

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR-ELECT



PO Box 200801
HELENA, MONTANA 59620-0801

December 28, 2004

Honorable President and Members of the Senate
Honorable Speaker and Members of the House

Honored Members of the Fifty-Ninth Legislative Assembly:

In accordance with 17-7-121, M.C.A., it is my pleasure to submit my 2007 Biennium Executive Budget Recommendations. It is a New Day in Montana. This budget reflects my vision for this administration as we begin to move Montana forward.

My Administration's goals are straightforward. We will work tirelessly to keep and bring good paying jobs into our state and to vitalize our economy. We share Montana's commitment to education and will strive to make our public schools more accessible, more affordable and of higher quality across the entire state. Families connect us to one another. We commit ourselves to strengthening families by working for more affordable and available health care, by helping those in need with their utility bills, and by keeping tobacco away from our young people.

We are a diverse citizenry. My budget reflects a renewed commitment of Montana's First People and our willingness to work with them to improve the lives of American Indian people.

Our challenges are many. Providing enough of what the public needs while ever mindful of the individual's wallet is the perpetual balancing act. Our pledge is to run state government as free of waste as possible, to ensure that every dollar is used wisely, and to preserve the public's trust.

A lot of hard work went into the formation of this budget. Not everyone will be satisfied, not all needs met, nor all questions yet answered, but it is a start. Our transition team has appreciated the partnership generated to create this document and I thank Governor Martz and her staff for their efforts.

My staff and I look forward to working with you for the benefit of all the people of Montana.

Sincerely,

Brian Schweitzer
Governor-Elect

OVERVIEW

Governor-Elect Schweitzer's budget reflects his highest priorities: 1) good-paying jobs, 2) quality public education, and 3) stronger families. Finally, it also reflects what makes Montana so special: its diverse people, its unique history, and finally, the majestic land itself.

1) **Jobs and Economic Vitality**

Government has a role in helping improve the State's economy and creating quality jobs. Numerous past efforts have been made to improve the economy and to nurture jobs. The "Build Montana" program goes back more than two decades and elements of that program still bear fruit. Montanans want good paying jobs to enjoy the rewards of hard work and an economy that creates job opportunities for our children. This Administration proposes to stimulate the economy in the following ways:

- Support with general fund the New Worker Training Program, passed in the 2003 Legislature, to ensure a stable source of funding for this important program. This program will help businesses to participate in job training and create higher-skilled, higher-paying jobs in Montana.
- Create an Economic Development Trust Fund within the Coal Tax Trust. This new Trust Fund will provide long-term and increased funding to sustain economic development efforts that target company-specific quality job creation and local/regional capacity building.
- Target economic growth on the seven economically distressed Indian reservations by providing funding, technical assistance, and training for tribal businesses.
- Restore, refocus and expand the discontinued "Made in Montana" program to help Montana businesses develop, produce and market their products throughout the nation, as well as Montana. Montana's products connote wholesomeness because of our rural qualities. We must actively participate in the promotion of our Montana goods to the nation and world.
- Provide funds to enhance marketing Montana and to aggressively participate in business recruitment efforts that target quality job creation.

2) **Public Schools: Improve Quality Kindergarten through 12th Grade and Increase Higher Education Access and Affordability**

Improve K-12 Public School Quality

A quality public school system is essential for an educated citizenry and a strong economy. Recent decisions by Montana's District and Supreme Courts declare key aspects of the state's school system unconstitutional. Particularly, the Supreme Court's decision to define "quality"

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makes it imperative that the budget recommendations herein clearly promote “quality” even before the Legislature acts on this matter.

This budget proposal is within the financial constraints the Schweitzer Administration finds itself and does not suggest or imply that these proposals do enough to ensure complete satisfaction of the courts. We believe the following to be a good start at providing a basic system of quality public schools:

- Reduce the entitlement gap between elementary and high school. This is accomplished by increasing the elementary student entitlement by \$250 and the high school entitlement by \$50, as well as providing a special education increase of 3.5 percent. These permanent increases amount to over \$30 million in funding over the biennium.
- Allocate sufficient funds to ensure that pro-rating of facility debt service payments to districts will be avoided. The current mechanism for equalizing school bonded debt service is open to challenge if the State only partially funds its share of school debt across the state.
- Set aside funds for the Office of Public Instruction to establish baseline data needed to improve student achievement and ensure quality within the public school system.
- Acknowledge the Montana Constitution’s recognition of the distinct and cultural heritage unique to American Indians and the need for educational goals to include preserving their cultural integrity. One million dollars annually is budgeted to support “Indian Education for All” through curriculum design, professional development and research.
- Increase funding for the Montana School for the Deaf and Blind to improve facilities and instruction.

Increase Higher Education Access and Affordability

Listen to experts on Montana higher education and the message is clear: Montana must do more to make higher education affordable, particularly for lower income students. The Schweitzer budget recommends restructuring the Shared Leadership proposal to improve affordability and enhance access to higher education. This is accomplished by:

- Target funding for needs-based financial assistance for students attending two-year programs in the Montana University System and community colleges.
- Target funding for grants to students based upon academic achievement to help assure our “*best and brightest*” stay in the Treasure state.
- Provide equity funding for Montana students attending tribal community colleges that are not eligible for federal funding.
- Elevate academic programs and increase funding for non-Indians enrolled at the seven tribal colleges in Montana.

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3) Strengthening Families

In our current economy, many Montanans have difficulty meeting the multiple demands of day-to-day living. Help to meet the needs of Montana's families is woven throughout Governor-Elect Schweitzer's budget. The following priorities acknowledge the state's limited resources by refocusing the budget on the needs of children, seniors, vulnerable citizens and struggling Montana families:

- Support and sustain a vital economy to assist Montana families who are too often forced to work more than one job to make ends meet.
- Increase funding for families struggling to heat their homes by funding Low Income Heating Assistance.
- Ensure affordable health care is available for more Montana families by including pharmacy services for seniors, full funding for the Children's Health Insurance Program (CHIP) and innovative redesign for additional Medicaid services for that will sustain healthy families.
- Continue funding for Hospice and Home Health Therapy to support families during this most difficult family time.
- Continue and increase funding for childcare.
- Increase meat inspection, assuring a safe food supply for Montanan families' dinner tables.
- Help for low-income families to make college education a reality.
- Reduce tobacco consumption and protect our children from a lifetime of addiction.

4) Additional Needs

This budget also reflects some unique funding needs and cornerstones facing Montana.

Tobacco Tax Initiative –Governor-Elect Schweitzer will honor the will of the Montana voters, who on three separate occasions have spoken clearly on their intention: to reduce tobacco consumption through prevention and continuing education on the harmful impacts of ongoing tobacco use. However, the success of these programs will ultimately lead to lower tobacco revenues that fund essential programs. Sustainability is a concern of this Administration that cannot and will not be overlooked. The proposed budget uses for this revenue are as follows:

- Full funding for the Children's Health Insurance Program (CHIP).
- Full funding for current Medicaid programs and expanding services, as determined.
- Increased medical provider rates to ensure coverage for beneficiaries.
- Incentives for small businesses to provide health insurance for their employees.

Public Safety – Governor-Elect Schweitzer is committed to improve the safety of all Montanans. The following budget proposals are provided for this purpose:

- Increase the staff at the state's forensic lab to expedite criminal investigations.
- Increase the staff assigned to meat inspection activities.
- Fund information technology systems to improve our courts' scheduling, tracking and timeliness of decisions and actions.

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Other Items – The following are additional budget proposals:

- The Agricultural Heritage Program is funded to allow the State to preserve open farmland and wildlife habitat.
- A Highway Patrol Settlement is proposed to settle a wage dispute with highway patrol officers.
- The Governor's Office budget is increased to improve the Governor's ability to lead the state.
- Additional compliance staff are funded in the Department of Revenue to improve collection of taxes owed.

Table 1 on the following page summarizes all the changes currently recommended.

