



GOVERNOR
BRIAN SCHWEITZER
STATE OF MONTANA

Special Session Report
December 2005

Governor's Office of Budget
and Program Planning



OFFICE OF THE GOVERNOR

STATE OF MONTANA

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December 12, 2005

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

Welcome to this special session of the legislature. Special sessions should focus on important but narrow specific problems, not the broad general government issues taken up in regular session. We should work as expeditiously as possible to address the public education constitutional deficiencies the Supreme Court found. It also is fiscally prudent to begin addressing our public retirement issues now. Given that Montanans clearly prefer biennial regular sessions, I ask you to stay on these topics.

Addressing these issues while remaining fiscally responsible are key ingredients to our success. Like working families all across Montana, state government and Montana's public schools must live within their means. My proposals do not mandate any increase in local property taxes nor do they force any increase in state taxes.

Working together, our solution must satisfy the Montana Supreme Court's decision and be affordable. At the conclusion of the special session, my hope is that we can say to the people of Montana that we:

- honored our financial commitment to address the Court's decision;
- honored our commitment to preserve the cultural integrity of American Indians;
- honored our children's teachers by providing the means to better recruit and retain quality educators;
- honored our commitment to public servants, especially teachers, by having fiscally sound pension systems; and
- honored the desires of Montanans by living within our means and keeping the budget properly balanced.

The following report details my school funding proposal, as contained in SB 1, sponsored by Senator Don Ryan. It explains how each component of SB 1, in combination with measures enacted in regular session earlier this year and previous funding mechanisms, satisfy Montana's constitutional requirements that the legislature provide a basic system of free quality public education. This report also explains how these combined measures satisfy Montana's constitutional commitment to preserve the distinct and unique cultural heritage of our American Indians.

As decisions are made during this special session, I urge that we also be mindful that the State will face many other policy and expenditure issues in the 2007 regular session. For this reason, I have also included information on the revenue picture, fund balance outlook and brief narratives as to the most likely pressing policy issues.

Since the Montana Supreme Court issued its decision in March, many individuals deserve thanks for their hard work in laying out solutions to the thorny issue of public school funding. I especially want to thank the members of the Quality Schools Interim Committee, as their hard work serves as the principal basis for the legislation I have submitted for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Schweitzer". The signature is stylized with a large initial "B" and a long, sweeping horizontal line extending to the right.

Governor Brian Schweitzer

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Addressing K- 12 School Funding

The primary purpose of the special session of the 59th Legislature is to enact a funding system for Montana's public elementary and secondary schools that satisfies the Montana Supreme Court's decision (the *Columbia Falls Elementary School case*). The constitutional deficiencies the Court found were:

- No definition of a basic system of quality education, as required by the Montana Constitution
- Funding mechanism for Montana's K-12 public schools not tied to definition of quality
- Failure to recognize and preserve the cultural integrity of American Indians, as required by the Montana Constitution

Legislature Efforts in the 2005 Regular Session

A. Definition of Quality Education Enacted

The 2005 Legislature, with passage of Senate Bill 152, defined what a quality K-12 educational system means. It includes:

- an educational program specified by accreditation standards;
- educational programs to provide for students with "special needs," such as
 - students with disabilities
 - at-risk students
 - students with limited English proficiency
 - students qualified for services under 29 U.S.C. 794
 - gifted and talented students;
- educational programs to implement Montana's constitutional requirement of preserving the "distinct and unique cultural heritage of the American Indians," often referred to as "Indian Education for All";
- qualified and effective teachers, administrators, and staff;
- student transportation;
- facilities and distance learning technologies associated with meeting accreditation standards;
- measurements of student achievement; and
- local control.

B. Funding by the 2005 Legislature Meeting in Regular Session

1. Indian Education for All

SB 152 expressly requires curricula designed to integrate the distinct and unique cultural heritage of American Indians. It also requires consideration of "the needs of American Indian students." Notably, the 2005 Montana Legislature, for the

first time in Montana history, appropriated money to fund the constitutional provision (\$3.4 million for the 2006-07 biennium).

2. Increased Funding for K-12

The 2005 Legislature increased funding for Montana's K-12 schools by appropriating more than \$88 million in new money for the biennium – an historic increase. Among the items included in the funding were:

- 3-year averaging of ANB (average number belonging), designed to alleviate concerns of fixed costs for schools with declining enrollments;
- inflationary increases in entitlements for the biennium;
- additional increases in entitlements above the inflationary increases, with greater increases to elementary schools so as to narrow the gap between funding for elementary and secondary schools (it was expected these increases will be used by schools to help with recruitment and retention of teachers and other staff);
- increased facility payments to maintain the State's share at approximately 25%;
- increases in special education funding above inflation (totaling 9.2% over the 2005 biennium);
- funding for a student education data system to monitor the efficacy of the education system; and
- increases in gifted and talented grants to the schools and the creation of a part-time position within the Office of Public Instruction for the specific purpose of assisting schools to provide gifted and talented education.

C. Quality Schools Interim Committee

The 2005 Legislature passed Senate Bill 525, established a Quality Schools Interim Committee, and was directed by December 1, 2005 to:

- assess the educational needs of Montana children;
- determine the costs of providing a quality education;
- determine the state's share of the costs; and
- construct a funding formula in accordance with requirements contained in the legislation.

Meeting numerous times, the committee evaluated reports prepared by contracted education consultants, legislative staff, staff from the Governor's Office, and staff from the Office of Public Instruction. Additional work by the committee included a needs assessment and cost analysis; teacher recruitment and retention; student achievement, including achievement of American Indian students; health benefits; school facilities; and specific issues related to school size, among others.

The committee prepared draft legislation but despite its efforts to formulate a comprehensive funding formula, no consensus was reached to recommend any committee bill.

D. 2005 Legislature – Special Session: New School Funding Formula, On-Going and One-Time-Only Appropriations, and Retirement Issues.

On December 5, 2005, the Governor called the legislature into special session to consider the school funding proposal he prepared, SB 1, sponsored by Senator Don Ryan. The Governor’s proposal builds on the work of the interim committee by using many of the findings and solutions adopted by the committee – particularly where general agreement existed among committee members and the public – and incorporating them as components of his proposed on-going school funding formula.

The special session will also consider appropriations to fund the proposal, along with one-time money to schools for recognition of the cultural heritage of American Indians and to address the following needs of schools: facility studies, weatherization for long-term energy savings, deferred maintenance, and assistance with utility and transportation energy costs. The ongoing and one-time-only appropriations are contained in HB 1, sponsored by Representative David Wanzenried.

Additionally, the Governor has convened the legislature in special session to consider one-time-only infusions of general fund money into Montana’s Teachers’ Retirement System and Public Employees’ Retirement System. Passage of these appropriations will both reduce the unfunded liability of the systems and help improve Montana’s ability to recruit and retain qualified teachers. These appropriations are also contained in HB 1.

1. Governor’s Proposed Funding System Grounded in Principles of Quality Education

School funding issues are complex. One of the benefits of a special session is it allows the Legislature to fully focus on finding a K-12 funding solution without the distraction of many other pressing matters.

The Schweitzer Administration’s Funding for Quality Schools proposal builds upon the foundation established in the 2005 regular session to:

- ✓ Define a quality education and
- ✓ Provide increased funding for components based on quality.

In addition, the extensive work and analysis completed by the Quality Schools Interim Committee serves as a roadmap for the new funding components.

Governor Schweitzer’s school funding proposal contains six components, four are new and two already exist in statute, but the increases were set to expire on

June 30, 2007. This new funding formula's six components outlined by the Schweitzer Administration's Funding for Quality Schools proposal, Senate Bill 1, are:

	Component	Status
1.	The basic and per-ANB entitlement for elementary and high school districts	Retained in statute
2.	Three year Averaging for Annual Number Belonging	Retained in statute
3.	Quality educator payment	NEW
4.	"At risk" payment	NEW
5.	"Indian Education for All" payment	NEW
6.	"Close American Indian Student Achievement Gap" payment	NEW

These six (6) components work in concert to provide schools a new funding formula that is:

- ✓ Based on a definition of quality
- ✓ Sustainable
- ✓ Addresses the Supreme Court ruling
- ✓ Simple to understand and flexible
- ✓ Rooted in local control
- ✓ And is accountable to taxpayers.

In short, under the Governor's proposal, the requirements of the Montana Constitution and the Supreme Court's decision construing the constitution are satisfied. More money is directed to quality teachers. Local control is maintained. Property tax effects are minimized. No school loses. Small schools are not pitted against large ones. All the proposed payment methods are simple to understand.

The general fund appropriations for the four new components total \$31 million and are contained in HB 1. The money for funding the components is intended to be on-going. This additional \$31 million in state general fund dollars go directly to the district's general fund as specified in HB1 without a mandatory tax increase. By appropriating money to schools in this manner, HB1 supports SB 152 direction to the legislature to provide a flexible, accountable, and efficient funding mechanism.

