up to $18.5 million for financing the cost of a project to 1) provide efficient interagency operations and improved services to the citizens of Montana; 2) continue to implement business improvements by systematically adopting business principles that benefit MVD stakeholders and all Montanans;

and 3) treat Montana state government as a single enterprise, sharing knowledge and information openly. The bureaus of MVD directly affected by this business and technical reengineering effort are Field Operations, Records and Driver Control, and Title and Registration.

The project, known as TEAM261, began in October 2003 and will conclude in June of 2007. As of the 2005 Session, Business Process Reengineering (BPR) efforts will have been completed for vehicle titling, vehicle registration, and driver records and control with only driver licensing remaining. These activities account for nearly 30 percent of all planned project activities. The next major steps include implementation of vehicle registration business practice improvements, driver records and control business practice improvements, driver license business practice improvements, and the definition and development of the business process enabling technology.

Backlog at Forensic Lab

The Forensic Science Division Laboratory is the only crime laboratory in Montana providing law enforcement with forensic analysis of crime scene evidence. Accurate and timely analysis of this evidence is critical to the Criminal Justice System. The analysis results will provide important information for the prosecution or defense. Backlogs become issues for the Criminal Justice System when lengthy delays can cause charges to be dismissed due to speedy trial issues or an innocent defendant being incarcerated awaiting the results from the laboratory. Suspects leaving a jurisdiction prior to the laboratory providing law enforcement with results are a very real possibility. Backlogs have a negative effect on the scientists who feel a responsibility to hurry casework because of backlogs, which in turn can result in errors being made. The larger the backlog the more disruptions the scientist encounters as agencies are looking for the results of their cases. The Forensic Science Division has requested and the Executive agrees to fund 3 positions to address the backlog concerns of the laboratory.

The Judiciary –

As required by 17-7-122(3), MCA, the 2007 biennium budget requested by the Judicial Branch is presented in the Executive budget in Table A-1. In this exhibit is also the Executive's recommendation, which is $7,826,570 lower than what was requested. Listed in the table are those requests that were denied, changed, or added by the Executive. The major differences are the denial of the general fund Information Technology request of $4.8 million/biennium, the denial of the restoration of and then the addition of the Statewide FTE Reduction, which amounts to $1.02 million general fund for the biennium. Another difference is the Executive's adjustment of Judiciary's fixed costs to match what was allocated by the OBPP, which is $558,000 for the biennium. Also, the Executive denied the Juvenile Probation – JDIP request for $2.048 million in state special revenue for the biennium.

The Judiciary has requested $950,000 of general fund per year to pay for forensic psychiatric evaluations when a defendant is committed to the Montana State Hospital at Warm Springs under a district court order to determine the fitness of that individual to proceed in a criminal case against that individual. The DPHHS did not previously bill for the evaluations, but due to an audit finding the DPHHS must bill for these evaluations. As this money is received by DPHHS it will be deposited directly into the general fund, thus creating a net zero effect to the fund balance. The Executive has increased this request by $50,000 per year to ensure adequate spending authority. The Executive is carrying an identical revenue estimate for the requested $1 million per year for the general fund.

Livestock

The Department of Livestock has experienced a significant loss in state special revenue, mainly in per capita fees, primarily due to drought conditions and a drop in livestock head counts. As Table O-8 shows, cattle head counts alone have decreased 9.3 percent since 2001. Consequently, the budget for the department is reduced by 10.00 FTE and nearly $400,000 each year of the biennium. As conditions improve and the need exists, the Board of Livestock may request the FTE and spending authority be restored in the future.

Table O-8

Department of Livestock Headcounts

	FY 2001 actual	FY 2002 actual	FY 2003 actual	FY 2004 actual
Cattle	1,903,820	1,822,370	1,805,049	1,729,997
Sheep & Goats	269,218	250,742	235,457	221,314
Horses & Mules	92,740	91,235	94,983	89,203
Swine	70,896	67,279	74,248	87,017
Poultry	293,084	285,590	312,565	332,547
Bees	53,381	46,182	43,615	41,060
Llamas	2,679	3,444	2,863	2,330
Bison	13,475	14,281	10,870	10,097
Domestic Ungulates	3,798	3,103	2,594	2,356
Ratites	563	367	289	242
Total	2,703,654	2,584,593	2,582,533	2,516,163

Department of Environmental Quality

The department has two main areas in which it is requesting additional resources to meet workload demands - water quality permitting and development of Total Maximum Daily Loads (TMDLs). The TMDL program is under a federal district court order to complete all TMDL development by 2007. As part of ongoing negotiations with the courts, the program has committed to an aggressive schedule that would complete several high priority watersheds by 2007, and remaining TMDLs by 2012. Increased staffing and contracted services are necessary to meet this schedule. Similarly, additional resources are needed in water quality permitting both to address permit backlog and to keep pace with increased demand.

