

### OVERVIEW 2003 EXECUTIVE BUDGET

The goal of this executive budget is to present a balanced spending plan for state government which will allow the highest priority programs to be funded in a reasonable and responsible manner. Revenue estimates for the next biennium are presented on a conservative basis given the economic uncertainties. It is important to note that the revenue estimates do not include tax revenues associated with the proposed sale of Montana Power properties, possible revenues from the establishment of Foreign Capital Depositories, and additional expected federal reimbursements for Montana's wildfire activity. While not including the above referenced items, we are projecting an adequate ending general fund balance of \$44 million at the end of the 2003 biennium. In the preparation of the revenue estimates, we have worked closely with both the Department of Revenue and the Legislative Fiscal Division. We thank both agencies for their important contributions. Official revenue estimates will be adopted by the Revenue and Taxation Committee of the Montana Legislature. The estimates will be updated through the Legislative session, as more information becomes available.

We are proposing significant investments in needed areas. For example, Public Health and Human Services investments target expanded caseloads, provider rate increases and increasing the pool of children eligible for the Children's Health Insurance Program (CHIP), by increasing the upper limit to 175% of poverty. Additional investments in the Montana University System are intended to reduce the pressures to raise tuition. Teacher shortage and retention issues will receive an investment of \$2 million. We also continue the substantial investments in economic development activities which were approved in the May 2000 Special Legislative Session. Although we do not consider the above items one time investments, we are utilizing the excess general fund balance and their continuation may be dependent upon future growth in our economy.

The budget includes a revenue enhancer taking the form of an increase in cigarette and tobacco products taxes. We are proposing to increase these taxes to a level equal to the average of other states. The increase is being proposed for a variety of reasons. First, since our state is spending millions of dollars on the treatment of tobacco illnesses and millions on tobacco prevention and education, it seems contradictory to maintain one of the lowest taxes (12th) in the nation. A higher tax will be a deterrent to tobacco use, thus saving Montana substantial dollars into the future. Second, our Long-Range Building Program is funded with this source of revenue and the funds are used to maintain existing state and university buildings. To adequately address the list of maintenance projects, an enhancement of the revenue flow is necessary. Third, since a portion of this tax funds veteran's services, an enhancement was also required to maintain the level of service for our veterans. And fourth, this tax was last increased in 1989. A tax that is set on a unit basis (in this case, cents per item) should be increased periodically to account for the impact of inflation.

Major expenditure areas and the comparisons with prior years are presented below.

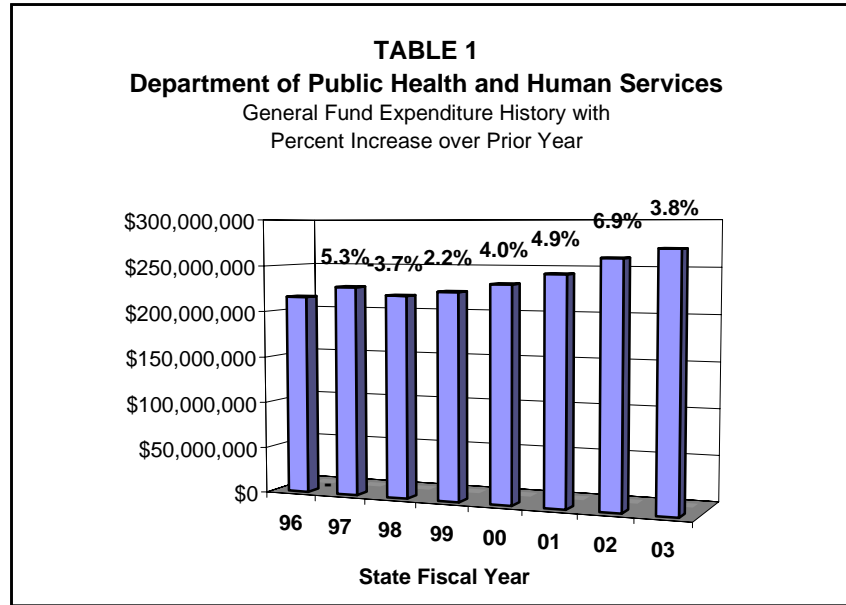
### PUBLIC HEALTH AND HUMAN SERVICES

#### General Fund Expenditures:

The Department of Public Health and Human Services budget request includes \$532 million general fund to provide services to Montanans during the 2003 biennium. Primary increases in general fund provide for mental health services, foster care and subsidized adoptions services, increases to the Children's Health Insurance Program, disability services for those on the waiting list, provider rate increases, and increases in the Medicaid program.