When combined with the \$33 million of new, on-going general fund money appropriated during the regular session earlier this year, Montana public schools

would see an historic annual increase of \$64 million enacted by the 59th legislative assembly.

In addition, the Schweitzer Administration’s Funding for Quality Schools Proposal also directs one-time-only appropriations of \$158.5 million that support a public K-12 school system to:

1. Conduct a school facility study
2. Provide weatherization and deferred maintenance
3. Support the Indian Education for All Component of the school funding formula
4. Provide energy cost relief
5. Support pension systems (Teachers’ Retirement System and Public Employees’ Retirement System)

2. New Funding Formula’s Six Components

The Governor’s Funding for Quality Schools Proposal was carefully constructed to establish components that are flexible to policy and funding priorities. This new funding formula provides a new way to deal with school funding problems by targeting on-going resources to areas that show need and are documented under the definition of quality.

The six components provide a framework for the Legislature to respond to the changing needs of schools with simple formula adjustments. For example, additional funds are directed to schools in the Quality Educator Payment Component to help recruit and retain teachers. The basis for distributing funds in this component could easily be adjusted to address specific school districts needs based on geography or certification. Another example is the flexibility within the Basic and per-ANB entitlements component to respond to changes in accreditation standards.

Component 1: The basic entitlement and per-ANB entitlement for elementary and high school districts increases above inflation

Status	Rationale	2005 Session Funding
Retain in Statute	<p>Components 1, 2 and 3 work together to address the needs of all schools, regardless of size, to meet accreditation standards.</p> <p>The \$250 per elementary and \$100 per high school student increases in the 2005 Session responded to the District Court concern.</p>	<p>\$19,966,566 School District’s Budget Authority</p> <p>(\$15,364,520 State Share)</p>

	<p>Supports SB152 requirement that a funding formula consider the number of students in a district, and the needs of isolated schools with low population density.</p> <p>The Quality Schools Interim Committee was asked by the education community to retain this component. If not retained in the Governor's funding formula, this component will sunset July 2007 and the entitlements will revert to 2005 levels.</p>	
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Component 2: "Three year Averaging for Annual Number Belonging (ANB)"

Status	Rationale	2005 Session Funding
Retained in Statute	<p>Components 1, 2 and 3 work together to address the needs of all schools, regardless of size, to meet accreditation standards.</p> <p>The 2005 Session responded to the District Court concern with declining enrollment and on-going fixed costs with three year averaging or highest ANB.</p> <p>The Quality Schools Interim Committee was asked by the education community to retain this component. If not retained in the Governor's funding formula, this component will sunset July 2007 and the entitlements will revert to 2005 levels.</p> <p>Supports the SB 152 requirement that a funding formula consider the number of students in a district.</p> <p>This component eases the impacts of declining or growing student populations and allows for school districts to plan ahead.</p>	<p>\$15,839,648 School District Budget Authority</p> <p>(\$12,164,373 State Share - revised estimate based on current data)</p> <p>(Note: projected costs were \$7,190,785)</p>

Table A demonstrates how school district budgets were positively impacted by averaging enrollments.

Table A				
<u>Statewide Totals of Adopted School Budgets for FY 2006</u>				
<u>compared to FY 2005</u>				
Description	FY 2005	FY 2006	Difference	Percent change from FY 2005
Despite declining enrollment				
Elementary ANB	98,186	96,527	-1,659	-1.7%
High School ANB	49,466	49,302	-164	-0.3%
Total ANB	147,652	145,829	-1,823	-1.2%
The new component to average ANB resulted in increased ANB funding for districts				
Highest of the Average ANB or Current ANB		148,940	1,288	0.9%
Increased ANB funding and increased entitlements resulted in a \$43 million or 5.6% increase in district budgets from FY 2005 to FY 2006				
BASE Budget or Permissive Budget	629,664,994	670,895,361	41,230,367	6.5%
Maximum General Fund Budget	793,020,938	845,510,751	52,489,813	6.6%
Adopted General Fund Budget	767,491,802	810,704,672	43,212,870	5.6%
Percent of Bdgt to Max	96.78%	95.88%		

Component 3: Quality educator payment component

Status	Rationale	Proposed Special Session Funding
NEW	<p>The existing entitlement and three year averaging components are complemented by this new quality educator payment component to address the needs of all schools, taking into greater consideration for size and geography.</p> <p>Quality educators are the foundation of a quality education system.</p> <p>This component is based on a calculated ratio to equitably distribute funds to schools. Recognizing that the actual certified FTE is dependent on a school district's federal funds and ability to levy local funds, this payment is based on a uniform number of 13 ANB.</p> <p>Table B on page 9 compares distribution of funds based on actual FTE to distribution of funds based on</p>	\$ 23,122,000

a calculated ratio of 1 educator for every 13 students.

Currently, the student/teacher ratio is 14.4:1. The quality educator payment is calculated on a ratio of 13:1 -- one (1) quality educator for each 13 ANB -- using the three year averaging component which is higher than enrollment.

The current number of certified teachers and specialists is 11,284, whereas the 13:1 ratio equates to 11,345 quality educator payments.

The result is schools, especially with declining enrollment, benefit by the lower ratio to help support students with special needs as specified by SB 152.

Small schools, defined as less than 40 students, receive an additional quality educator payment to assist with factors relating to recruitment and retention of payments in isolated areas.

Montana's teacher salaries rank 45, according to American Federation of Teachers in 2004. The Quality Schools Interim Committee's research included a comparison of teacher salaries in other states. The quality educator payment is \$2000 and based on this research.

This quality educator payment component offers trustees optimal local control for using these funds to attract and retain teachers. School needs vary and these funds provide flexibility for such options as: salary increases, professional development, benefits, etc.

If a local school board decides to use these funds for salary increases, the state would pay its share of retirement costs and the remainder would be assumed by the local share.

Supports SB 152 requirement that a funding formula consider the number of students in a district, the needs of isolated schools with low population density, the needs of urban schools with high population density and the ability of school districts to attract and retain quality educators and other personnel.

Table B: Examples of Schools - Sorted by ANB \$2,000 Per FTE (Full Time Equivalent) and \$2,000 Per 13 ANB (Annual Number Belonging)								
Elementary Districts	ANB	FTE*	Ratio ANB/FTE	Proposed \$2k Per FTE		Proposed \$2k Per 13:1		
				School Amount	Average Per ANB	School Amount	Average Per ANB	
0014 Jackson Elem	20	2.0	10.00	\$ 4,000	\$ 200	\$ 3,077	\$ 154	
0370 Malmborg Elem	20	1.5	13.33	3,000	150	3,077	154	
0530 McCormick Elem	20	1.0	20.00	2,000	100	3,077	154	
0569 White Sulphur Spgs Ele	197	16.4	12.01	32,804	167	30,308	154	
0320 Helena Flats Elem	198	13.5	14.69	26,954	136	30,462	154	
0453 Whitehall Elem	306	23.9	12.80	47,802	156	47,077	154	
0802 Plains Elem	306	20.9	14.65	41,776	137	47,077	154	
0883 Choteau Elem	306	26.2	11.67	52,452	171	47,077	154	
0477 Polson Elem	1,091	75.9	14.37	151,856	139	167,846	154	
0023 Hardin Elem	1,130	101.5	11.13	203,066	180	173,846	154	
0312 Columbia Falls Elem	1,616	105.8	15.27	211,602	131	248,615	154	
0368 Belgrade Elem	1,902	105.9	17.97	211,728	111	292,615	154	
0583 Missoula Elem	4,842	321.3	15.07	642,510	133	744,923	154	
0487 Helena Elem	4,885	308.9	15.81	617,820	126	751,538	154	
High School Districts								
0805 Thompson Falls H S	384	19.2	20.04	38,318	100	59,077	154	
0331 Bigfork H S	385	28.2	13.67	56,334	146	59,231	154	
0538 Sheridan H S	80	11.0	7.24	22,098	276	12,308	154	
0680 Valier H S	82	7.9	10.38	15,800	193	12,615	154	
1190 Lodge Grass H S	171	23.4	7.30	46,830	274	26,308	154	
1230 Lame Deer H S	172	16.8	10.27	33,508	195	26,462	154	
0335 Whitefish H S	746	51.6	14.45	103,230	138	114,769	154	
0369 Belgrade H S	811	45.1	17.98	90,216	111	124,769	154	
0313 Columbia Falls H S	885	57.1	15.50	114,186	129	136,154	154	
K-12 Districts								
0579 Superior K-12	386	33.1	11.67	66,132	171	59,385	154	
0244 Baker K-12	400	40.1	9.97	80,276	201	61,538	154	
0828 Plentywood K-12	407	34.5	11.80	69,006	170	62,615	154	

*Average FTE represents teachers, administrators, & specialists without Title I

Table B compares the distribution of funds based on actual FTE to the calculated ratio. Note that districts of the same size may have vastly different levels of FTE resulting from different levels of local resources and local decisions. Distribution on an actual FTE basis would not be equitable.