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Table 1			
Schweitzer General Fund Budget Recommendations			
(\$ millions)			
	FY 2005	FY 2006	FY 2007
Revenue			
I-149 additional general fund	\$ 2.26	\$ 4.24	\$ 3.80
Dept. of Revenue Compliance staff revenue	-	1.08	2.32
Court Fee Collection	-	1.60	1.60
Jobs and Economic Vitality			
Film industry	-	(0.25)	(0.50)
Trust for Economic Development	-	(1.37)	(1.60)
Total Revenue Adjustment	\$ 2.26	\$ 5.30	\$ 5.61
Expenditure			
Jobs and Economic Vitality			
Marketing Montana - Gov office	\$ -	\$ 0.50	\$ 0.50
Job Credit restructure - remove NB transfers	(0.30)	(0.75)	(1.05)
Job Credit restructure - add payments	-	1.50	1.50
OTO Additional Job Credits	2.17	0.50	0.50
Made in Montana - Commerce	-	0.50	0.50
Indian Country Economic Development	-	0.50	0.50
Quality K-12 education			
Entitlement and special education increases	-	15.36	15.31
Indian Education for All	-	0.75	0.75
OTO additional appropriation for facility bond reimbursement	-	2.37	2.40
OTO Data system for K-12	-	2.46	0.37
Montana School for the Deaf and Blind	-	0.25	0.25
Affordability and Access - Higher Education			
Grants to Tribal College non-beneficiary students	-	0.10	0.20
Two-year needs based grants to students	-	1.00	1.00
Best and Brightest grants to students	-	1.50	1.50
Exchange economic development for student assistance	-	(0.46)	(0.50)
Exchange economic development OTO for student assistance	-	(1.97)	(1.97)
Add - Tribal College investment OTO	-	1.00	1.50
Strengthening Families			
Foster Care & Subsidized Adoption - maintain program	1.02	1.02	1.02
OTO Low Income Energy Assistance	1.75	4.20	4.20
Note: I-149 impacts do not impact the general fund			
Public Safety			
Court System Information Technology	-	1.94	1.94
Forensic Lab staff - Department of Justice	-	0.14	0.08
Additional meat inspector - Department of Livestock	-	0.02	0.02
Other			
OTO Montana Ag Heritage	-	0.40	0.40
OTO Fund Highway Patrol settlement	8.50	-	-
Governor's Office adjustments	-	0.66	0.65
OTO overhaul Governor's plane	-	0.38	-
Department of Revenue Compliance staff	-	0.50	0.50
OTO Department of Revenue Compliance staff	-	0.04	0.08
Meeting the expenditure limitation of MCA 17-8-106	22.90	(18.40)	(4.50)
Total Schweitzer Expenditure Adjustments	\$ 36.04	\$ 16.01	\$ 27.66

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Meeting Legislative Spending Caps MCA 17-8-105 and 106

It is recommended that the Legislature clarify the expenditure limit law. Two major items are included in these spending limitations that may not be the original intent of the Legislature.

1. \$93 million of bond proceeds in the Department of Transportation are included in the calculations of expenditures because they are included in HB 2 as state special funds. MCA 17-8-105 excludes bond proceeds in the capital project fund type, but does not exclude them for state special funds. The intention of the law is likely to exclude these bond proceeds, but due to this technicality these bond proceeds are not exclude.
2. Expenditures of I-149 new tax revenue as approved by the people of Montana. It would be logical that if the people choose to tax themselves for specific purposes that the Legislature would follow through with those expenditures and that those expenditures not be subject to this cap.

If either of these options is adopted by the Legislature, the Legislature could adopt the Governor-Elect Schweitzer budget and meet the statutory expenditure limits. Refinement of the calculation and moving some one-time expenditure to FY 2005 in the supplemental bill will also improve the Legislature's ability to meet the requirements of the law. However the Legislature chooses to address the requirements of the law, the Schweitzer Administration will work with the Legislature to insure that the limitations of the law can be met.

The Schweitzer Preliminary Ending Fund Balance

Governor-Elect Schweitzer recommends a minimum final ending fund balance of \$80 million. These current budget recommendations give a preliminary ending fund balance of \$94 million. There are several other items currently being considered and may be submitted by additional budget recommendations which must be submitted on or before January 7, 2005.

Governor-Elect Schweitzer's recommended pay plan is not factored into this proposal. Several specific items such as funding for water adjudication are being considered and are not specifically in this budget.

Table 2 on the following page gives the summary general fund balance currently recommended.

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Table 2				
General Fund Budget Recommendations				
(\$ millions)				
	Base FY 2004	Appropriated FY 2005	FY 2006	FY 2007
Beginning Fund Balance	\$ 43.06	\$ 135.25	\$ 175.79	\$ 125.08
Revenue	1,381.57	1,409.47	1,413.01	1,456.37
HB 2 impact on revenues				
Economic Development Package	-	-	(1.62)	(2.10)
Dept. of Revenue Compliance staff revenue	-	-	1.08	2.32
Judiciary fee to the general fund	-	-	1.60	1.60
Pay off Department of Revenue IRIS loan	-	-	2.77	3.18
Additional Scientists Department of Justice	-	-	0.16	0.16
I.H.S not pay for tribal court commits	-	-	(0.30)	(0.30)
Total Revenue	1,381.57	1,409.47	1,416.71	1,461.23
Total funds available (fund balance plus revenue)	\$ 1,424.63	\$ 1,544.72	\$ 1,592.50	\$ 1,586.31
Expenditures				
General Appropriations (ongoing)				
Public Schools	\$ 514.09	\$ 514.99	\$ 541.42	\$ 547.78
Public Schools OTO	-	-	4.91	2.86
Human Services	250.08	272.06	301.40	312.59
			4.20	4.20
University System	141.07	137.44	147.90	147.91
University System OTO	-	-	3.50	4.00
Corrections	104.02	106.63	112.03	116.81
Corrections OTO	-	-	5.27	0.67
Other Agencies	133.06	132.61	146.40	146.39
Restricted OTO investments		-	19.98	4.95
Total General Appropriations	\$ 1,142.32	\$ 1,163.74	\$ 1,287.02	\$ 1,288.15
HB 13 Pay Plan Appropriations	0.45	1.05	9.51	22.04
Statutory Appropriations				
Local Government Entitlements	\$ 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	17.65	18.41	19.31
Other	21.45	21.20	25.80	26.00
Total Statutory	\$ 126.60	\$ 128.65	\$ 133.01	\$ 135.49
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
Continuing Appropriations	0.61	1.20	-	-
Non-budgeted transfers out	10.05	22.46	21.37	20.58
Supplemental Appropriations (HB 3)	-	48.97	-	-
Reversions	-	(5.00)	(5.00)	(5.00)
Total Expenditures	\$ 1,282.04	\$ 1,372.42	\$ 1,467.42	\$ 1,491.85
Adjustments to fund balance	(7.34)	3.50	-	-
Ending Balance	\$ 135.25	\$ 175.79	\$ 125.08	\$ 94.45
Available ongoing revenue			\$ 5.07	\$ 6.06
Available one-time revenue				\$ 3.33

CHANGES TO STATE REVENUE

This budget reflects two types of changes to the estimates of general fund revenue made in November. First, Initiative 149, which voters approved in the November election, increases cigarette and tobacco taxes and changes how those taxes are allocated. This increases current law revenue. Second, four new proposals have small effects on general fund revenue.

I-149

Table 3 shows estimated general fund revenue before and after the passage of I-149. This initiative increases estimated general fund revenue by \$2.264 million in the 2005 biennium and \$8.031 million in the 2007 biennium. This adds approximately \$4 million per year for ongoing costs and increases the one-time available funds by \$2.264.

Table 3						
Impact of I-149 on General Fund Revenue Estimates						
Time Period	FY 2004	FY 2005	2005 Biennium	FY 2006	FY 2007	2007 Biennium
Pre I-149	\$1,381.565	\$1,407.205	\$2,788.770	\$1,408.774	\$1,452.577	\$2,861.351
Post I-149	\$1,381.565	\$1,409.469	\$2,791.034	\$1,413.010	\$1,456.372	\$2,869.382
Difference	<u>\$0.000</u>	<u>\$2.264</u>	<u>\$2.264</u>	<u>\$4.236</u>	<u>\$3.795</u>	<u>\$8.031</u>

With the addition of the I-149 general fund revenue and before any changes are made to the Martz Administration recommended budget, there is:

- \$34.81 million available for one-time items (\$32.55 + \$2.64)
- \$29.36 million available in FY 2006 for ongoing expenditures (\$25.12 + \$4.24)
- \$29.03 million available in FY 2007 for ongoing expenditures (\$25.23 + \$3.80)

Current Law General Fund Revenue Estimates

Table 4 on the following page shows the current law executive general fund revenue estimates, including I-149.