Department of Labor and Industry

In the 2003 Legislative Session, there was a one-time-only funding switch within the department. This funding switch replaced general fund with Employment Security Account (ESA) state special revenue funding which was in turn backfilled with Reed Act federal funds. These switches were done to help alleviate the general fund shortfall in the 2005 biennium. Projections indicate that there are insufficient funds in the ESA over the long-term to continue funding those general fund programs without reducing ESA supported programs. This funding switch reduces state special and federal revenue requests by $613,665 in FY 2006 and $611,535 in FY 2007 and replaces them with general fund. The programs that are affected by this switch are the Jobs for Montana Graduates Program, Displaced Homemakers, Human Rights, and a portion of the Office of Community Services.

Department of Transportation

Highway contractor payments are projected to be at a level of approximately $663.2 million for the 2007 Biennium, including $93 million for US Highway 93 from Polson to Evaro. There has been no federal transportation bill since the Transportation Equity Act for the 21st Century (TEA-21) expired on September 30, 2003. Therefore, the department continues to operate under a series of continuing resolutions until a new bill can be signed into law. The department estimates federal obligations for the 2007 Biennium to be at a level of $650 million. A revised executive budget request for the Construction Program will be prepared by January 1, 2005 based upon any updated information regarding federal obligation levels, a revised Tentative Construction Plan (TCP), and efforts to maintain a positive working capital balance in the highways state special revenue account through FY 2007.

State Employee Pay Plan

The budget contains a 3 percent increase each year for the state employees pay plan effective in October of each year. It also contains a $46 increase in FY 2006 and another $51 increase in FY 2007 for the employee benefit package to provide stable health care benefits to state employees. The total general fund cost to the pay and benefit plan is $30 million increases. An additional $1.5 million of general fund for the personal services contingency pool that is used to fund shortfalls in personal services expenditures in agency budgets is also included in the budget.

General Fund Supplementals

Governor's Office and Commissioner of Political Practices – Changes in administrations causes payouts for employees and are estimated at $263,000.

Judicial Branch - The District Court reimbursements, for such things as criminal, indigent defense, youth court, and civil jury expenses have an anticipated shortfall in appropriation of $6.8 million.

Public Health and Human Services – The FY 2005 Child Support Enforcement Division revenue shortfall is estimated at $857,058. The Child and Family Services Division is requesting a supplemental of $1,142,942 general fund for Foster Care.

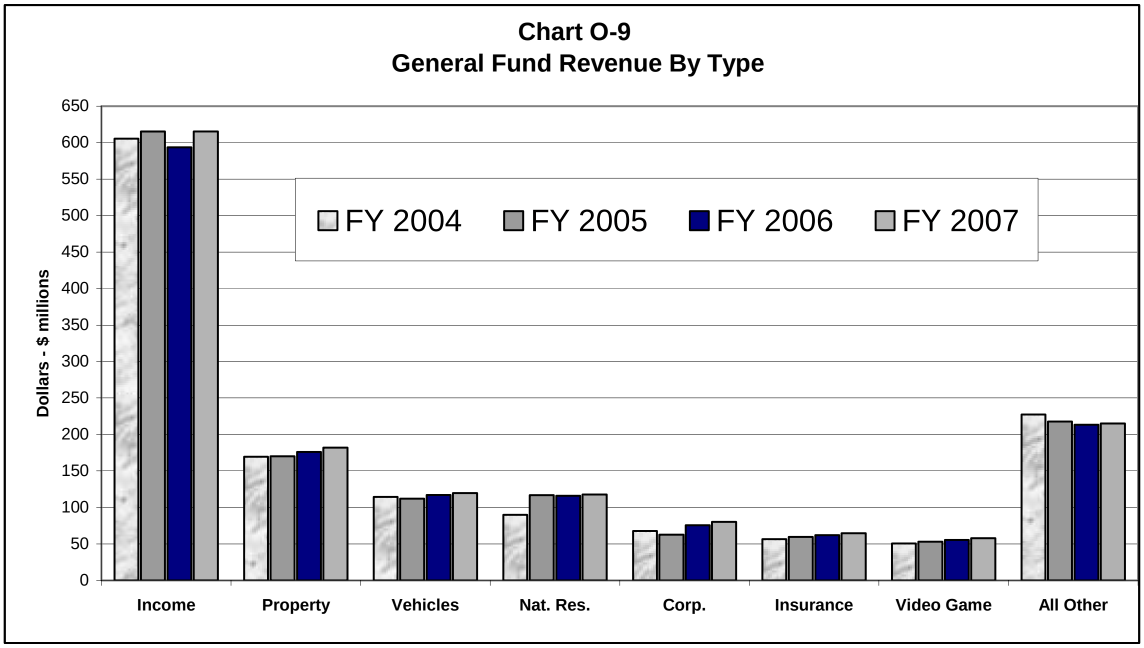
Department of Corrections - The agency anticipates a $3 million general fund supplemental due to higher inmate populations than anticipated.