Component 4: “At risk” payment component

Status	Rationale	Proposed Special Session Funding
NEW	<p>The at-risk payment recognizes that schools must help all children to obtain a high-quality education and that poverty is a critical factor to student success. The distribution mechanism for the at-risk payment is the federal Title 1 program which is primarily based on the number of children, ages 5-17, from low income families. These funds will be in addition to the existing federal appropriation that schools currently receive for Federal Title I (20 USC 6332).</p> <p>340 school districts will be served by these at-risk funds. 70% of the funding will go to elementary districts, 17% of the funding will be distributed to high school districts and 13% will be distributed to K-12 districts.</p> <p>These funds help schools districts to implement strategies aimed at reducing the number of students who fall behind and who are at risk of not graduating from school.</p> <p>The Quality Schools Interim Committee’s research will assist school districts to identify best practices, such as: full time kindergarten, tutoring, reading support before or after school, etc.</p> <p>Supports SB 152 that a funding formula consider the special needs of students, including “at-risk” students defined as: <i>“At-risk student” means any student who is affected by environmental conditions that negatively impact the student’s educational performance or threaten a student’s likelihood of promotion or graduation.”</i></p>	\$2,500,000

It is important to mention that not all funds that help our at-risk students are a part of the school funding formula. In addition to state and federal funding of schools through statutory entitlements shown above, school funding is enhanced by the state Medicaid program. In FY 2004, the Department of Health and Human Services (DPHHS), the Office of Public Instruction (OPI) and local school

districts began an enhanced program to provide school-based services to enable children with health-related problems to successfully remain in school and to receive a higher quality educational experience. The services provided include payment of special transportation, personal care paraprofessionals, school psychologists and the reinstatement of the Comprehensive School and Community Treatment Program (CSCT). CSCT provides assistance to severely emotionally disturbed children in a school-based setting. In FY 2005, this effort equated to over \$10 million in benefits to almost 100 schools and school districts throughout the state.

In addition, the 2005 regular session appropriated additional funding for Special Education of \$2.9 million and \$0.1 million for Gifted and Talented.

Component 5: “Indian Education for All” payment component

The 2005 regular session appropriated an historic \$3.4 million to the Office of Public Instruction to develop model curriculum and resources for schools; and an additional \$1 million to the Commissioner of Higher Education for tribal colleges to write tribal histories for use by K-12 schools.

Status	Rationale	Proposed Special Session Funding
NEW	<p>This Indian Education for All payment provides funding for every student to learn about the distinct and unique cultural heritage of American Indians as specified in the constitution.</p> <p>The payment is \$20.40 per ANB or a minimum of \$100 to integrate Indian Education in the curricula on an-ongoing basis.</p> <p>Responds to the District Court finding that Article X, Section 1 (2) of the Montana Constitution has not been implemented by the State despite the constitution’s direction to do so.</p> <p>Supports SB 152 requirement for educational programs to develop curricula that integrates Indian Education for All.</p>	\$3,000,000

Component 6: “Close American Indian Student Achievement Gap”

Status	Rationale	Proposed Special Session Funding
NEW	<p>The American Indian Achievement Gap payment is \$100 for each American Indian student in a school district.</p> <p>This component responds to the SB 152 concern that American Indian students are not achieving like their non-Indian peers.</p> <p>These funds help reduce the number of students who fall behind and who are at risk of not graduating from school.</p> <p>This American Indian Student Achievement gap payment component supports local control to determine how to help at-risk students. The Quality Schools Interim Committee’s research will assist school districts to identify best practices that can help close this achievement gap, such as: professional development, full time kindergarten, tutoring, reading support, etc.</p>	\$1,650,000

C. Providing Schools Additional Support with One-Time-Only Funding

The Schweitzer Administration’s proposal also includes assistance to school districts as follows:

Purpose	Rationale	Proposed Special Session Funding
Funding for a School facility study	<p>The status of K-12 school facilities is unknown.</p> <p>This study will be conducted for presentation to the 2009 Legislative Session to address on-going facility needs.</p>	\$2,500,000
Funding for weatherization and deferred maintenance	<p>School facilities are in need of updating and repair.</p> <p>These funds will provide on-going benefits by making school buildings</p>	\$23,000,000

	<p>more energy efficient.</p> <p>Distributed \$1,000 for each district and \$153 for each ANB.</p> <p>Districts may spend these funds over a three year period.</p>	
Indian Education for All	<p>This proposal recognizes that school districts have not had funds to comply with Indian Education for All prior to the appropriation by the 2005 Legislature.</p> <p>This one-time appropriation provides an additional \$47.50 per ANB to set up the infrastructure that supports on-going funding in the Indian Education for All Component. Examples include: buying classroom materials, providing professional development, or designing curriculum.</p> <p>Districts do not need to spend these funds in one year.</p>	\$7,000,000
Utility or fuel assistance funding	<p>These funds provide school districts some assistance with unanticipated high energy costs.</p> <p>Funds are distributed on a per ANB basis.</p> <p>If school districts use these funds for transportation, increases in a local levy may not be necessary.</p>	\$1,000,000
Support pension system	<p>Distribution of funds is \$100 million to Teachers' Retirement System and \$25 million to the Public Employees' Retirement System.</p> <p>These funds support the SB 152 requirement that a funding formula consider the ability of school districts to attract and retain qualified educators and other personnel by providing a solid benefit package.</p>	\$125,000,000

D. Accountability

The Schweitzer Administration's proposal incorporates the accountability structures that are in place for schools to report to the Office of Public Instruction (OPI). In addition, two new components of the Governor's Funding for Quality Schools will require school districts to report on student outcomes. SB 1 requires the OPI to report to the Governor and Legislature on the change in status of test scores, graduation rates, and dropout rates in relation to the new At-risk and American Indian Achievement Gap components.

E. Adequacy

The Montana Supreme Court did not dictate the amount of money needed to support the constitutional requirement for a basic system of free quality public schools. It said that funding must be "related to the cornerstones of a quality education," and listed examples of those cornerstones such as "academic standards, teacher pay, fixed costs, costs of special education, and performance standards. *Columbia Falls Elementary School*, 2005 MT 69 at ¶ 26. These are the cornerstones upon which the Governor's proposal is based.

The issue of adequacy of school funding must also consider recent events, analysis, and positions, many of which were previously discussed in this Special Session Report. Additional considerations follow:

- ✓ The court found that the State had not defined quality, which was necessary to determine adequacy.
- ✓ The Quality Schools Interim Committee included ex-officio members from the education community who were plaintiffs in the lawsuit.
- ✓ The QSIC hired school finance experts, who were endorsed by ex-members of the education community, to help the state determine how much additional money should be spent to meet the threshold of a basic system of quality education.
- ✓ The consultants concluded that a range from \$2 to \$328 million was defensible.

Funding Montana's public schools is an essential, important, and expensive part of the state budget in its entirety. The larger perspective of the state's budget and anticipated revenues is relevant to the question of adequacy.

Given the multitude of factors the Schweitzer administration concludes its K-12 Quality Funding proposal that includes new components together with the proposed level of funding will satisfy the court as both to the definition of quality, the linking of quality to funding, and to the adequacy of funding.

Table C demonstrates the lack of funding for education during the 1990s that brought the state to the current lawsuit. It also demonstrates the significant increased commitment to schools proposed by the Governor.

Table C: Fiscal Years 1993 to 2007				
Total State School Funding Expenditures, Equalization Aid, and Equalization Aid Per ANB				
Fiscal Year	State Equalization Aid	Equalization Aid Per ANB		
		Dollars	Change	% Change
1993	\$444.122	\$2,939	-	-
1994	444.697	2,833	(105)	-3.58%
1995	448.886	2,761	(72)	-2.56%
1996	452.320	2,762	1	0.03%
1997	457.145	2,775	13	0.48%
1998	458.183	2,797	22	0.80%
1999	458.971	2,837	40	1.45%
2000	474.261	2,969	131	4.63%
2001	496.883	3,154	185	6.24%
2002	487.148	3,155	1	0.02%
2003	495.811	3,273	118	3.74%
2004	504.728	3,378	105	3.21%
2005	506.437	3,431	53	1.57%
2006	543.100	3,726	295	8.61%
2007	547.880	3,812	86	2.30%
2007*	579.048	4,029	217	8.12%

Percent Change From Prior Year is Shown Above Each Bar Line

*2005 Special Session Amounts - This Represents a 5.69% Per ANB Increase Over Regular Session

F. Looking Ahead to the 2007 Legislative Session

The good news is that the Schweitzer Administration’s K-12 proposal includes on-going funding as outlined in the six components, which include the 2005 regular session increases to:

- ✓ “basic entitlements” for public elementary and high schools,
- ✓ “per ANB entitlement, and
- ✓ three-year averaging of the ANB formula.