CHANGES TO STATE REVENUE

Table 4
General Fund Revenue - FY 2004 through FY 2007
Includes I-149 Impacts (\$ millions)

Revenue Category	Actual FY 2004	----- Forecast -----			% of Total General Fund
	FY 2004	FY 2005	FY 2006	FY 2007	
MAJOR TAXES					
Individual Income Tax	605.348	615.267	593.502	615.247	42.25%
Property Tax	169.531	170.077	175.807	181.990	12.50%
Vehicle Taxes and Fees	114.331	112.089	116.909	119.874	8.23%
Corporation License Tax	67.723	62.448	75.666	80.269	5.51%
Insurance Premiums Tax	56.527	59.692	62.095	64.539	4.43%
Video Gambling License Tax	50.749	52.970	55.449	57.785	3.97%
Total Major Taxes	1,064.209	1,072.544	1,079.429	1,119.704	76.88%
NATURAL RESOURCE TAXES					
Oil and Gas Production Taxes	41.324	58.296	58.505	59.182	4.06%
U.S. Mineral Royalties	28.736	36.351	35.322	36.219	2.49%
Coal Severance Tax	8.643	9.255	8.638	8.567	0.59%
Metalliferous Mines Tax	3.232	5.257	5.696	5.975	0.41%
Electrical Energy Tax	4.661	4.243	4.243	4.243	0.29%
Wholesale Energy Transactions Tax	3.293	3.485	3.520	3.555	0.24%
Total Natural Resource Taxes	89.888	116.887	115.924	117.742	8.08%
INTEREST EARNINGS					
Coal Trust Interest Earnings	34.907	34.003	34.293	34.484	2.37%
Treasury Cash Account Interest	6.393	9.885	12.821	13.498	0.93%
Total Interest Earnings	41.300	43.888	47.113	47.982	3.29%
LIQUOR TAXES					
Liquor Excise and License Taxes	10.718	11.109	11.476	11.856	0.81%
Liquor Profits	6.500	6.669	6.889	7.117	0.49%
Beer Tax	2.897	2.860	2.913	2.965	0.20%
Wine Tax	1.423	1.491	1.561	1.634	0.11%
Total Liquor Taxes	21.538	22.129	22.840	23.572	1.62%
TOBACCO TAXES					
Cigarette Tax	36.002	34.968	34.073	32.936	2.26%
Tobacco Products Tax	3.562	3.710	3.833	3.838	0.26%
Tobacco Settlement Funds	2.934	2.908	2.368	2.339	0.16%
Total Tobacco Taxes	42.497	41.586	40.274	39.113	2.69%
SALES TAXES					
Telecommunications Excise Tax	20.919	21.314	21.717	22.127	1.52%
Institutional Reimbursements	18.110	16.314	15.123	15.134	1.04%
Accommodations Tax	9.279	10.113	10.715	11.419	0.78%
Health Care Facility Utilization Fees	5.916	5.763	5.665	5.555	0.38%
Rental Car Sales Tax	2.486	2.563	2.643	2.724	0.19%
Total Sales Taxes	56.710	56.068	55.863	56.959	3.91%
OTHER TAXES AND REVENUES					
Lottery	8.116	7.002	7.009	7.899	0.54%
Highway Patrol Fines	4.084	4.287	4.370	4.453	0.31%
Investment Licenses and Permits	4.834	4.123	3.923	3.733	0.26%
Contractors' Gross Receipts Tax	2.120	1.956	2.605	2.400	0.16%
Driver's License Fee	3.021	2.825	3.031	2.886	0.20%
Rail Car Tax	1.568	1.585	1.621	1.656	0.11%
Estate Tax	11.431	5.171	2.301	1.651	0.11%
Other Revenue	29.432	29.419	26.707	26.623	1.83%
State Fund Reserve Transfer	0.816	0.000	0.000	0.000	0.00%
Total Other Taxes and Revenues	65.422	56.368	51.567	51.300	3.52%
TOTAL GENERAL FUND REVENUE	1,381.565	1,409.469	1,413.010	1,456.372	100.00%

CHANGES TO STATE REVENUE

New Proposals

Governor-Elect Schweitzer is proposing two changes to the Martz budget that reduce general fund revenue. These changes are a trust fund for economic development and tax incentives for the film industry. He is also proposing two that increase general fund revenue: continuing the court information technology surcharge and increasing compliance efforts at the Department of Revenue.

Coal Severance Tax Trust Fund for Economic Development

It is proposed that at the beginning of FY 2006 a new Economic Development Trust Fund be created within the coal severance tax trust fund. As with the existing Treasure State Endowment Fund and Treasure State Endowment Regional Water System Fund, the principal will remain part of the overall coal severance tax trust fund, but the earnings on this portion of the trust will be dedicated to a specific use rather than deposited in the general fund. The Economic Development Trust Fund will be created with a balance of \$20 million. The trust will capture 25 percent of the coal tax flow into the permanent trust for the next 20 years, after which it will be capped. Interest earnings on this balance will be deposited in a new state special revenue account that will be used to fund economic development activities. Revenue to the account will be \$1.367 million in FY 2006 and \$1.604 million in FY 2007. Revenue to the general fund will be reduced by the same amounts.

Film Industry Tax Incentives

The proposed budget contains funds for film industry tax incentives of \$250,000 for calendar year 2005 and \$500,000 for calendar year 2006. While legislation is still being drafted, it is anticipated that the following criteria will generally apply:

- The tax incentive is intended to increase film production in Montana. Tax credits would be available only when the total film industry production exceeds 1.2 times the most recent three-year average, as tracked by the Montana Film Office. The tax incentives are targeted to use Montana residents for jobs.
- The tax incentives are targeted to production costs incurred within Montana for products or services sold to the film company by Montana businesses.
- Any company claiming credits must report the company's Montana corporate tax and property tax payments related to film production in Montana and the owners' Montana individual income tax payments each calendar year to the Montana Film Office. The Film Office must track these tax payments to determine the direct tax impact of the film companies.

Any tax records or tax information obtained by the Montana Film Office shall be confidential as per the concepts of confidentiality provided in 15-31-511, MCA, with records accessible only by necessary personnel in the Montana Film Office, the Legislative Auditor, the Legislative Fiscal Division, the Office of Budget and Program Planning, and the Department of Revenue.

CHANGES TO STATE REVENUE

Continue the \$10 surcharge for Court Information Technology

The \$10 user surcharge for court information technology is recommended to continue without a sunset and to be deposited in the state general fund. Under current law this surcharge is deposited into a state special revenue account for the implementation and maintenance of court information technology systems, and the surcharge sunsets June 30, 2005. The continuation of the surcharge will bring in approximately \$1.6 million each year. Information technology expenditures for the court system will be funded through HB 2 appropriations.

New Department of Revenue Compliance Unit

The Department of Revenue will hire six additional auditors, one additional attorney, and one support person who will concentrate on four areas where other states have found significant non-compliance with personal income tax and corporate license tax. These areas are:

- Abusive tax shelters, where complicated or fraudulent transactions are used to hide or disguise income.
- Income earned in the state by nonresidents that is not reported or taxed. This most often applies to capital gains income.
- Income earned by out-of-state businesses that have enough economic presence in the state to owe corporation license taxes but do not pay.
- Income earned in Montana that flows through one or more pass-through entities to an out-of-state recipient who does not pay Montana income tax.

Personnel and operating costs for this new compliance unit are projected to be \$500,000 per year. Costs for training and consulting services, including expert witnesses, are projected to be \$40,000 in FY 2006 and \$80,000 in FY 2007. Ultimately, this unit is expected to generate revenue of at least ten times this cost. However, it will take time for the staff to be trained and gain experience and for additional taxes due to be collected. Additional revenue is expected to be \$1.1 million in FY 2006 and \$2.3 million in FY 2007.

General Fund Revenue Summary

The general fund revenue estimates in the Schweitzer Budget are shown in Table 5. The new proposals increase general fund revenue by \$1.063 million in FY 2006 and \$1.816 million in FY 2007 .

Table 5			
General Fund Revenue - FY 2004 through FY 2007			
Inlcudes I-149 Impacts and New Proposals			
(\$ millions)			
Revenue Category	FY 2005	FY 2006	FY 2007
Current Law and I-149 General Fund Revenue	\$1,409.469	\$1,413.010	\$1,456.372
New Proposals:			
Trust Fund for Economic Development		(1.367)	(1.604)
Film Industry Tax Incentives		(0.250)	(0.500)
Continue \$10 Court Surcharge		1.600	1.600
Department of Revenue Compliance Unit		1.080	2.320
Total New Proposals		\$1.063	\$1.816
General Fund with New Proposals	\$1,409.469	\$1,414.073	\$1,458.188

SECTION A – GENERAL GOVERNMENT & TRANSPORTATION

Judicial Branch –

PL 222 – Restore Clerk of Court Operating Budget – The budget includes \$6,000 general fund each year of the biennium to restore the operating budget of the Office of the Clerk of the Supreme Court to nearly the FY 2004 approved level.

NP 111 – Support Information Technology for the Judicial Branch - HB 18, passed by the 2003 Legislature, extended the sunset date for a surcharge on certain civil and criminal court case filings. The bill also increased the surcharge from \$5 to \$10. The surcharge was deposited in a state special revenue fund and that fund was used to pay for the implementation and maintenance of information technology systems in the courts of Montana. The bill sunsets June 30, 2005, and therefore funding for this function was removed from the Judicial Branch budget for the 2007 biennium.