Below is a graph of the annual general fund expenditures for the department, along with the percentage change in general fund from one year to the next year.

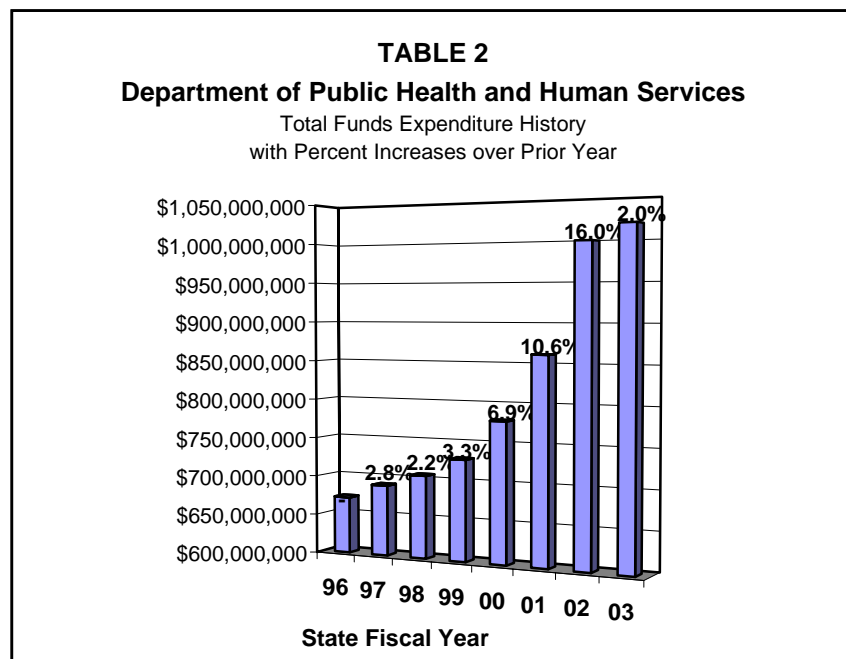
## BUDGET OVERVIEW



### Total Funds Expenditures:

The Department of Public Health and Human Services budget request includes \$2 billion in total funds during the 2003 biennium. Substantial increases in federal funds account for the majority of the growth. Federal funds increase in areas such as federal Medicaid match, Children's Health Insurance Program (CHIP) block grant balances, Temporary Assistance to Needy Families (TANF) block grant balances, accounting changes necessitating appropriation of \$102 million in food stamp funds, an increase in mental health program expenditures from federal funds, and ongoing federal matching funds annualizing program expenditures within the department.

Table 2 on the next page shows the annual total funds expenditures for department, along with the percentage change in total funds from one year to the next year.