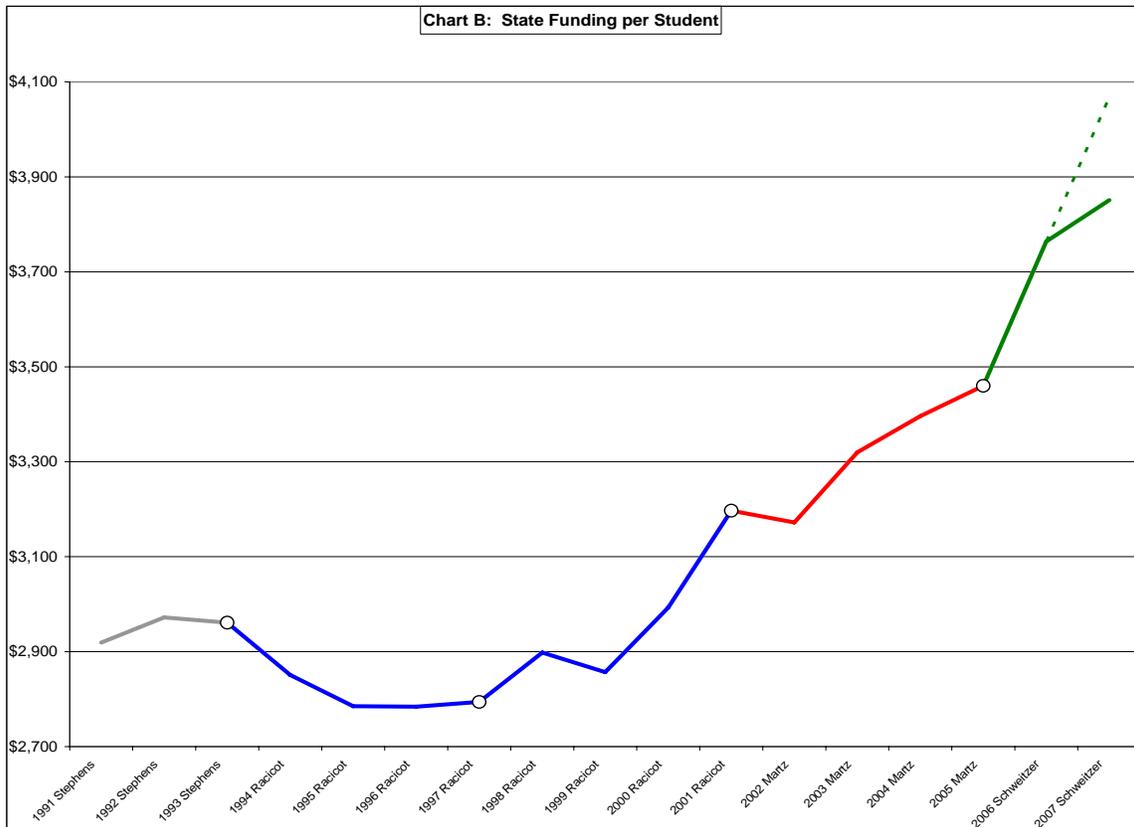
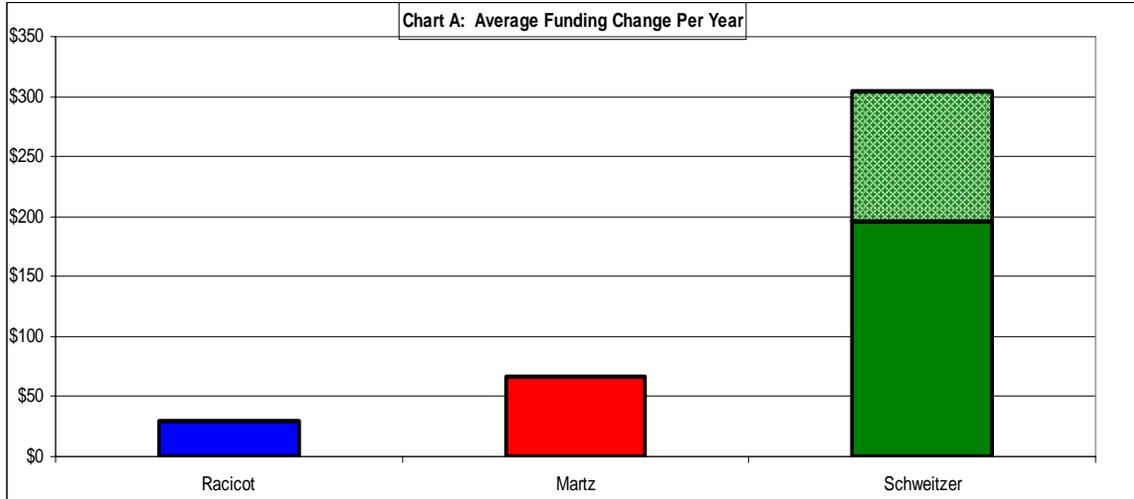
If not retained in the Governor’s funding formula, these components will sunset July 2007 and the entitlements will revert to 2005 levels.

Further, inflation adjustments will continue to apply to schools budgets. Enrollments are anticipated to decrease about 1% per year and statutorily applied inflation will increase about 2.76 % per year. The resulting increase in K-12 funding will be 1.76% or \$10 million dollars per year compounded for a total biennial increase from the FY 2007 level of \$30 million.

In addition to a statutory adjustment for inflation, it is anticipated that requests for enhanced school funding will continue long into the future. The Facility Study will not be available until the 2009 Session, at which time adjustments to school funding will need to be considered. And for now the Governor and the 2007 Legislature will be getting ready for further consideration of school funding.

In closing, The Governor's Funding for Quality Schools proposal includes \$31 million in addition investment in our kid's education. The 2005 regular session appropriated \$65 million in new, ongoing revenue for school for a total increase of \$95 million for the 2007 biennium.

The following two charts show how education funding and the funding proposed for special session by Governor Schweitzer compares to previous Administrations' funding increases.



Addressing the Unfunded Liability in Montana's Retirement Systems

Article VIII, section 15 of the Montana Constitution provides that "public retirement systems shall be funded on an actuarially sound basis." The Governmental Accounting Standards Board No. 25, paragraph 36, also requires public retirement systems be funded on an actuarially sound basis.

The Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) are currently not funded on an actuarially sound basis. As of the June 30, 2005 actuary valuations, the PERS had an unfunded liability of \$541 million and TRS had an unfunded liability of \$903 million. Investment losses due to the severe market decline during 2000 and 2001, as well as very expensive and unfunded benefit increases, are the main reasons why the current unfunded liability exists. In the timeframe of 2001 to 2003, investment returns were as low as -7.23%, which is 15.23% below the 8% return that was projected. The dip in value of the "equity market" is the major component of these investment losses. In addition, the 2001 Legislature approved increased benefits for PERS plan participants at a time when it may have appeared that the system could afford these increases. Unfortunately, the appearance did not come to pass. The plan could not afford the increases that may now protected by contract and unable to be reduced.

Montana is not alone in its pension system problems. Many states and private companies are seeking solutions to actuarially fund pension systems.

The Schweitzer Administration proposes infusing \$100 million of general fund money into the TRS and \$25 million into the PERS to begin restructuring these retirement funds to an actuarially sound basis. Shoring up the retirement systems will help attract and retain qualified educators and other personnel. Employer contribution increases are not being sought during the special session, however we anticipate such increases and other changes to address the unfunded liability in the retirement systems will be necessary in the 2007 regular session of the legislature.

This \$100 million payment to the Teachers' Retirement System, using best estimates today, will reduce the need for increased employer contributions. As a result, out-of-pocket cost savings over 30 years will be approximately \$300 million. The \$25 million payment to the Public Employees' Retirement System is estimated to result in out-of-pocket savings of about \$79 million over 30 years.

General Fund Financial Analysis

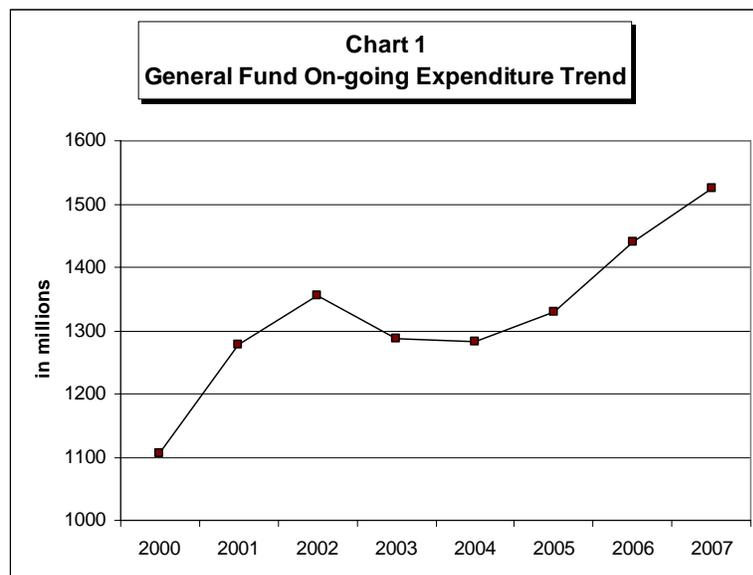
The financial picture of the state reflects the significant revenue and expenditure changes over the past 5 years. Revenues fell dramatically from 2001 to 2003 and significant cuts were made in services throughout state government. The 2005 Legislature projected revenues to rebound and additional spending was built into the 2007 biennium expenditures. Yet program budgets were not restored to a level necessary to satisfy caseload and population trends. Since the close of the 2005 legislative session, the revenue rebound has been greater than anticipated leaving additional revenue that can be used for K-12 education this special session.