The Governor-Elect recommends repealing the sunset for the IT surcharge and allowing the surcharge to continue at the \$10 level. The proceeds would be deposited into the general fund instead of the state special revenue fund. It is estimated that the surcharge will generate \$1.6 million in revenue for the general fund each year of the 2007 biennium. In addition, the Governor-Elect recommends funding the IT needs of the Judicial Branch with a direct general fund appropriation of \$1.935 million in both FY 2006 and FY 2007.

Governor's Office –

PL 111 – Transfer Workforce Training Program - The Martz budget includes a state special revenue appropriation of approximately \$9.8 million to implement HB 564, passed by the 2003 Legislature. The bill, called the Workforce Training Act, created a program to offer training grants to primary sector businesses to create high-wage and high-skill jobs. Funding for the grants comes from an Intercap loan from the Board of Investments. The loan would be repaid from new job tax credits offered to these businesses based upon the new jobs and higher wages created. The legality of using the Intercap loan program has been questioned. The Schweitzer Administration proposes to eliminate this questionable funding source, remove all references to the Board of Investments and provide funding through a direct general fund appropriation, and transfer the associated 2.00 FTE to the Department of Commerce. The program will be administered through the Department of Commerce, rather than through the Office of Economic Opportunity.

PL 222 – Governor's Office Budget Increase– This request adds \$189,000 general fund per year to the Governor's Office budget. Funding includes \$19,000 to make salary adjustments for classified staff including benefits, \$50,000 operating funds for items such as printing and contracted services, \$50,000 to provide funding for various automation and IT efficiency efforts, and \$70,000 to provide additional travel funds for the Governor and his staff.

NP 333 – Federal Relations Office – The budget includes \$250,000 per year for 1.50 FTE and related operating expenses to create and maintain an office for the State of Montana in Washington, DC. The staff would work to promote Montana and identify and coordinate issues related to Montana and its citizens.

SECTION A – GENERAL GOVERNMENT & TRANSPORTATION

PL 555 – Increase Salary for the Coordinator of Indian Affairs – The budget for the Coordinator of Indian Affairs is low compared to other government officials with similar responsibilities. This request adds \$25,000 to the budget to increase the salary for the Coordinator of Indian Affairs.

PL 222 – Mansion Maintenance Program Budget Increase – The executive recommends the addition of \$25,000 general fund to the Governor's Mansion. The current base budget is the lowest in many years. The request anticipates that the chief executive will host many functions and public activities, often requiring additional security, moving, and other logistical expenses.

PL 222 – Air Transportation Program Budget Increase - The budget includes \$80,000 general fund in FY 2006 and \$70,000 in FY 2007 for the Air Transportation Program to hire an additional half-time pilot, provide training, and increase the program's operating budget for additional hours of flight time and additional maintenance downtime for the Governor's airplane.

PL 333 – Aircraft Engine Overhaul Contingency OTO – The Governor's airplane has engines that typically require overhaul after 3,500 hours of flight time. Because of participation in the "MORE" program, the Air Transportation program is authorized to operate the engines up to 8,000 hours without overhaul. The "MORE" program requires strict maintenance, inspections, and testing criteria for participation. The state plane currently has approximately 5,300 hours, and the plane is typically operated between 200 and 300 hours per year. This budget item requests a one-time-only general fund transfer to a state special revenue fund of \$380,000 in FY 2006. The funds would be used to overhaul the engines on the Governor's aircraft if the need occurs. If the engines continue to pass tests and inspections, the overhaul will not be needed in the 2007 biennium. However, if the plane fails a test or an inspection, the overhaul will be required before the plane can be flown again. The request also appropriates the state special revenue on a restricted, biennial, one-time-only basis should the overhaul be necessary.

NP 333 – Marketing Montana and Business Recruitment – The Schweitzer budget includes \$500,000 general fund each year of the 2007 biennium to provide national and international marketing of Montana as well as business recruitment efforts that would encourage businesses to locate in Montana.

In business recruitment and marketing Montana as a place to do business, the state will work with local economic development organizations in creation and production of marketing materials, selective targeted institutional advertising, placement of free economic development news in industry publications, proper state and local web site construction and maintenance, industry and company target research, creation of in-state and out-of-state recruitment teams, selective trade show activity, and recruitment deal construction, marketing and closure, among other activities. Aggressive pursuit of marketing and recruitment activities is essential to competing for quality jobs for Montana.

NP 444 - Replace Federal Funds for the Mental Health Ombudsman – In FY 2004, the Mental Health Ombudsman was funded with federal Medicaid funds. These funds are not included in the Martz budget for the 2007 biennium because the federal Centers for Medicare and Medicaid Services determined that the program was not eligible to expend these funds. This request adds \$95,000 general fund and 1.50 FTE each year of the biennium to replace the lost federal funds.

SECTION A – GENERAL GOVERNMENT & TRANSPORTATION

Department of Revenue -

NP 111 – Increase Funding for the Department of Revenue – The Department of Revenue will hire six additional auditors, one additional attorney, and one support person who will concentrate on four areas where other states have found significant non-compliance with personal income tax and corporate license tax. They are

- Abusive tax shelters, where complicated or fraudulent transactions are used to hide or disguise income.
- Income earned in the state by nonresidents that is not reported or taxed. This most often applies to capital gains income.
- Income earned by out-of-state businesses that have enough economic presence in the state to owe corporation license taxes but do not pay.
- Income earned in Montana that flows through one or more pass-through entities to an out-of-state recipient who does not pay Montana income tax.

Personnel and operating costs for this new compliance unit are projected to be \$500,000 general fund each year. One-time-only costs for training and consulting services, including expert witnesses, are projected to be \$40,000 general fund in FY 2006 and \$80,000 general fund in FY 2007. Ultimately, this unit is expected to generate revenue of at least ten times this cost. However, it will take time for the staff to be trained and gain experience and for additional taxes due to be collected. Additional revenue is expected to be \$1.1 million in FY 2006 and \$2.3 million in FY 2007.

SECTION B – PUBLIC HEALTH & HUMAN SERVICES

Department of Health and Human Services

Tobacco-related matters and the I-149 Tobacco Tax Initiative

Since 1999, Montanans have on three separate occasions voted to either increase the tax on tobacco products or to specifically direct tobacco settlement monies to health related uses. The Schweitzer Administration offers the following guideposts for programs dependent on tobacco settlement and tobacco tax revenues:

1. Prevention is the highest priority. Clearly Montanans want to reduce tobacco consumption and keep children from using tobacco.
2. Follow the spirit of the initiatives: only health-related and prevention programs are within the legitimate spirit of these initiatives.
3. Program sustainability. A high tobacco tax sets up an inherent conflict when the proceeds are used to finance both prevention and health programs. The effectiveness of a high tax and a strong prevention effort is designed to result in less consumption and therefore less tax revenue. Therefore, any programs dependent on tobacco monies need to be sustainable for several years. The Schweitzer Administration proposes that the minimum sustainable period be through 2011.

Initiative 149, passed in November 2004, significantly increases the tax on cigarettes and other tobacco products. Initial estimates are that this tax will yield approximately \$35 million in new revenue per year for the state of Montana. I-149 did not provide definitive allotments of the tax, but did provide four intended categories to be funded.

In November 2002 Initiative 146 was passed. This initiative did not increase revenue to the state, but it did statutorily redirect 49 percent of the tobacco settlement funds to specific programs. The initiative identified by percentage increased funding for three programs - tobacco prevention, the Children's Health Insurance Program, and the Montana Comprehensive Health Association program. The 2003 legislature, through Senate Bill 485, modified the statutes of I-146 and diverted a portion of the funding identified in this initiative to ten critical programs. In addition, the available tobacco settlement funding estimated in 2002 at about \$30 million per year to the State of Montana has decreased in the last two years to approximately \$22 million per year.

The proposed Martz budget did not include any recommended uses for the additional I-149 tobacco tax revenue. However, it does, with accompanying proposed legislation, continue funding from I-146 funds for the ten critical programs funded by SB 485, though to lesser overall amount due to the decreased available settlement revenue.

The recommendations in the Schweitzer budget change the Martz budget in the following significant ways:

1. The Schweitzer budget aligns the funding from I-146 to the specific three programs, and only those programs, identified in that initiative.
2. It provides almost three times the amount of state funds for tobacco prevention as compared to the funding proposed in the Martz budget.
3. It provides \$4 million in general fund in the biennium for seven of the ten SB 485 programs. Given the implications of I-146 on tobacco settlement funds, the supporters

SECTION B – PUBLIC HEALTH & HUMAN SERVICES

of these programs should feel more comfortable with general fund as the revenue source for these programs.