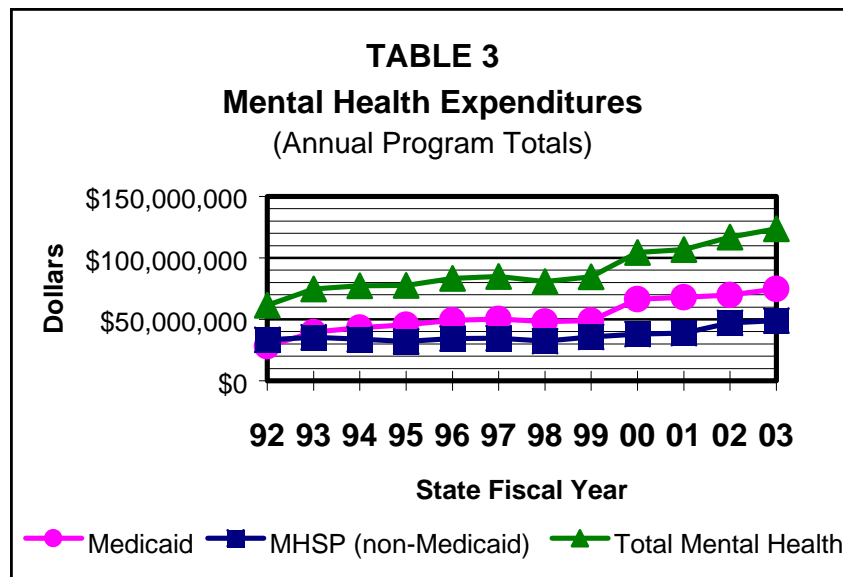
## BUDGET OVERVIEW

### Mental Health Services:

The funding for mental health services has increased substantially since FY 1999. Supplemental funding was necessary in FY 2000 and is budgeted again as a supplemental appropriation in FY 2001 to sustain mental health services at an acceptable level. The Department of Public Health and Human Services has embarked on instituting cost containment measures and has enhanced the use of the Children's Health Insurance Program (CHIP) for children who qualify for CHIP and need mental health services. Expanded funding is included within the submitted budget for the next biennium.

Beginning in April 1997 and continuing through FY 1998 and 1999, mental health services were offered through the Mental Health Access Plan (MHAP), a managed mental health care plan funded using combined federal and state dollars. This initiative was terminated at the end of FY 1999. Beginning in FY 2000, mental health services are being provided under a fee-for-service program with a utilization review component, which continues to be funded with the same state and federal funding sources. Mental health services are separated into two components. Medicaid, funded with state and federal funds, is provided to those persons who are eligible under Medicaid and thus are entitled to the services. The Mental Health Services Plan (MHSP) provides services on behalf of clients who are not Medicaid eligible and is funded entirely with general fund.

The annual total expenditures for the mental health program, shown for Medicaid and for the MHSP (non-Medicaid) component, are presented below in Table 3.



## K-12 EDUCATION

The 2000 special session increased school funding for FY 2001 by an additional 3% increase in entitlements over the increases that were scheduled by the 1999 regular session. In addition the formula for school funding was changed to increase direct state aid to schools from 41.1% in FY 2000 to 44.7%. This increase in direct state aid benefits all school districts in the state and reduces local taxes to fund schools.

For the 2003 biennium, there is a 3% increase in entitlements in FY 2003.

## BUDGET OVERVIEW

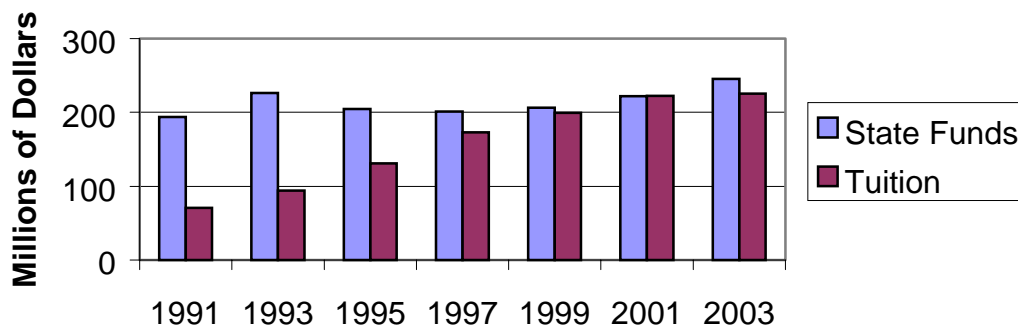
**TABLE 4**  
**Statewide School Information**

Year	Average number belonging (ANB)	State aid to District general fund (millions)	Per ANB entitlement Elementary	Per ANB entitlement High School
FY 1998 actual	163,810	\$426.1	\$3,376	\$4,726
FY 1999 actual	161,753	\$425.7	\$3,410	\$4,773
FY 2000 actual	159,592	\$439.2	\$3,529	\$4,821
FY 2001 estimate	157,538	\$458.8	\$3,763	\$5,015
FY 2002 recommend	155,137	\$447.4	\$3,763	\$5,015
FY 2003 recommend	153,141	\$456.3	\$3,876	\$5,165

## MONTANA UNIVERSITY SYSTEM FUNDING

The Montana University System educational units, not including community colleges, are budgeted to receive \$220.9 million of general fund, including estimated pay plan, in the coming biennium. The chart below shows the level of general fund and millage appropriated each biennium since 1991 and tuition expended. Tuition is not expected to significantly increase due to a projected decline in nonresident students.