This unanticipated revenue is due to the return of several revenue sources to “normal” or “above normal” levels, such as:

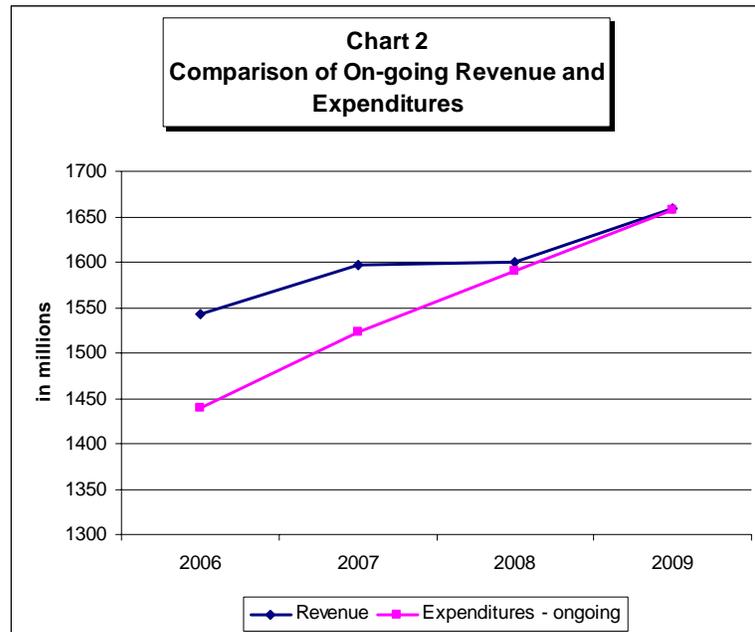
- increased oil and gas prices and production,
- capital gains income, and
- corporate profits.

This pace of rapid revenue growth is expected to slow as oil and natural gas prices may have peaked and are beginning to come down. Corporate tax has risen from a very low level to a level that would be considered within the “normal” on-going range. Capital gains income grew more rapidly in CY 2004 than is expected for the future. Montana’s major general fund revenue sources are very volatile and this rapid increase in revenue from corporate and income taxes is more of a return to a normal business climate. The oil and natural gas tax revenue depends more on world demand and supply.

The state’s spending pattern has lagged behind the revenue pattern, both on the decline as well as the increase. As demonstrated in Chart 1, expenditure reductions that occurred in the 2003 and 2005 biennia left agency budgets well below trend for caseload and population growth rates.



The additional on-going spending for K-12 schools included during the regular session and the further increases proposed in special session, along with the regular case load growth and inflationary increases, further compound the increased costs in the next biennium. Given these circumstances, Chart 2 demonstrates that the growth rate in expenditures is anticipated to outpace revenue growth in the 2009 biennium.



The following sections will show:

- the projected \$464 million ending fund balance is anticipated to change due to supplemental appropriations and the Governor's recommendations for K-12 schools;
- the challenge the 2007 Legislature will face in order to maintain a structural balance;
- the volatility of the general fund revenue; and
- highlights of the expenditure issues facing state policymakers.

Fund Balance Issues

The anticipated ending fund balance for the 2005 biennium at the end of the session was \$162 million. The actual ending fund balance for FY 2005 was \$287 million, or \$125 million more than anticipated.

At the end of the 2005 session, the anticipated ending fund balance for the 2007 biennium was less than \$80 million. Given higher than anticipated revenues, the ending fund balance with no supplemental cost overruns would be \$464 million or almost \$384 million more than anticipated as shown in table 1.

Table 1
Summary General Fund Balance Projections

<i>in millions</i>			
	FY 2005	FY 2006	FY 2007
Available funding			
Beginning fund balance	\$ 135.3	\$ 297.4	\$ 361.2
Adjustments to fund balance	(1.7)	(12.0)	-
Adjusted Balance (after adjustments)	\$ 133.6	\$ 285.4	\$ 361.2
Revenue	1,528.8	1,542.6	1,597.1
Funds available	\$ 1,660.7	\$ 1,828.0	\$ 1,958.2
Current Anticipated Expenditures			
Agencies - HB2 - assumed present law	\$ 1,150.9	\$ 1,302.9	\$ 1,324.6
Other	158.8	163.9	169.4
Supplementals	55.3		need legislative action to approve
Total Expenditures	1,365.0	1,466.9	1,494.1
FYE Fund Balance (before adjustments)	\$ 297.4	\$ 361.2	\$ 464.2

Supplemental appropriations currently are anticipated to be nearly \$49 million. Almost half of this cost increase, or \$24.2 million, results from a higher than budgeted number of incarcerated individuals within the Department of Corrections. The number of inmates in FY 2006 is anticipated to be significantly higher than that contemplated by the 2005 Legislature. The second largest cost increases are an anticipated Medicaid federal matching rate reduction (FMAP) and mental health populations 15-20% above the population level budgeted. Fire suppression costs of \$9.5 million are the final significant anticipated supplemental.

With no additional spending approved in the special session, the anticipated ending fund balance in FY 2007 will be approximately \$415 million after supplemental appropriations.

The Governor's recommended expenditures for resolving the K-12 education crisis include a \$125 million one-time transfer to the retirement systems, \$33.5 one-time expenditures for K-12 education, and \$31.4 million ongoing expenditures for K-12 education (see pages 5 - 13 for more details). With these additional expenditures, the fund balance is reduced from \$415 to \$226 million as shown in Table 2.

Table 2			
Summary General Fund Balance Projections with Governor's Recommendations for Special Session			
<i>in millions</i>			
	FY 2005	FY 2006	FY 2007
Available funding			
Beginning fund balance	\$ 135.3	\$ 297.4	\$ 236.2
Adjustments to fund balance	(1.7)	(12.0)	0
Adjusted Balance (after adjustments)	\$ 133.6	\$ 285.4	\$ 236.2
Revenue	1,528.8	1,542.6	1,597.1
Funds available	\$ 1,660.7	\$ 1,828.0	\$ 1,833.2
Current Anticipated Expenditures			
Agencies - HB2 - assumed present law	\$ 1,150.9	\$ 1,302.9	\$ 1,324.6
Other	158.8	163.9	169.4
Supplementals	55.3		48.9
Special Session Items			
School funding ongoing			31.2
School funding one-time-only			33.5
Retirement systems one time		125.0	
Total Expenditures	1,365.0	1,591.9	1,607.7
FYE Fund Balance (before adjustments)	\$ 297.4	\$ 236.2	\$ 225.6

The estimated fiscal year end 2007 fund balance of \$225.6 million is well above the \$100 million the Governor will recommend for the end of the 2009 biennium. This leaves \$125.6 million that may be available for one-time expenditures by the 2007 Legislature.

The Governor urges the Legislature to stay within his proposed level of ongoing expenditures. The challenges of the 2009 biennium will be significant, and excessive ongoing spending in special session will threaten policymaker's ability to fund present law budgets and enact other fiscal and program needs (see page 26).

Challenge – Structural Balance for 2009 Biennium

Actual general fund revenues increased dramatically in FY 2005. In fact, by June 30, 2005 the general fund revenue was \$125 million more than anticipated by the Legislature when the session adjourned in April. The strong general fund revenue growth was due to corporate license tax revenues returning to the normal trend, a large increase in capital gains income, and oil gas production increases as a result of the high price of oil and gas. The revenue estimates for the 2007 biennium anticipate that the revenue base established in FY 2005 will

be maintained; but will not grow this rapidly again in the 2009 biennium, as oil and natural gas prices may decline and capital gains income and corporate profits will not likely maintain the extraordinary growth rate that occurred in FY 2005. At this time it is anticipated that the general fund revenue will be between 3% and 5% higher than the 2007 biennium general fund revenue.

During the 2003 biennium the general fund revenue was considerably less than anticipated by the legislature and significant budget reductions were made. Many programs are showing the strain of expenditure constraints. A reasonable estimate of the expenditure demands indicate that the long term trend for expenditures will grow faster than the general fund revenue.

Chart 2 on page 19 shows if the general fund revenue grows 4% over the 2007 biennium, there will be a structural balance in FY 2009. This assumes the ongoing expenditure base is not increased above the Governor's recommendation during the special session plus present law adjustments, a pay plan, and addressing the retirement systems. This estimate does not include back fill of potential reductions in federal funding, or many of the other issues addressed in the expenditure issues in the 2009 biennium discussed on pages 26 to 32.