4. Using approximately \$7 million in the biennium of the new I-149 funds, the CHIP program is enhanced by two methods. First, the additional funds will provide a more secure funding source for the current CHIP program. Second, these funds will allow the Schweitzer budget to include a proposal to provide CHIP insurance to an additional 3,000 children, a 27.5 percent program increase.
5. With about \$5 million per year of I-149 funding, the Schweitzer budget provides support for four Medicaid related programs including the match funding for health service expansion identified in the Medicaid Redesign program. This removes these programs from being funded by I-146 funds as was established by SB 485 and carried forward in the Martz budget.
6. Due to a lower level of available tobacco settlement funding, the Martz budget includes only about one third of the \$1 million per year of the funding for the childcare program that was included in SB 485. The Schweitzer budget restores this level of funding through a combination of general fund and the remaining funds in the stabilization account raised from the fee imposed on Intermediate Care Facilities for the Developmentally Disabled.
7. It provides for a distribution of the total 149 funds:
 - a. Small business health insurance - 33%. For the 2007 biennium this is approximately \$11.5 million per year.
 - b. A need-based prescription drug program - 25%. For the 2007 biennium this is approximately \$8.75 million per year.
 - c. Increased Medicaid services and provider rates - 17%. For the 2007 biennium this is approximately \$5.95 million per year.
 - d. CHIP support, including coverage for an additional 3,000 children - 10%. For the 2007 biennium this is approximately \$3.5 million per year.
 - e. Medicaid support, including Medicaid Redesign initiative - 15%. For the 2007 biennium this is approximately \$5.25 million per year.
 - f. Sustainability - This is accomplished by establishing a reserve of the 2005 tax collections, estimated to be \$18.7 million, and \$7.3 million in 2006, which represents the funds not fully utilized in the first year as the prescription drug and small business insurance programs get underway.

In summary, Governor-Elect Schweitzer uses I-149 funds to institute broad based programs that remain true to the intentions of I-146 and I-149 yet, at the same time, recognizes the concerns of the 2003 legislature regarding some key health and public service programs and provides them continued funding as well.

The following gives decision package details regarding the I-149 proposal described above.

The primary changes to the Public Health and Human Services budget are a result of Initiative 149 passed by the voters in November 2004. This initiative provides for approximately \$35 million of tobacco tax revenue to be set aside to fund health and medical initiatives.

PL 1 - Tobacco Portion of 17% for Medicaid - This decision package, which provided for Medicaid funding from tobacco settlement funds allocated to CHIP and MCHA, is deleted from the budget. These funds will be spent only on CHIP and MCHA.

PL 37 - CHIP FMAP Adjustment - Child and Adult Medicaid - This decision package, which provided for an increase in general fund of \$464,628 due to the FMAP adjustment, is deleted

SECTION B – PUBLIC HEALTH & HUMAN SERVICES

from the budget. This adjustment is now included in the new decision package number PL - 3192.

NP 3002 - Mental Health Services - This decision package replaces \$6.5 million over the biennium in tobacco settlement funding for the Mental Health Services Plan with state special revenue from the I-149 tobacco tax. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485. These funds will be used in the HIFA waiver program.

NP 3003 - Independent Living - This decision package provides funding over the biennium of \$457,532 in general fund to continue independent living services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3004 - Hospice and Home Therapy - This decision package provides funding over the biennium of \$408,000 in I-149 tobacco tax state special revenue to continue hospice and home therapy at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3005 - Child Care - This decision package provides funding over the biennium of \$700,063 in general fund and \$1,363,868 in Stabilization state special revenue to continue child care services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3006 - Child Support Enforcement - This decision package provides funding over the biennium of \$1,263,678 in general fund to continue child support enforcement services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3007 - MIAMI - This decision package provides funding over the biennium of \$1,100,000 in general fund to continue the Montana Initiative for the Abatement of Mortality in Infants (MIAMI) program at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3008 - Medicaid Adult Mental Health - This decision package provides funding over the biennium of \$396,858 in I-149 tobacco tax state special revenue to continue Medicaid mental health services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and general fund and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3009 – Medicaid - This decision package provides funding over the biennium of \$601,571 in I-149 tobacco tax state special revenue to continue Medicaid services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

SECTION B – PUBLIC HEALTH & HUMAN SERVICES

NP 3010 - Extended Employment - This decision package provides funding over the biennium of \$541,278 in general fund to continue extended employment services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3011 - AIDS Prevention - This decision package provides funding over the biennium of \$84,000 in general fund to continue AIDS prevention services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3012 - Poison Control - This decision package provides funding over the biennium of \$77,908 in general fund to continue poison control services at the level of the 2005 biennium. These services were previously provided through Prevention and Stabilization funding and are scheduled to terminate on June 30, 2005 due to one-time-only funding of SB 485.

NP 3111 - Montana Tobacco Use Prevention Program - This decision package provides increases in funding over the biennium by \$9 million in tobacco settlement state special revenue and by \$167,000 in federal funds for the Montana Tobacco Use Prevention Program. This funding will fund the program at the percentage designated by Initiative 146. This decision package also requests to make permanent 2.00 modified FTE funded with federal tobacco prevention funds.

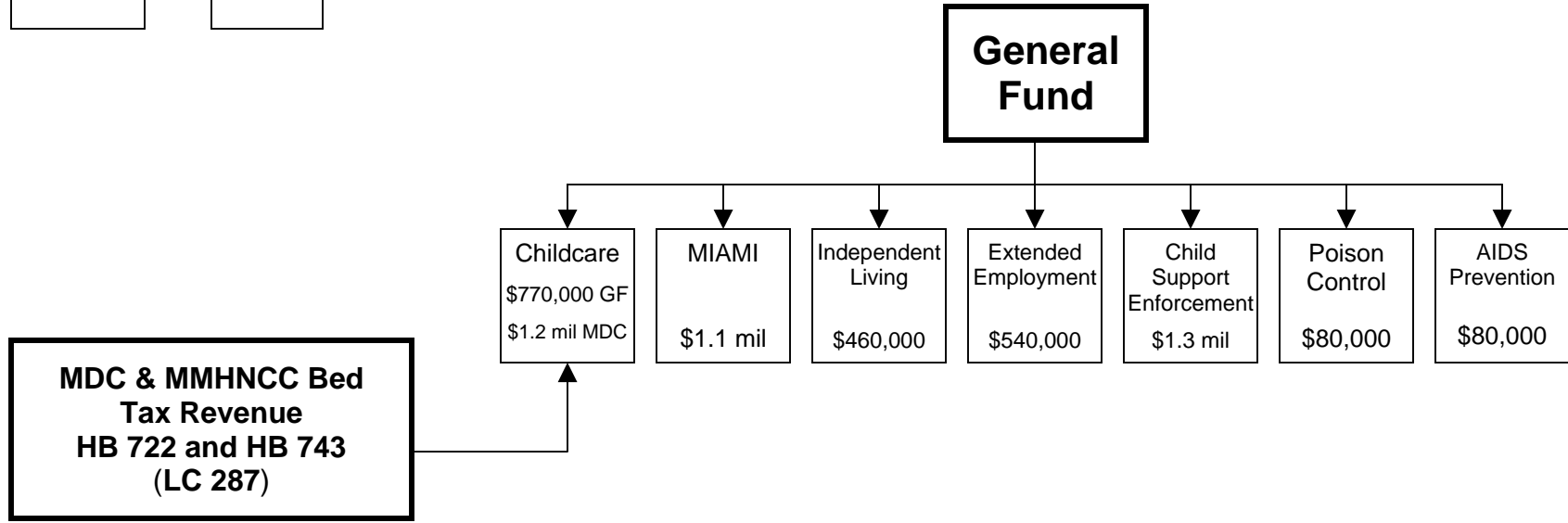
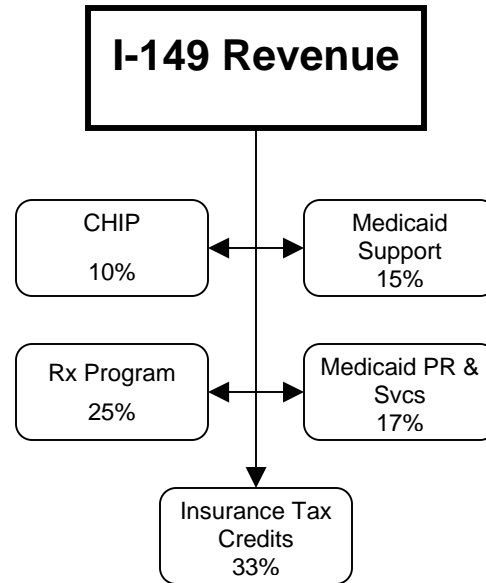
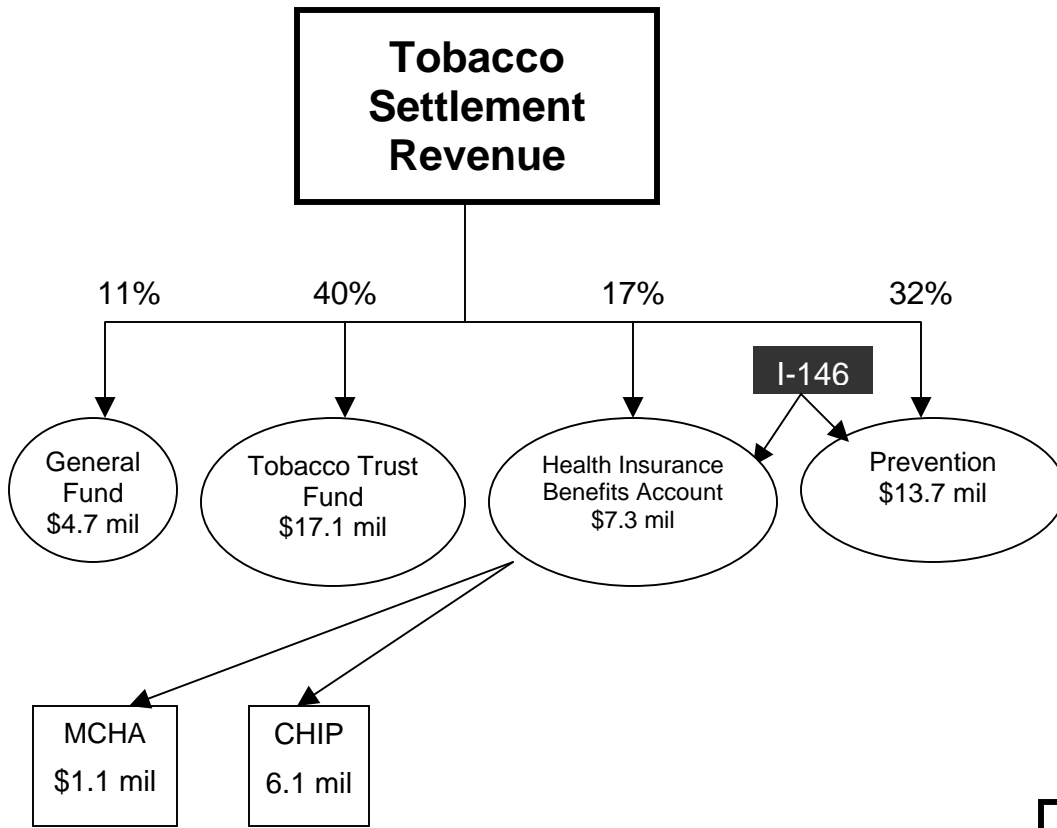
NP 3192 - CHIP Enrollment to 10,900 Children - This decision package requests total funds of over \$6.7 million over the biennium to increase the state match for the Children's Health Insurance Program (CHIP). This includes an increase of \$804,000 in tobacco settlement funds, \$2.6 million in funding from state special revenue from the I-149 tobacco tax, a \$4.3 million increase in federal funds, and a \$984,000 reduction in general fund. This funding mix will pay for health care coverage for 10,900 children and will allow for stable monthly enrollment in the program.