Department of Justice- The agency anticipates a supplemental of $200,000 for the Legal Services Division for major litigation, an exempt staff payout of $24,000, and $363,762 for transfers required by HB 559 to the highway patrol retirement fund that did not contain appropriation language.

For more details on the supplementals please see page R-15 of Volume 3

Major Revenue Highlights

The state general fund accounts for all financial resources except those required by law to be accounted for in another fund. Chart O-9 summarizes the general fund revenue in eight groups. Seven major revenue sources comprise 85 percent of the general fund revenue. Each of these revenue sources[1] is over $50 million.



Individual income tax is the predominant revenue source. Individual income tax at $615 million is 42 percent of the general fund revenue for FY 2007. Property tax and the related non-levy revenue is $182 million, representing 13 percent of the general fund revenue for FY 2007. Every other revenue category comprises less than 10 percent of the general fund revenue in FY 2007.

Table O-10, on the following page, shows the 34 general fund revenue categories. The six major taxes, which bring in more than $50 million a year for each tax, comprise 77 percent of the general fund revenue in FY 2007. As a group, natural resource taxes contribute approximately 8 percent of the general fund in FY 2007. Every other revenue category is less than 4 percent of the total general fund revenue in FY 2007.

[1] Vehicle revenue is both vehicle taxes and registration fees. The natural resource category is comprised of oil and natural gas production taxes, U.S. mineral royalties, coal severance tax, metal mines tax, electrical energy tax, and wholesale energy transaction tax.

Table O-10
General Fund Revenue - FY 2004 through FY 2007
(millions)

Revenue Category	Actual FY 2004	- - - - - - - - - - Forecast - - - - - - - - - - FY 2005	FY 2006	FY 2007	% of Total General Fund
MAJOR TAXES					
Individual Income Tax	$ 605.35	$ 615.27	$ 593.50	$ 615.25	42.36%
Property Tax	169.53	170.08	175.81	181.99	12.53%
Vehicle Taxes and Fees	114.33	112.09	116.91	119.87	8.25%
Corporation License Tax	67.72	62.45	75.67	80.27	5.53%
Insurance Premiums Tax	56.53	59.69	62.10	64.54	4.44%
Video Gambling License Tax	50.75	52.97	55.45	57.79	3.98%
Total Major Taxes	**$1,064.21**	**$1,072.54**	**$1,079.43**	**$ 1,119.70**	**77.08%**
NATURAL RESOURCE TAXES					
Oil and Gas Production Taxes	$ 41.32	$ 58.30	$ 58.51	$ 59.18	4.07%
U.S. Mineral Royalties	28.74	36.35	35.32	36.22	2.49%
Coal Severance Tax	8.64	9.25	8.64	8.57	0.59%
Metalliferous Mines Tax	3.23	5.26	5.70	5.98	0.41%
Electrical Energy Tax	4.66	4.24	4.24	4.24	0.29%
Wholesale Energy Transactions Tax	3.29	3.49	3.52	3.56	0.24%
Total Natural Resource Taxes	**$ 89.89**	**$ 116.89**	**$ 115.92**	**$ 117.74**	**8.11%**
INTEREST EARNINGS					
Coal Trust Interest Earnings	$ 34.91	$ 34.00	$ 34.29	$ 34.48	2.37%
Treasury Cash Account Interest	6.39	9.89	12.82	13.50	0.93%
Total Interest Earnings	**$ 41.30**	**$ 43.89**	**$ 47.11**	**$ 47.98**	**3.30%**
LIQUOR TAXES					
Liquor Excise and License Taxes	$ 10.72	$ 11.11	$ 11.48	$ 11.86	0.82%
Liquor Profits	6.50	6.67	6.89	7.12	0.49%
Beer Tax	2.90	2.86	2.91	2.96	0.20%
Wine Tax	1.42	1.49	1.56	1.63	0.11%
Total Liquor Taxes	**$ 21.54**	**$ 22.13**	**$ 22.84**	**$ 23.57**	**1.62%**
TOBACCO TAXES					
Cigarette Tax	$ 36.00	$ 34.47	$ 33.20	$ 32.35	2.23%
Tobacco Products Tax	3.56	3.57	3.59	3.62	0.25%
Tobacco Settlement Funds	2.93	2.91	2.37	2.34	0.16%
Total Tobacco Taxes	**$ 42.50**	**$ 40.95**	**$ 39.16**	**$ 38.31**	**2.64%**
SALES TAXES					
Telecommunications Excise Tax	$ 20.92	$ 21.31	$ 21.72	$ 22.13	1.52%
Institutional Reimbursements	18.11	16.31	15.12	15.13	1.04%
Accommodations Tax	9.28	10.11	10.71	11.42	0.79%
Health Care Facility Utilization Fees	5.92	5.76	5.66	5.56	0.38%
Rental Car Sales Tax	2.49	2.56	2.64	2.72	0.19%
Total Sales Taxes	**$ 56.71**	**$ 56.07**	**$ 55.86**	**$ 56.96**	**3.92%**
OTHER TAXES AND REVENUES					
Lottery	$ 8.12	$ 7.00	$ 7.01	$ 7.90	0.54%
Highway Patrol Fines	4.08	4.29	4.37	4.45	0.31%
Investment Licenses and Permits	4.83	4.12	3.92	3.73	0.26%
Contractors' Gross Receipts Tax	2.12	1.96	2.61	2.40	0.17%
Driver's License Fee	3.02	2.83	3.03	2.89	0.20%
Rail Car Tax	1.57	1.59	1.62	1.66	0.11%
Estate Tax	11.43	5.17	2.30	1.65	0.11%
Other Revenue	29.43	27.79	23.59	23.63	1.63%
State Fund Reserve Transfer	0.82	-	-	-	0.00%
Total Other Taxes and Revenues	**$ 65.42**	**$ 54.74**	**$ 48.45**	**$ 48.31**	**3.33%**
TOTAL GENERAL FUND REVENUE	**$1,381.56**	**$1,407.20**	**$1,408.77**	**$ 1,452.58**	**100.00%**