General Fund Revenue Volatility Going into the 2009 Biennium

Montana's general fund revenue is volatile. Three main revenue sources vary significantly from projections and from year to year. Some of the general fund revenue risks include:

- the rapidly fluctuating oil prices and production
- the volatility evident in corporate tax revenues
- the unpredictability of capital gains income

There will always be fluctuations in revenue collections due to changes in economic activity, changes in federal legislation that have a noticeable impact on state revenues, changes in state population or demographics, and many others. Not all of these can be anticipated in the revenue forecasting process. The consequences of significant revenue shortfalls have brought about special sessions, service reductions, and investment postponement. Whether or not there are disruptions to normal business activity due to special events, the business cycle itself remains a fact of life in the U.S. domestic economy and its effects on revenue should not be underestimated. With no economic upset, revenue for the 2009 biennium is estimated to be in the range of 3% to 5% greater than in the 2007 biennium.

Volatility in the Oil and Gas Production Tax

The revenue from the oil and gas production tax is not consistent from year to year, due to the volatility of both production and prices. The tax on oil production generates approximately 70% of the oil and gas production tax revenue.

Chart 3 shows oil production from FY 1960 through FY 2005. Oil production peaked at 46 million barrels in FY 1969 and declined to less than 16 million barrels in FY 2000. Production increased to 29 million barrels in FY 2005, and is projected to increase to about 35 million barrels per year in the 2007 biennium.

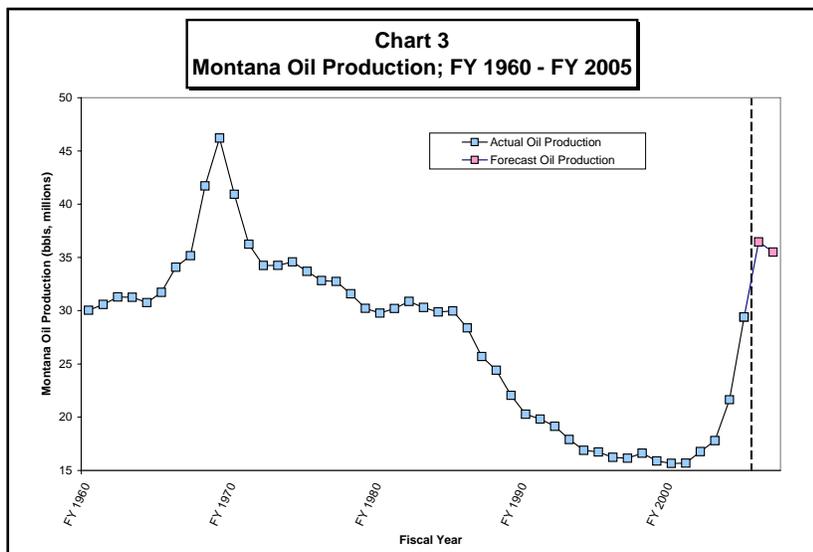
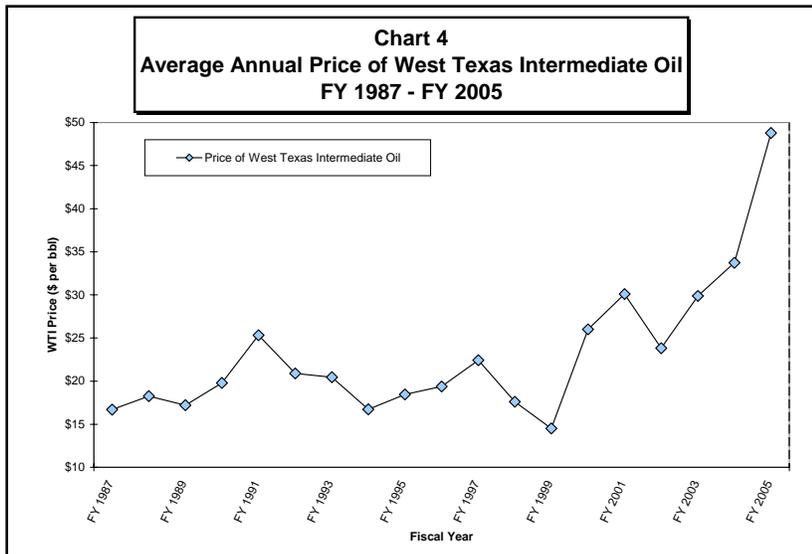
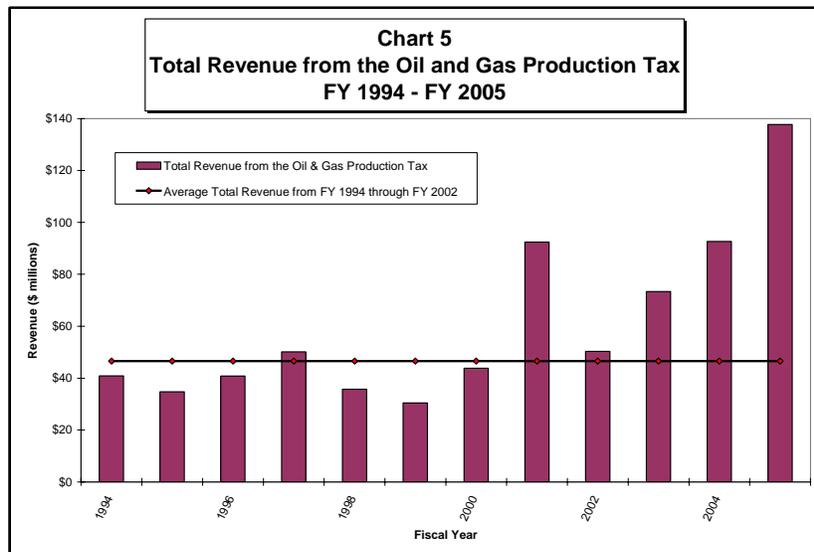


Chart 4 shows the average annual price of West Texas Intermediate (WTI) oil, an oil grade traded on the national market. The average price of Montana oil tends to follow the price of WTI closely, but at a \$2 to \$3 per barrel discount. The average price of WTI fluctuated between \$15 and \$25 per barrel from FY 1987 to FY 1999. The price increased from \$14.51 in FY 1999 to \$48.79 in FY 2005.



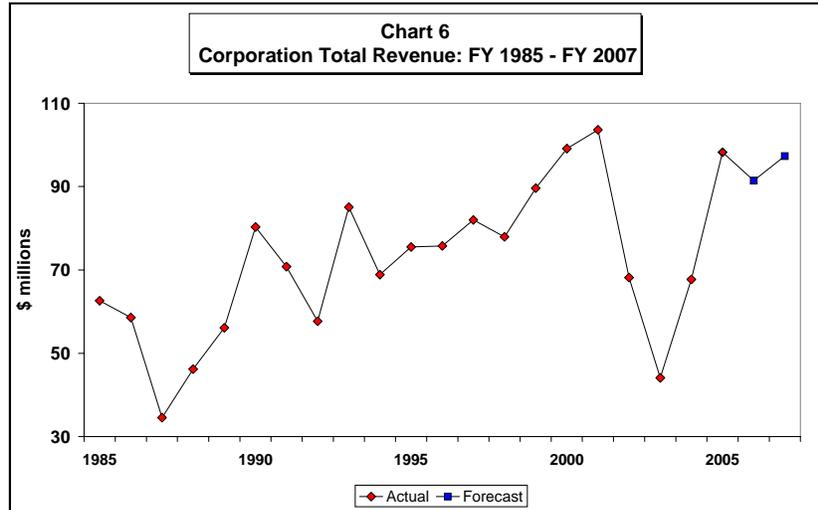
Changes in the production and price of oil and natural gas have caused great variation in oil and gas production tax revenue. Chart 5 shows the variation in actual and projected total revenue from the oil and gas production tax from FY 1994 through FY 2007. The horizontal line shows the average total oil and gas production tax revenue from FY 1994 through FY 2002 of \$47 million.

Projected oil and gas production tax total revenue is \$223 million in FY 2006 and \$208 million in FY 2007. This means projected revenue for the 2007 biennium is about \$337 million greater than two years of revenue at the FY 1994 – FY 2002 average revenue of \$47 million per year.



Volatility in Corporation Tax Revenues

Corporation license tax revenue has exhibited extreme volatility both in the recent past and earlier as shown in Chart 6. In FY 2001 revenues reached a peak of \$104 million but then dropped by more than \$35 million or 34% in a single year. They dropped again in FY 2003 this time by 35%. In FY 2004 revenues jumped by 53%, increasing again in FY 2005 this time by 45%.