NP 3202 - I-149 Programs - This decision package provides for \$45.2 million over the biennium for the Medicaid, prescription drug, and small business tax credit programs that are addressed in Initiative 149. It is anticipated that the small business and prescription drugs will not become fully operational until FY 2007 and will not require full funding in FY 2006. The level of funding has been allotted as follows: small business health insurance, 33 percent; prescription drug program, 25 percent; and increased Medicaid services and provider rates, 17 percent. It is expected in 2006 that the funds for the prescription drug and small business health insurance programs will not utilize the full extent of the funding allotted as those two programs ramp up.

NP 3206 - CHIP Expansion by 3,000 Children - This decision package requests total funds of over \$17.2 million over the biennium to expand the Children's Health Insurance Program (CHIP). This includes \$4.2 million in state special revenue from the I-149 tobacco tax and \$13.0 million in CHIP and Medicaid federal matching funds. This funding mix will pay for additional CHIP and associated Medicaid coverage for 3,000 children.

SECTION B – PUBLIC HEALTH & HUMAN SERVICES

Tobacco Tax Graphic



SECTION B – PUBLIC HEALTH & HUMAN SERVICES

Other Health and Human Services Adjustments

NP 3200 - Low Income Energy Assistance OTO - Over the last two years, low-income customers of NorthWestern Energy have seen an 87 percent increase in their natural gas bills. Dramatic increases in natural gas and other residential fuel costs have created a financial hardship for low-income families. In FY 2002, energy costs accounted for an average of 8.8 percent of the annual incomes of families that qualified for aid from the Low Income Energy Assistance Program (LIEAP). In contrast, energy costs of FY 2004 LIEAP recipients accounted for 12.8 percent of annual income. As energy costs have increased, more families have applied for LIEAP. If current trends continue, approved FY 2005 applications will be 15.8 percent higher than FY 2004 applications. Although FY 2006 and FY 2007 federal budgets for LIEAP have not been released, the budget deficit makes future federal support uncertain. To maintain the state's effectiveness in addressing the energy needs of low-income families, the administration proposes:

- 1) A supplemental that will add \$1.7 million of general fund to the FY 2005 LIEAP budget. Of this amount, \$260,000 would be added to the budgets of the six Montana reservations* that administer LIEAP independent of the State program and \$150,000 would be added to the budget of Energy Share of Montana (a non-profit fuel fund that complements LIEAP.) This, along with current program dollars, will allow LIEAP to pay an average of approximately 50 percent of the heating costs of qualified households.
- 2) In HB 2, adding a total of \$4.2 million in each year of the following biennium to a) supplement federal LIEAP dollars by \$2.6 million (including \$393,000 for the six reservations mentioned above), b) increase by \$300,000 resources available to Energy Share of Montana, and c) add an additional \$1.3 million to the annual budget of the Low-Income Weatherization Assistance Program. The Weatherization Assistance Program targets cost-effective long-term energy conservation measures to those LIEAP households with the highest energy burdens.

The proposal is marked as one-time-only in the hope that the long-term costs of home heating fuels decline as anticipated by economic forecasting agencies.

*LIEAP is administered by the Blackfeet, Northern Cheyenne, Fort Belknap, Fort Peck, Salish Kootenai and Rocky Boys Reservations independent of the state program. The federal government transfers 15.14 percent of Montana's annual LIEAP allocation directly to these six agencies. While the caseload and energy burden estimates noted above were derived from the state administered program, the impact of higher energy costs would be comparable in the service territories of the six reservations.

NP 3201 - Foster Care Clothing Allowance - This decision package provides \$40,000 over the biennium of general fund to restore recent cuts to the clothing allowance for children in foster care.

NP 3205 - Foster Care Increase - This decision package requests an additional general fund supplemental of \$1 million plus a general fund appropriation of \$2 million over the biennium to adjust the funding for the Foster Care program as a result of decreased participation of the federal government in the Title IV-E foster care program. Based on internal reviews of children eligible for federal funding in the IV-E program as a result of federal reviews, the agency has determined that a lower percentage of those children are eligible than was previously projected and upon which the funding mix was based.

SECTION B – PUBLIC HEALTH & HUMAN SERVICES

Language Recommendation

NP 3069 – Tribal TANF Maintenance of Effort – This decision package includes an annual general fund increase of \$51,031. The department currently has sufficient TANF general fund MOE in its base to cover statutory requirements. In order to hold harmless the level for non-tribal clients and for tribes that do not have their own plan, the existing general fund base supporting the TANF MOE shall not be reduced.

SECTION C – NATURAL RESOURCES AND COMMERCE

Department of Livestock –

PL 111 – Provide Meat Inspectors for Eastern Montana - The Governor-Elect budget adds 1.00 FTE meat inspector to the Meat and Poultry Inspection Division of the Department of Livestock. In the 2005 biennium, slaughter and processing facilities have come on-line in the Billings, Malta, Miles City, and Glendive areas. The facilities require daily inspections to ensure the facilities are meeting the processing standards of both the state and federal government. The addition of another meat inspector will ensure that facilities will receive the necessary inspections and the public can be assured of safe meat products. The request is funded with 50 percent general fund and 50 percent federal funds for a total cost of \$36,108 in FY 2006 and \$33,888 in FY 2007.

Department of Natural Resources & Conservation –

NP 111 – Restore Montana’s Agricultural Heritage Program - The executive recommends \$400,000 general fund each year of the 2007 biennium to restore the Montana Agriculture Heritage Program. The program was created through the Montana Agricultural Heritage Act, passed by the 1999 legislature to help stem the loss of critical farm, ranch, and forest lands to development. The act enabled the state to negotiate the bargain-sale purchase of critical properties through agricultural conservation easements granted by willing seller/donor landowners.