**TABLE 5**  
**State Funds (GF plus Millage), and Tuition**

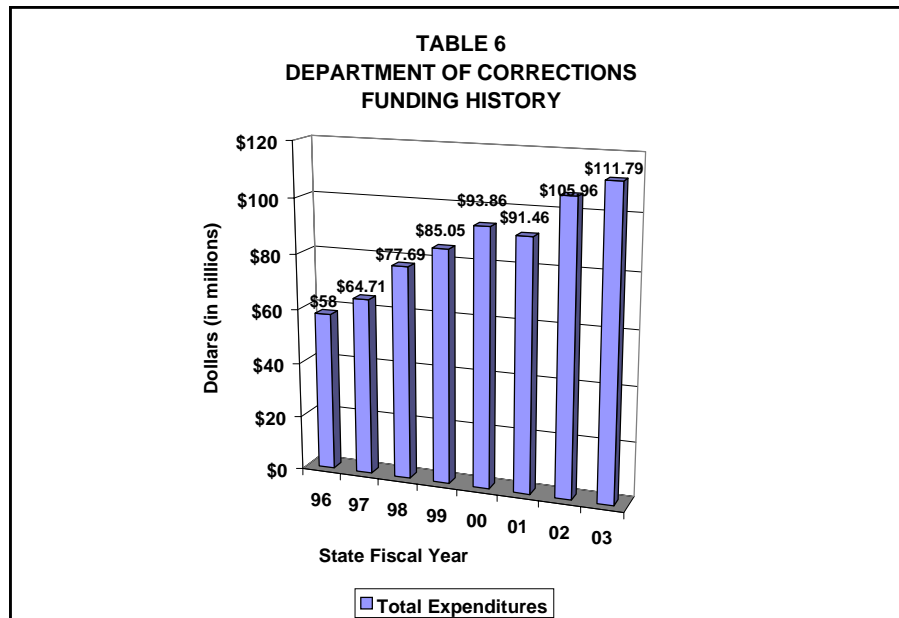


## BUDGET OVERVIEW

### DEPARTMENT OF CORRECTIONS

Adult offender institutional populations have grown by about 43 percent from FY 1996 through FY 2000, while probation and parole populations have increased by 19.4 percent. Since FY 1996, department reliance on employee personal services has decreased from 47.9 percent of total expenditures to 41.1 percent of total expenditures in FY 2000. Concurrently, reliance on privatized contract services has increased from 21.4 percent of total expenditures in FY 1996 to 32.2 percent in FY 2000.

The Department of Corrections recommended budget includes approximately \$30 million of additional general fund. Of this increase, 61 percent is attributable to contract placement costs for adult offenders in regional and private prisons and pre-release centers across the state. Another 7.3 percent of this increase is due to increasing capacity at Montana Women's Prison and Pine Hills Youth Correctional Facility as a result of expansions approved during the last legislative session to meet population growth. Table 6 shows the Department of Corrections funding history.