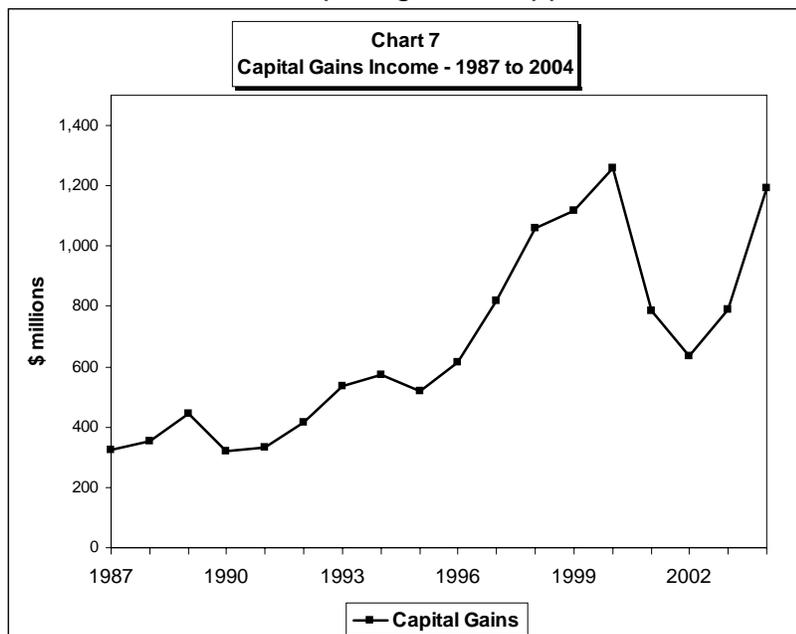


This rollercoaster pattern is not unique to the FY 2001 through FY 2005 period. Between FY 1986 and FY 1987 corporate revenue dropped 41%, following a drop of 6% the year before. In FY 1989 and FY 1990 corporate revenue increased 22% and 43% respectively, then dropped by 12% in 1991 and by 19% in FY 1992. In FY 1993 revenue increased by 47% over FY 1992, then dropped again in FY 1994 by 19%.

Volatility in Income from Capital Gains

Income from capital gains has shown substantial volatility over the last decade as shown in Chart 7. Personal income from capital gains dropped 38%, or \$474 million, from 2000 to 2001. In 2002 personal income from capital gains dropped another 19% and then grew 24% in 2003 and another 50% in 2004.

Despite this growth, capital gains income in 2004 was still less than the income peak in 2001. In 1990 income from capital gains dropped 29% and then grew steadily throughout the decade prior to 2001.



Expenditure Issues Going into the 2009 Biennium

Facing Programmatic and Fiscal Challenges in 2008-2009

Montana currently enjoys a significant cash balance and an even greater ending fund balance estimated for June 30, 2007. However, there are numerous challenges. Much of what state government does, principally to provide education, public safety and public health services, are just beginning to recover from the difficult 2003 cuts.

The purpose of this special session is to deal with the special issues of K-12 education funding and retirement funding. However, in order to give the Legislature and the citizens of Montana a view into the next biennium, a list of some of the most pressing fiscal issues can be found below. This list is not necessarily shown as the Schweitzer Administration's priorities because the budget process for 2008-2009 is only now just beginning. A great deal of research and analysis lies ahead before endorsements and priorities are finalized. Issues on the horizon, each involving millions of dollars would be:

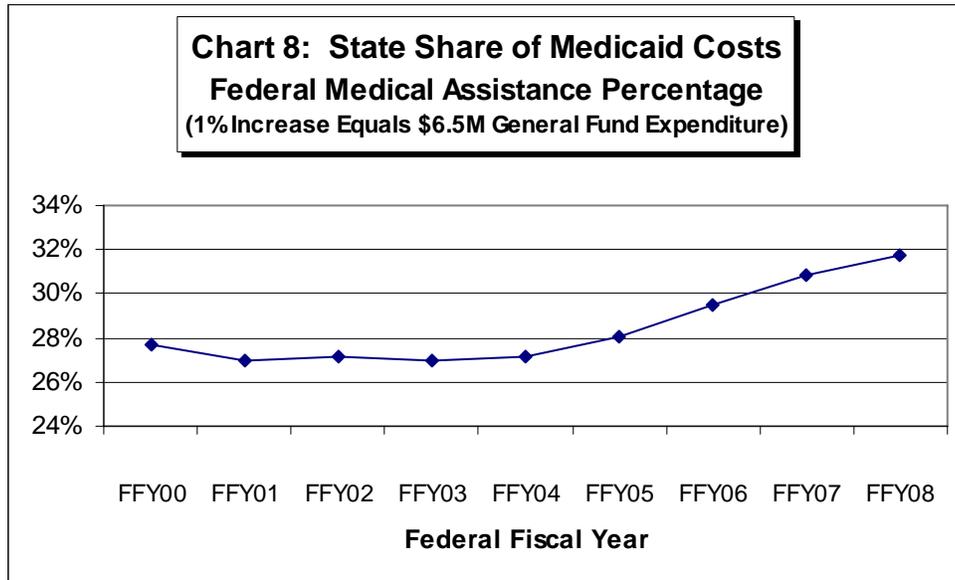
- Adequate Fund Balance
- Medicaid Funding
- Growing Corrections Population
- Workers' Compensation Liability
- Other Public Health and Human Services Programs
- On-Going Needs of Montana's K-12 Public Schools
- Higher Education
- State Employee Pay Plan
- State Building Deferred Maintenance Backlog
- Retirement System Need for Fiscal Soundness

Adequate Fund Balance – It is prudent that state government retain a sufficient ending fund balance for the general fund to protect against any number of issues that could disrupt crucial services. The Schweitzer Administration will be proposing a \$100 million ending fund balance for the 2009 biennium. The revenue volatility section of this report describes the impact that a variance from the revenue estimate assumptions can have on state revenues and the general fund ending fund balance. Forest fires are always a hot issue in the Montana budget. Since the state does not budget in advance for fires, it must pay for fighting fires after the fact. On average, over the past decade or so, net state fire fighting costs have ranged from \$2 million to over \$35 million. The cost to the state for fighting fires in future years is unknown. The state also needs to be prepared should other emergencies or crises occur.

Medicaid Funding – Medicaid is a \$700 million program, including about \$160 million from state funds. The cost to Montana for the Medicaid program is controlled by: 1) the caseload costs; 2) the state/federal Medicaid matching percentage for Montana; and 3) federal regulatory changes to the Medicaid program. The number of people eligible and seeking Medicaid services, the cost of those services including pharmacy, and the number of services are the components contributing to increase the caseload.

The aging of the population and the increased costs of health care, particularly prescription drugs, will add significant cost for the state to absorb in the future. The impact to Montana is the percentage share of the total cost of the program. Recent years have seen an increase in the percentage share of the cost to Montana. An easy reference is that 1% change is equal to about \$6.5 million in cost shift between the federal government and Montana.

The federal changes to the Medicaid program are not fully understood as they are currently being addressed by Congress. Additional costs to the state for the implementation of the Medicare Part D program are also not fully developed. Chart 8 shows the increase in the state matching rate which equates directly to increased state costs.



Growing Corrections Population - The Department of Corrections is seeing greater than projected growth in men and women sentenced to the department. The corrections system – both secure custody and community corrections programs (including probation and parole) – is at capacity. County jails are beyond capacity, and there are some 4,000 outstanding felony warrants across the state. They go unserved partially because of a lack of cells. Historically, of

this level of warrants, nearly 500 offenders would end up in secure facilities and approximately 1,100 would be sentenced to community placements. The department, as guided by the 2005 Legislature and the Governor's Office, is taking innovative steps to address the increasing population.

- First, the department has opened an 80-bed revocation and sanction center (called START) that will be used as a less-costly alternative to prison. It will house those who violate conditions of their parole, prerelease and conditional release placements. The offenders will spend up to 120 days at the center to determine if further community placement is appropriate. The START (Sanction Treatment, Assessment, Revocation and Transition) Center also will serve as a short-term detention facility as punishment for probation, parole, prerelease, and conditional release violators.
- Second, the department will soon seek proposals for operation of a 256-bed special-needs facility to address specific groups of inmates, such as those with serious mental illnesses, chronic medical problems and gang affiliations.
- Third, the department has issued a request for proposals for the development of a 120-bed treatment program to work with offenders who are addicted to methamphetamine.
- Fourth, the department has opened a second felony DUI treatment center, this one on the campus of the former Eastmont facility in Glendive for 40 male and female offenders.