A citizen commission was responsible for overseeing the distribution of funding to conservation easement projects. In its first biennium, the Montana Agricultural Heritage Commission granted a total of \$868,000 to eight Montana landowners. This financial commitment from the state was matched by over \$6.57 million in contributions from various federal and private sources, including the landowners themselves. In total, these eight projects protected almost 10,000 acres of agricultural open space and wildlife habitat from non-agricultural development.

The 2001 legislature chose not to fund the program, and the program’s enabling legislation sunsetted in July 2003. Funding for this program is contingent on passage and approval of legislation to restore the program.

Department of Commerce –

PL 111 – New Worker Training Program - The administration recommends the transfer of the New Worker Training Program from the Governor’s Office of Economic Opportunity to the Department of Commerce. This program, first envisioned in HB 564, passed by the 2003 Legislature, offers grants to business for worker training that will create new jobs in Montana. The administration supports changing the funding mechanism provided in the bill from new job tax credits that would repay an InterCap loan from the Board of Investments to a direct general fund appropriation. Funding for the grants and administration of the program would be provided from the general fund at \$2.17 million in FY 2005, and \$2.0 million each year of the 2007 biennium (\$1.5 million on-going funding and \$0.5 million one-time-only funding). The program will also have 2.00 FTE that were transferred from the Governor’s Office.

SECTION C – NATURAL RESOURCES AND COMMERCE

NP 222 – Economic Development in Montana - The Schweitzer Administration supports creating an “Economic Development Trust” within the Coal Tax Trust Fund. Proceeds from the trust would generate \$1.367 million in FY 2006 and \$1.604 million in FY 2007 that would be deposited in a state special revenue to be used in the Department of Commerce to enhance job-creating and capacity-building economic development activities throughout Montana. The trust would be created with an initial balance of \$20 Million. Similar to the Treasure State Endowment, the trust will capture 25 percent of the coal tax flow into the trust for the next 20 years, after which it will be capped. The trust fund and the state special revenue fund as well as the economic development program will be presented to the 59th with legislation.

The Administration recommends 1.00 FTE and \$1.3 million state special revenue in each year of the 2007 biennium for this economic development program

NP 223 – Indian Country Economic Development - The budget includes \$500,000 general fund each year of the biennium to be utilized by Montana’s Tribal Nations to help enhance and support economic development opportunities on Montana’s Indian Reservations.

PL 444 - Restore the Made in Montana Program - The Made In Montana program was created in 1984 to assist in the marketing efforts of Montana businesses and individuals to help identify and market value-added products that are produced in Montana. The program was discontinued at the Department of Commerce in the fall of 2004. The Schweitzer Administration believes this program is vital to the continued success of Montana businesses in marketing their products both in and out of Montana. The budget adds 1.00 FTE and \$500,000 general fund each year of the biennium to not only restore the Made in Montana program, but expand it.

SECTION D – PUBLIC SAFETY AND CORRECTIONS

Department of Justice –

PL 111 – Support Forensic Science Lab - The Martz budget includes the addition of 1.00 FTE Forensic Chemist, 1.00 FTE Serologist/DNA Expert, 1.00 FTE Forensic Pathologist, and 1.00 FTE Forensic Toxicologist at the Montana State Crime Lab in Missoula. However, the Toxicologist was not approved to begin until FY 2007. This item moves the approval of the Toxicologist up to FY 2006. The positions are necessary to reduce the backlog and address the continued significant increase in case submittals. The proposal also includes the addition of 2.00 FTE forensic technicians who would help in preparation and processing of samples in the lab.

The Forensic Science Division is Montana's sole forensic laboratory. The workload in the toxicology section alone has increased 33 percent over the past four years. In addition, the amount of time each of the toxicologists has to spend on analysis with original screening for drugs, followed by confirmation and quantification has also risen as the casework increases. Addition of these position will help to ensure the crime lab is able to process crime scene evidence from all across Montana in a timely manner.

The total general fund cost of this proposal is \$140,000 in FY 2006 and \$80,000 in FY 2007.

NP 222 – Highway Patrol Lawsuit Settlement OTO - In March 1997, a wage claim was filed against the Department of Justice alleging they had not been properly compensated for work performed. Three areas of concern were specified in the complaint:

- Compensation for the meals period, when officers were on duty and eligible for pay
- Compensation for overtime (time-and-a-half) due to the 9 hours worked
- Compensation for hours worked over 40 hours per week, based on the scheduling practice in place.

In February 1998, another suit was filed as a class action, alleging improper compensation by the Department of Justice. The suit involved 323 officers. In addition to the three areas listed above, two other claims were made:

- Subsistence payments should have been included in determining the final average salary for retirement purposes
- Penalty relief should be provided at 110 percent of wages due.

In a December 1, 2003, hearing order on the first case, a Department of Labor and Industry hearings officer found in favor of the claimants on the contested legal questions. Damages were to be determined at a later date.

On December 10, 2004, all the parties to the two cases met in an attempt to reach a mediated settlement. The Department of Justice and the claimants reached an agreement that settled all of the claims in both cases:

- \$7.65 million was to be paid to the class-action claimants in a lump sum, and
- \$850,000 was to be paid to the claimants in the initial suit.

The settlement is all-inclusive, global and final, with no costs or claims outstanding to the State of Montana. The \$8.5 million total requires an appropriation from the legislature to satisfy the terms of the agreement. The Administration recommends a one-time-only general fund appropriation of \$8.5 million in FY 2005.

SECTION D – PUBLIC SAFETY AND CORRECTIONS

Department of Military Affairs –

The Martz Administration recommends funding the Montana National Guard Scholarship program at \$250,000 general fund each year of the biennium. The Schweitzer Administration concurs with the recommendation and adds the following language for clarification of the appropriation.

“The appropriation for the Montana National Guard Scholarship is to be used for scholarships to National Guard soldiers returning from deployment, attending school at one of Montana’s two year colleges.”

SECTION E - EDUCATION

Office of Public Instruction –

NP 60 – Indian Education for All - The administration requests a general fund appropriation of \$1,000,000 annually and 3.00 FTE to respond to our constitutional and statutory obligations to “learn about the distinct and unique cultural heritage of American Indians”. This request replaces the Martz proposal for approximately \$250,000 per year.

The goals of the Indian Education office are to: 1) Assure that American Indian students and communities receive quality and equitable education, 2) To assure that ALL students leave the public school system with an understanding of the rich history and contemporary issues of Montana’s Indians. The scope of the Indian Education office staffing and activities related to implementing Indian Education for All include, but are not limited to:

- Development of research-based curricular materials and teaching strategies for Indian Education for All.
- Development of model curriculum that fulfills the requirements of Indian Education for All and is integrated into the nine academic subject areas addressed in the Montana School Accreditation Standards.
- Develop and implement a comprehensive plan for professional development for implementing Indian Education for All.
- Infuse Indian Education for All into current content and performance standards.
- Scholarship and fellowship opportunities for graduate students to conduct research relevant to Indian Education and Indian Education for All in Montana.
- Educational grants to classroom teachers and tribal college personnel to develop curriculum materials or professional development training for Indian Education for All.
- Regular meetings of the Montana Advisory Council on Indian Education (MACIE) to provide policy advice to the State Superintendent and the Board of Public Education.
- Two specialists and an administrative assistant to support the expanded role of the office.

NP 61 – Increased Entitlements and Special Education – The Schweitzer budget proposes to address the inequity between the entitlements for elementary schools and high schools with an additional \$200 per student increase in the elementary entitlement. Elementary schools are more likely to be at maximum budgets and programs may be at greater risk of elimination especially at the middle school level.

The Schweitzer budget also adds additional increases to these areas in order to make up for some lost inflationary increases in the past when financial conditions were tighter. Specifically, the Schweitzer budget proposes:

- An additional \$50 per student to both elementary and high school entitlements
- An additional 3.5 percent increase to special education

The inflationary increase for entitlements and special education included in the Martz budget is retained.

SECTION E - EDUCATION

NP 62 – Student Education Information Data System – OTO - The Schweitzer administration requests a biennial general fund appropriation of \$2,826,000 for the development of a comprehensive education information system to be used by K-12 public schools and the Office of Public Instruction.

In order to improve the education process, a number of school districts in Montana have researched and begun developing student-centered systems. These student systems are expensive to develop. Districts that have begun to build these more sophisticated systems are concerned about the compatibility of their systems with state and federal level systems. Districts have urged the Office of Public Instruction to take a leadership role in designing and developing a student centered system for use by the state and local school districts.

The purpose of this proposal is to use education resources more efficiently and effectively. A comprehensive education information system will include not only data but query tools, procedures, personnel, training, and other resources that make access to the data easier and more relevant to decision makers. The purpose of the information system is to improve student achievement in Montana schools.