Table O-11

General Fund Budget Recommendations

(in millions)

	Base FY 2004	Appropriated FY 2005	FY 2006	FY 2007
Beginning Fund Balance	**$ 43.06**	**$ 135.25**	**$ 209.06**	**$ 171.37**
Revenue	1,381.56	1,407.20	1,408.77	1,452.58
HB 2 impact on revenues				
Pay off Department of Revenue IRIS loan	-	-	2.77	3.18
Additional Scientists Department of Justice	-	-	0.16	0.16
Total Revenue	**1,381.56**	**1,407.20**	**1,411.71**	**1,455.92**
Total funds available (fund balance plus revenue)	**$ 1,424.63**	**$ 1,542.46**	**$ 1,620.76**	**$ 1,627.29**
Expenditures				
General Appropriations (ongoing)				
Public Schools	$ 514.09	$ 514.99	$ 525.30	$ 531.72
Public Schools OTO	-	-	0.09	0.09
Human Services	250.08	272.06	296.18	307.37
University System	141.07	137.44	145.76	145.71
University System OTO	-	-	4.47	4.47
Corrections	104.02	106.63	112.03	116.81
Corrections OTO	-	-	5.27	0.67
Other Agencies	133.06	132.61	143.84	143.89
Restricted OTO investments		-	35.06	8.47
Total General Appropriations	**$ 1,142.32**	**$ 1,163.74**	**$ 1,268.00**	**$ 1,259.19**
HB 13 Pay Plan Appropriations	0.45	1.05	9.51	22.04
Statutory Appropriations				
Local Government Entilements	$ 82.46	$ 84.94	$ 85.19	$ 87.77
Local Government Property tax reimbursements	6.08	4.87	3.61	2.41
Local Government Retirement	16.61	17.77	18.65	19.76
Other	21.45	21.59	25.80	26.00
Total Statutory	**$ 126.60**	**$ 129.16**	**$ 133.25**	**$ 135.94**
HB 5 Long Range Building OTO	-	-	10.00	20.00
HB 9 Cultural Trust repayment OTO	0.25	0.25	3.91	-
Bill to set aside funds for protested property tax settlements OTO		-	4.00	-
Actuarial Funding of Retirement system bills	-	-	3.60	3.60
Other 2003 legislative session bills	1.00	3.35	-	-
Feed Bill	0.76	7.77	-	7.00
Carry forward	0.61	1.20	-	-
Non-budgeted transfers out	10.05	22.76	22.12	21.63
Supplemental Appropriations (HB 3)		12.63	-	-
Reversions		(5.00)	(5.00)	(5.00)
Total Expenditures	**$ 1,282.04**	**$ 1,336.90**	**$ 1,449.40**	**$ 1,464.39**
Adjustments to fund balance	(7.34)	3.50	-	-
Ending Balance	**$ 135.25**	**$ 209.06**	**$ 171.37**	**$ 162.90**
Available ongoing revenue			**$ 25.12**	**$ 25.23**
Available one-time revenue				**$ 32.55**

Notes: The budget for the Legislative Branch budgeted all expenditures in the first year of the biennium. In this table this cost has been split evenly between the fiscal years to show and more accurate representation of structural balance. The ending fund balance is unaffected by this split.