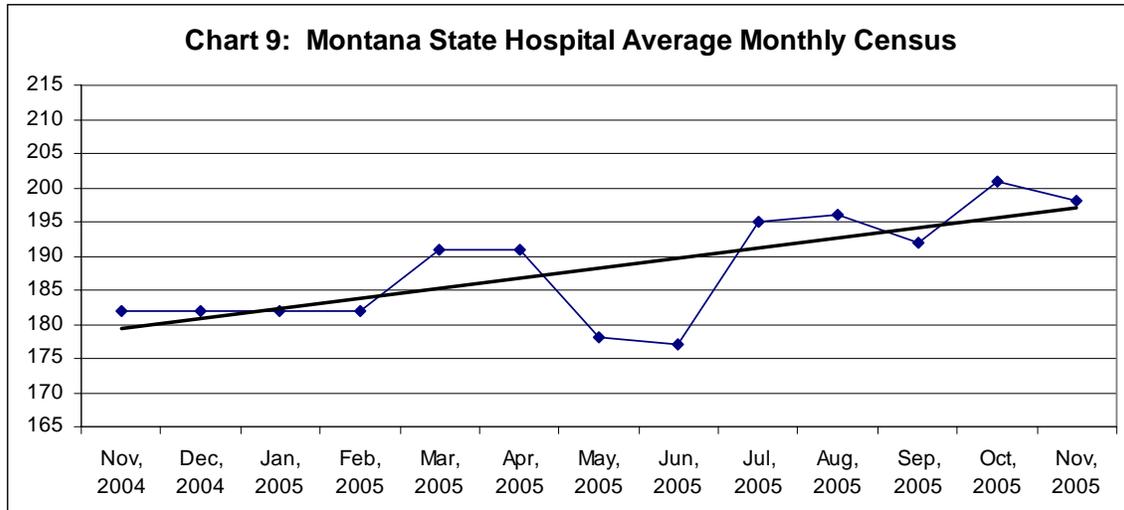
Even with all of these measures, the department may still face a shortage of beds in the 2007 and 2009 biennia. Correctional facilities and program, whether prison- or community-based, are expensive. Preliminary estimates anticipate the department may be as much as \$13 million short for FY 2006 alone due to higher offender numbers. The financial need is expected to continue in the 2009 biennium.

Workers' Compensation Liability – The Montana State Fund has estimated that between \$27 million and \$69 million of general fund money may be necessary over a 30 year time period to pay all the claims that will eventually come due in the Old Fund. The Old Fund was established to pay claims for workers injured prior to July 1990. Currently, the Old Fund has assets available to cover the annual indemnity and medical payments for the claims of the 1,100 injured Montanans covered by the Old Fund for the next several years. Once the assets and the investment earnings generated by them are no longer sufficient to cover the costs in a year, the payment becomes the responsibility of the state general fund until all claims are paid. An infusion of cash now would lessen the total cost to the general fund later. State policymakers need to evaluate the immediate impact of the use of general fund – estimated by State Fund hired insurance experts to be at least \$14 million - against the lower annual costs in any one year in the estimated 30 year payout period.

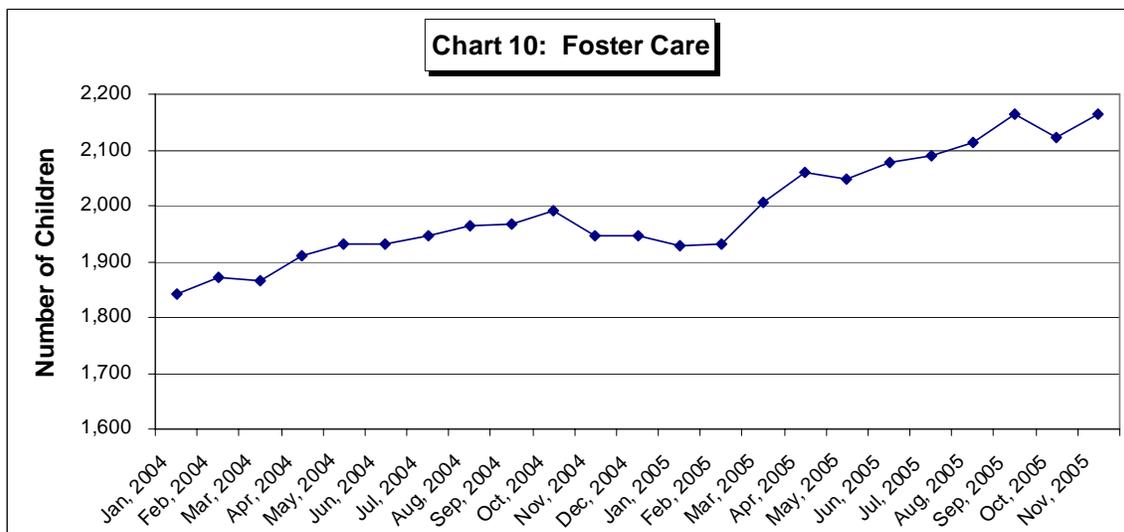
A second issue with potential state fiscal ramifications is the impact to the Montana State Fund of the outcome of court cases that re-interpret benefit provisions for claims currently being paid by the State Fund. Depending on the results of these cases, there could be a financial effect on both the Old Fund and the New Fund. These cases, because of the unknown outcomes and resultant costs thereto, are not included in the reserves set aside by the State Fund to handle its current claims and the remaining claims of the Old Fund.

Other Public Health and Human Services Programs – The Department of Public Health and Human Services is facing significant pressures to respond to the needs of Montanans currently served by the department's programs as well as challenges from potential funding cuts to these programs by the federal government.

Spotlighting one of the more significant issues has been the difficulty in responding to the mental health needs of citizens with debilitating health issues requiring treatment at the state's hospital in Warm Springs. There has been an increase of patients at the state hospital, well above license or budget levels. To address this issue that is symbolic of the wider problem of the availability of adequate mental health services in Montana, an increase in funding in the first quarter of FY 2006 has been necessary. This funding provides the additional space and staff to serve adequately and safely the increased number of mental health patients who are coming to the hospital. This increased level of funding for the state hospital will continue in the next session. This level has the potential to increase as a review of the integration of institutional and community service needs for mental health are evaluated by the legislature in the committee established by SJR 41 and by the DPHHS through preparations for the Governor's budget proposal for the next legislative session. Chart 9 below shows the patient census growth over the past year at the Montana State Hospital.



Additionally, Montana's foster care placement has increased by approximately 10% in 2005. Addressing programs that provide foster care, adoptive services, and child protection is one of the highest priorities for DPHHS. The growing number of children under state care is coupled with the increasing problem of providing services within the growing culture of substance abuse. This places added stress on the service system already stretched thin with high and demanding caseloads for the workers in the programs. Chart 10 below shows the growth over the last two years of the total number of children in Foster Care.



On-Going Needs of Montana's K-12 Public Schools - K-12 public schools will have on-going funding needs resulting from the current law base budget and the increases associated with the new funding proposed in the special session. Enrollments are anticipated to decrease about 1% per year and statutorily applied inflation will increase about 2.76% per year. The resulting minimum

increase in K-12 funding will be 1.76% or \$10 million dollars per year compounded for a total biennial increase from the FY 2007 level of \$30 million.

In addition to these present law adjustments, it is anticipated that requests for enhanced school funding will also be considered by the Governor and the 2007 Legislature.

Higher Education – Key issues that could mean significant fiscal demands in the 2009 biennium for the Montana University System include:

- simplifying the system for the consumers by improving transferability of credits;
- improving access and affordability; and
- improving 2-year colleges responsiveness to work force demands.

State Employee Pay Plan - State employee pay is an issue that must be addressed in every legislative session. While state employees received a solid pay increase in the 2007 biennium, these raises followed the 2005 biennium when employees received a meager 25 cent per hour increase for only the last six months of the biennium. While no determination has been made yet as to what the proposed pay plan will be for the 2009 biennium, a gage can be found by noting that a 1% pay increase for any year for all state employees (including the Montana University System) would cost the state approximately \$6.7 million, of which \$3.4 million is general fund. In addition, every \$10 increase in the employee health insurance contribution rate costs nearly \$1 million, of which over \$500,000 comes from the general fund.

State Building Deferred Maintenance Backlog - Maintenance of state buildings continues to be significantly backlogged, even though the 2005 legislature directed approximately \$30.1 million of general fund money into deferred maintenance. Estimates from the Department of Administration show approximately \$142 in current deferred maintenance needs. The Department of Administration reports that the state, including the Montana University System, has approximately 1,900 buildings that have a value greater than \$50,000. The total value of these buildings is greater than \$1.7 billion. A reasonable maintenance program would invest 1% of value or \$17 million into these buildings each year. The Long Range Building Program (LRBP) “Cash Program” is obligated for maintenance of about 65% of state buildings. If there are no changes to the revenue stream in the LRBP account, available revenue after debt service and administration will only be about \$2 million per year in the 2009 biennium for deferred maintenance projects.

The Schweitzer Administration also has serious concern about the security of the state’s central computer system that is currently housed and maintained in the basement of the Mitchell Building. This information technology infrastructure needs to be relocated to a more safe and secure location.

Retirement System Need for Fiscal Soundness - Although the Schweitzer Administration has recommended a \$125 million infusion of funding to Montana's retirement systems, it is only an incremental step in addressing the larger issue of unfunded liability in these systems. While the infusion takes advantage of the time value of money to draw down the current \$1.4 billion unfunded liability in these systems, more must still be done. In the future, these systems will need additional cash infusions and/or increased employer contributions to address the remainder of the liability problem.

As was stated in Governor Schweitzer's December 28, 2004 budget cover letter, "Our challenges are many. Providing enough of what the public needs, while ever mindful of the public'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."