A well-designed system will be used to:

- Provide information about student achievement and progress toward standards.
- Enable local districts to benchmark their own educational programs.
- Allow parents and community members to learn more about their schools.
- Assist policymakers in understanding the relationship among education policies, strategies and outcomes.
- Maintain an effective method of transferring and accessing accurate and timely educational information among school districts and the educational community.
- Allow OPI to deliver relevant information to users in a timely and reliable manner.
- Improve the ability of researchers to study trends for school improvement.
- Improve the state's ability to collect and report state and federal mandated data.
- Interact with data systems at the Office of the Commissioner of Higher Education and programs in the workforce development arena (including Department of Labor, Workforce Investment, Department of Revenue, Adult Basic and Literacy Education, and TANF)

The proposal includes a request for 4.0 FTE, including a project manager, database administrator, a data resource administrator, and a student record system manager. These staff positions would build applications, maintain the security and integrity of the system, oversee the data collections, and train system users. The project manager would also be involved in the creation and convening of focus groups of school personnel that will advise OPI on issues related to capacity, functionality and compatibility.

The proposal also includes funding for a contract with an education software vendor and funding for development of web service architecture.

NP 63 – School Facilities Additional State contribution to insure no prorating – OTO – A central component of school equalization funding was that school districts having a lower than average property tax base would still be able to benefit from the State's equalization process with respect to school bond issues. Unlike a set funding formula, the state has historically allocated a fixed amount of funding to equalize school debt service. When such funds are insufficient, the money has been pro-rated and districts have received less than a 100 percent allocation. The

SECTION E - EDUCATION

Schweitzer administration believes that pro-rating jeopardizes the intention of school equalization efforts and therefore additional money is budgeted to better ensure no pro-rating will be required.

Montana School for the Deaf and Blind –

NP 3 - Repair & Maintenance Base Adjustment - The School for the Deaf and Blind campus is 18.5 acres which includes eight buildings with a combined square footage of 140,300. Campus grounds comprise 11.5 acres. The 2003 legislature included approximately \$350,000 in each year of the 2005 biennium in the General Services Program. The school expended \$364,719 the General Services Program in FY 2004 by moving costs from other areas of the budget into repair and maintenance. The Martz budget allocated about \$410,000 per year to the General Services Program or \$2.92 per square foot. According to Architecture and Engineering the total spending for the General Services Program should be closer to \$4 per square foot or \$560,000 per year. The Schweitzer budget recommends increasing the General Services operating budget by \$75,000 per year, which will improve the school's ability to deal with ongoing maintenance issues.

NP 6 - Replace Computers - Allow for the replacement of 32 computers that sensory impaired students use to access the schools' curriculum, educational software and internet resources. A significant portion of the school's current computers was purchased 7-10 years ago. The request for \$25,000 general fund in each year of the 2007 biennium will allow the school to replace 16 computers in each year.

NP 8 - Additional funding for Teachers and Other Professionals Salaries – MSDB has experienced increasing difficulty attracting new teachers and maintaining competitive salaries for existing teachers and other professionals. This \$150,000 per year general fund request will provide about a 10 percent increase in the amount of money available for teacher salaries. Negotiations with the union will determine how the additional funding will be distributed among new and existing teachers. Funds include the amount necessary to pay increases in salary related benefits, including the additional 1.20 percent necessary to actuarially fund Teachers Retirement System (TRS) in the 2007 biennium.

HIGHER EDUCATION

Montana University System -

Enhancing Access to Postsecondary Education. Montana lags behind other states in the amount provided for needs-based financial assistance to qualified Montana students. Evidence has been provided to the community outreach efforts by the Montana University System (often referred to as Shared Leadership) that less qualified but economically-well-off students are more likely to attend postsecondary education than highly qualified students who are less well-off economically. In addition, Montana also lags behind other states in merit-based assistance to qualified students

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Two new initiatives replace University System economic development initiatives and aims funding at enhancing access to postsecondary education in Governor-Elect Schweitzer's budget so that additional qualified Montanans can prepare for the job demands of Montana's growing economy.

Both of the programs delineated below would be administered by the Office of the Commissioner of Higher Education assisted by an advisory council appointed by the Governor.

NP - 101 Need Based Aid - Two-year Programs - Provides an additional \$1.0 million of general fund per year to the Office of Commissioner of Higher Education for need-based aid targeted attending two-year programs of the Montana University System and Community Colleges.

The program targets the following areas:

Type	Scholarships Awarded	Per Student	2007 Biennium	
			FY 2006	FY 2007
Each High School	180	1,000	180,000	360,000
Health Sciences	100	1,000	100,000	200,000
Other Technical	220	1,000	220,000	440,000
Total			500,000	1,000,000

When fully implemented in the second year, the program will cost \$1 million. The Schweitzer Budget proposes that the full \$1 million be allocated in the first year of the biennium for scholarship uses.

NP - 102 Best and Brightest Program - This proposal provides approximately \$1.5 million per year for grants to students based upon their academic achievement. Montana is challenged to provide incentives to top Montana students to stay in Montana. This proposal will provide incentives for the "Best and Brightest" to stay in the Treasure state.

4-Year Education - A \$1,000 merit based scholarship will be awarded for one student in each high school in Montana that attends any 4 year campus of the Montana University System. Additional \$2,000 merit based scholarships will be awarded to 40 students at large.

2-Year Education - A \$1,000 merit based scholarship will be awarded to 250 students attending a two year institution in the Montana University System or Community College.

Type	Scholarships Awarded	Per Student	2007 Biennium		2009 Biennium	
			FY 2006	FY 2007	FY 2008	FY 2009
4 - Year Education	180	1,000	180,000	360,000	540,000	720,000
Additional Merit Based	40	2,000	80,000	160,000	240,000	320,000
2 - Year Education	250	1,000	250,000	500,000	500,000	500,000
Total			510,000	1,020,000	1,280,000	1,540,000

When fully implemented in the fourth year, the program will cost approximately \$1.5 million a year. The Schweitzer Budget proposes that the full \$1.5 million be allocated in each year of the biennium to the Montana University System for merit scholarship purposes.

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Tribal Colleges

Tribal colleges were created over the last 30 years in response to the higher education needs of American Indians, and generally serve geographically isolated populations that have no other means of accessing education beyond the high school level. They have become increasingly essential to educational opportunity for American Indian students, a status they have achieved in a relatively brief period of time. Tribal Colleges are unique institutions that combine personal attention with cultural relevance, in such a way as to encourage American Indians - especially those living on reservations - to overcome the barriers in higher education.

NP - 103 Non-Indian/Non-Beneficiary Students - Provides an increase from \$96,500 to \$400,000 for non-beneficiary students enrolled in tribal colleges. Over the last 10 years, the funding for non-beneficiary students enrolled in the tribal colleges has varied significantly. 20-25-428, MCA provides for a maximum \$1,500 per FTE of state support for each non-beneficiary student. Funding is contingent to a line-item appropriation in the General Appropriations Act.

Montana's seven tribal colleges provide a valuable point of access to higher education for all Montanans. There are approximately 300 non-beneficiary students attending the tribal colleges each year. The tribal colleges receive no federal funding for these Montana resident students. Tribal colleges receive federal support for each Native American student through the Tribally Controlled College or University Assistance Act (TCCUAA).

The Schweitzer budget proposes approximately 320 grants at \$625 for each non-beneficiary student each Year. (~320 students *625 *2 = 400,000)

NP - 104 - Enhancing Tribal Colleges Programs - All seven tribal colleges in Montana provide a high quality education for Montanans with limited resources. The Schweitzer budget provides additional resources of \$1 million in FY 2006 and \$1.5 million in FY 2007 to tribal colleges.

50 percent of the funds will be allocated equally to each tribal college for equipment needs. To be an effective economic development partner, tribal colleges must provide relevant training experiences with current technology and equipment.

The remaining 50 percent of funds are allocated equally to each tribal college to detail their tribes' history for the state's use in meeting the constitutional and statutory obligations related to "Indian Education for All" for K-12 education.

OTHER CHANGES REQUIRING LEGISLATION

Emergency Appropriation –

The statutory appropriation found in 10-3-312, MCA, authorizes the Governor to expend up to \$16 million from the general fund for emergencies or disasters declared by the Governor. Expenditures may include occurrences such as floods, winter storms, and wildfires. The Governor-Elect will offer legislation to increase this statutory appropriation from \$16 million to \$25 million. The increase is intended to more accurately reflect the costs of fighting wildfires in an extreme season. If the emergencies or disasters do not occur, the funds will not be expended, but the increased appropriation authority will allow state government to be better prepared for these situations. This increase will be proposed in legislation.