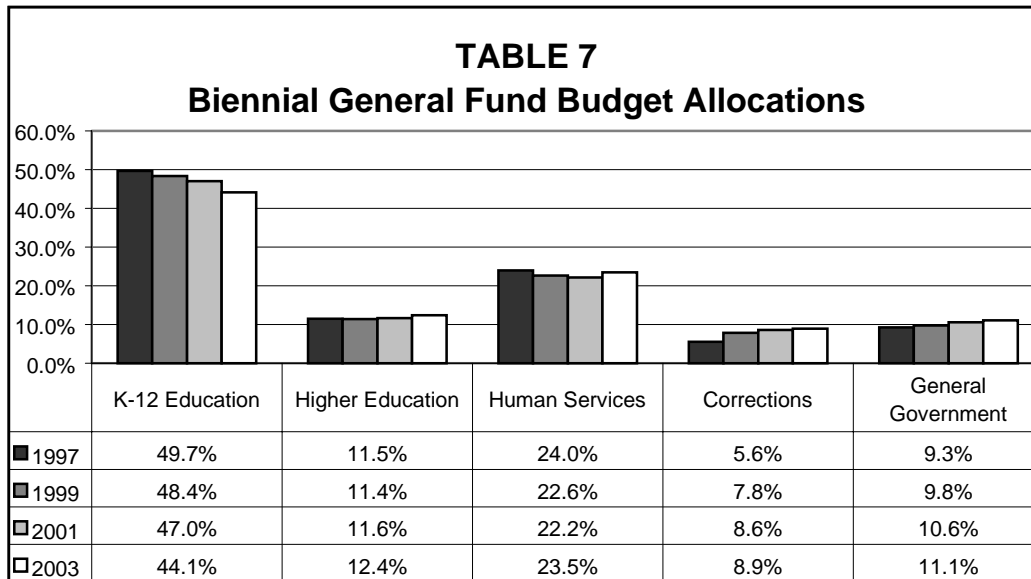


FY 2001 represents the department's appropriated level  
FY 2002 and FY 2003 represent the department's Executive Budget

## BUDGET OVERVIEW

### STATEWIDE GENERAL FUND BUDGET BY PROGRAM AREA

General fund budgeted expenditures, comparable to the LFD schedules for general fund appropriations by program area, rise 21 percent over the eight year period with growth in all areas. However, as Table 7 indicates, the allocation has shifted away from K-12 education toward corrections and all other general government, including economic development. Public school enrollments have declined 6.5 percent during this period while corrections populations have soared 58 percent.



## BUDGET OVERVIEW

<b>GENERAL FUND BUDGET RECOMMENDATIONS</b>				
	<b>FY2000</b>	<b>FY2001</b>	<b>FY2002</b>	<b>FY2003</b>
<b>Beginning Fund Balance</b>	109.67	172.17	96.25	88.34
<b>Revenues</b>	1,166.85	1,156.64	1,194.19	1,216.13
FEMA fire reimbursements		32.50	9.50	-
Cultural Heritage Loans (HB 16)			(0.58)	(0.94)
Extend Endowment Credit at restricted level				(5.18)
Increase cigarette and tobacco product taxes			23.54	23.63
Subtotal Revenue	1,166.85	1,189.14	1,226.64	1,233.65
Residual Equity Transfers	0.72	0.75	0.75	0.75
<b>Total Available</b>	<b>1,277.25</b>	<b>1,362.05</b>	<b>1,323.64</b>	<b>1,322.73</b>
<b>Expenditures</b>				
General Appropriations				
Agencies	1,045.59	1,063.98	-	1,121.35
SB184 Property Tax Reimbursements	13.81	56.77	54.93	54.93
Subtotal General Appropriations	1,059.40	1,120.75	1,176.29	1,202.33
Language Appropriations	0.02	-	-	-
Cultural and Aesthetic (HB 9)			0.30	0.30
Micro Business Development			0.15	0.15
Pay Plan Appropriations (HB 13)				
Contingency: VS and Retirement		0.35	1.00	-
2003 Biennium Pay Plan			8.70	21.40
Subtotal Pay Plan	-	0.35	9.70	21.40
Statutory Appropriations				
SB 417 Property Tax Reimbursements	11.56	10.27	8.99	7.71
State Lands Reimbursements	0.55	0.55	0.55	0.55
Local PERD contribution	0.34	0.30	0.34	0.34
TRS GABA contribution	0.53	0.54	0.53	0.53
Debt Service	11.18	18.30	18.72	18.16
New Debt service (HB 14 & HB 15)			0.32	1.33
Economic Development HB1	2.66	10.61	8.22	8.22
TRANS Interest	-	-	1.00	1.90
Banking Services & Cash Management	0.98	0.79	0.97	0.97
HB 169 Motor Vehicle Registration	0.32	0.35	-	-
Retirement	12.57	14.34	14.24	14.85
FEMA Reimbursed Fires		42.00	-	-
Emergency	1.67	4.91	-	-
Subtotal Other expenditures	42.34	102.97	53.87	54.55
Miscellaneous Appropriations	1.55	0.55		
Continuing Appropriations	1.55	1.42		
Supplemental Appropriations		34.75		
Legislative Feed Bill		5.44		5.44
Reversions		(5.00)	(5.00)	(5.00)
<b>Total Disbursements</b>	<b>1,104.86</b>	<b>1,261.22</b>	<b>1,235.31</b>	<b>1,279.16</b>
Adjustments	(0.23)	(4.58)		
<b>Ending Balance</b>	<b>172.17</b>	<b>96.25</b>	<b>88.34</b>	<b>43.57</b>