

GOVERNOR
BRIAN SCHWEITZER
STATE OF MONTANA

Budget Highlights
Fiscal Years 2008-2009

Governor's Office of Budget
and Program Planning



Montana Cap on Spending

In order to manage spending during these times of significant revenue flow, Governor Schweitzer will ***vigorously pursue*** with the 2007 Legislature the following 4-point self-imposed “cap on spending” elements:

1. Cap on Ongoing Spending

Limiting general fund spending to \$1.8 billion in FY2009 going into the next biennium, which must cover:

- Existing or new programs
- Tax reductions or credits (unless they are offset with additional revenue measures)
- Any other permanent general fund spending

2. Cap on One-Time-Only Spending

Limiting general fund one-time-only expenditures to no more than \$500 million

3. Safety Valve Protection

Placing trigger mechanisms to delay spending of one-time-only money if actual revenues fall unexpectedly below estimates

4. Pay Cash: No New Debt

Paying for major capital expenditure items in cash during this biennium, rather than creating long term debt through bonding

Montana Financial Security

To insure against the historic “boom and bust” pattern that has plagued Montana for many years, Governor Schweitzer will vigorously pursue a 2-point approach to long-term, stable and sustainable state finances:

1. Cash in the Bank

Insisting on a FY 2009 ending fund balance of at least \$100 million

2. Big Sky Savings Account

Saving revenue above the caps on spending, whether on-going or one-time, into a Big Sky Savings Account to protect Montanans from the impacts of potential future boom and bust cycles



November 15, 2006

Honored Members of Montana's Sixtieth Legislative Assembly:

In accordance with section 17-7-121, MCA, it is my pleasure to submit my 2009 Biennium Executive Budget Recommendations. This budget reflects my vision for a vibrant economy, stronger families, and more efficient government.

From its earliest days, my administration has worked tirelessly to create more and better paying jobs. While we are aggressively pursuing many economic development fronts - developing Montana's energy, including renewables and our huge coal resources, has been my focus. We can and must play a role in helping America reduce its foreign energy dependence. In doing so, we will insist that our air, water, and land be protected. We can create quality jobs and still protect the high quality of life we enjoy in Montana.

Government has a responsibility to provide three vital services for our families: education, safety and health. We have made great strides in improving all three, but my administration will not rest. We have more to do for our public schools, public safety, and access to quality healthcare.

My administration is committed to efficient government. Montana families live within a budget and pay their bills, and so will we. In good times families save – setting aside something for tough times. State government should be no different.

My pledge to the citizens of Montana remains the same: we will live within our means without raising taxes, put some money aside, and provide appropriate and fair tax relief.

I believe that Montanans agree with these priorities. I look forward to working with you during the legislative session.

Sincerely,

BRIAN SCHWEITZER
Governor

Table of Contents

Executive Overview	5
Revenue Overview	26
Financial Overview	34
HB 2 Detailed Agency Budgets	A-1

Where We Stand, What We Found, What We've Done, and Where We're Going

Where We Stand

Governor Brian Schweitzer is committed to leading Montana toward:

- Stronger economy and more quality jobs
- Responsible energy development
- Affordable and accessible health care
- Quality public schools
- Better public access and habitat restoration
- Stronger Public Safety
- Efficient and cost-effective government
- Responsible and sustainable fiscal policy

In seeking opportunities, the Governor demands responsibility and accountability -- making government live within its means and not raising taxes.

What We Found

Governor Schweitzer inherited many complicated challenges, each magnified by years of inattention:

- Property tax shifts to homeowners and small businesses
- The lack of a comprehensive and targeted energy policy
- The lack of access to healthcare and to affordable insurance
- A crisis in mental health services
- A public school system declared by the courts to be unconstitutional
- A higher education system priced out of reach for Montana's families
- A number of contaminated sites in need of environmental cleanup
- An overcrowded corrections system without adequate rehabilitation for offenders
- A public pension system facing more than a billion-dollar gap between contributions and benefits
- An outdated state government computer system that jeopardizes services

What We've Done

Economic Development and Jobs

Our economy is stronger than ever. Montana has the 8th fastest growing economy in America over the last five years. Montana's unemployment rate has never been lower. Construction, new housing, great prices for cattle and wheat, sky-high prices for oil, gas, and metals, all contribute to the most vibrant economy in decades. Governor Schweitzer and his administration were central in achieving a large number of business recruitments, retentions and expansions, including the following:

- AvMax Group, Inc., a Calgary-based company focused on the highly specialized area of commercial regional aircraft repair, through a state grant, will locate its first US operation in Great Falls and add and train 98 new workers
- DirecTV in Missoula, through a variety of state, local and federal business assistance programs, opened a technical assistance center in Missoula that will add 900 jobs to the area economy, resulting in a \$9.5 million net growth in state revenue
- Intercontinental Truck Body, will be able to fulfill a \$25 million contract with the U.S. military using state and local monies to train 20 workers
- Summit Aviation in Helena received funds from the Big Sky Economic Development Trust Fund to add 40 new high-tech jobs
- A British company, GlaxoSmithKline, used state workforce training funds to add 60 jobs and remain the largest employer in Ravalli County
- State job training funds led to the location in Butte of an expansion of Seattle-based foundry, Seacast, Inc.
- Location of an aerospace engineering services center in Bozeman to serve Sikorsky Helicopter
- Indian Country Economic Development funds were made available through the Montana Department of Commerce for the following projects:
 - The Confederated Salish and Kootenai Tribes were awarded money to support an equipment purchase at the tribally-owned Flathead Stickers and Lath Plant
 - The Little Shell Chippewa Tribe was awarded money for a feasibility study a tribal capitol and visitor center
 - The Chippewa Cree Tribe completed a marketing study for a potential ethanol (and its by-products) plant
 - The Fort Belknap Indian Tribes were awarded money to support the tribally-owned Little Rockies Meat Packing, Inc.
 - The Fort Peck Tribes' Mitakuye Corporation received assistance to develop a tribally-owned manufacturing and information technology services network holding company
 - The Apsaalooke (Crow) Nation was awarded money for the establishment of a business development revolving loan fund for enrolled tribal members
 - The Northern Cheyenne Tribe was awarded money to complete a telecommunications study identifying potential tribal ownership opportunities and potential service improvements
 - The Blackfeet Indian Nation received funds to train tribal members in firefighting

- Funding for Indian entrepreneurship training was provided to develop a more viable private sector in Indian Country
- Creation of the \$1.5 million Family Economic Security Demonstration Project to build family financial security

Energy

The following steps toward a more secure energy future were also made:

- TransCanada announced a \$2 billion high-voltage transmission line linking Montana energy sources to the southwest United States will go into permitting - Montana's portion of the line is estimated at \$600 million
- DKRW/Arch Coal and Bull Mountain Energy announced that Roundup would be the site for a \$1.5-2 billion combined mine, gasification, integrated gasification combined cycle power plant and coal-to-diesel plant that is projected to have a 4,200 job impact in the Billings area, including over 1,700 direct jobs
- Successful application for a \$15 million, 3-year WIRED grant from the federal government to build a bio-fuels economy in a 32 county area of eastern and north-central Montana
- Held successful energy summit

Healthcare

Long before he was elected, Governor Schweitzer provided national leadership to obtain affordable prescription drugs. His commitment to affordable and accessible healthcare continues in his administration which has resulted in a number of accomplishments as follows:

- Provided health insurance to nearly 9,500 Montanans through the Insure Montana program
- Provided prescription drugs to over 3,100 Montanans through the Big Sky Rx program
- Eliminated the waiting list for children to enroll in the Children's Health Insurance Program
- Began comprehensive efforts to transform Montana's public mental health system
- Implemented provisions of the voter-passed Initiative-146 to use tobacco settlement money to finance programs that emphasize tobacco prevention
- Targeted resources to reduce the health care worker shortage by providing funds to 2-year colleges for equipment, programs and need-based aid in the Governor's "Best and Brightest" Scholarship for students to pursue careers in health fields

Education

Partnering with the 2005 Legislature, unprecedented investments were made in our public schools and teachers, without raising taxes.

K-12

In keeping with the 1972 Montana Constitution:

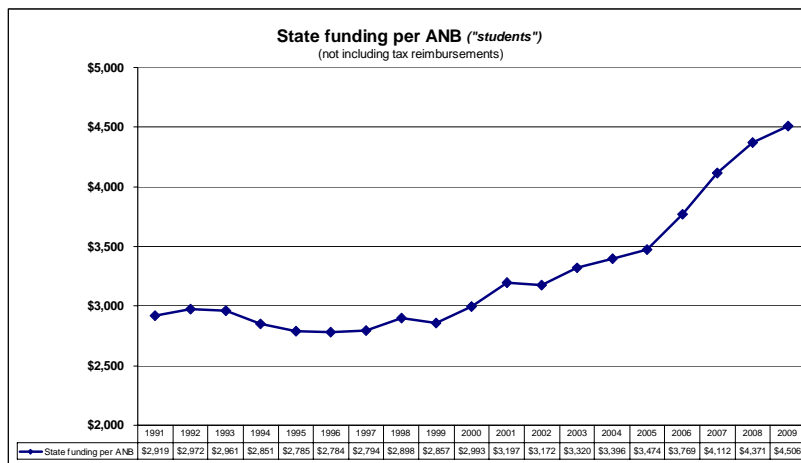
- A quality education was defined, providing an ongoing funding framework
- \$88 million for quality education resulted in a 5.6% increase in school budgets for the 2007 biennium
- \$4.4 million was appropriated for Indian Education for All, including the writing of tribal histories

In a two-day special session called by the Governor in December 2005, the legislature boosted the total ongoing funding for schools with nearly \$37 million in new funds per year. These additional funds help schools to:

- Recruit and retain teachers through a per-educator payment
- Implement Indian Education for All
- Close the American Indian student achievement gap
- Address the unique needs of at-risk students

The special session also appropriated \$159 million in one-time-only money to further assist school districts with:

- Teachers' and Public Employees' Retirement for recruitment and retention (These funds also help Montana homeowners avoid future property tax increases)
- Buildings Operation and Maintenance for a facility study and weatherization and deferred maintenance
- Indian Education for All
- Energy Costs Relief



School Readiness

In 2006, the Governor hosted two summits, at which fourteen community teams identified ways to better coordinate early childhood services with local child care providers and preschools to ensure smooth transitions to kindergarten. In partnership with the Dennis and Phyllis Washington Foundation and the National Governor's Association, business leaders were brought together to learn of the strong connection between quality education and economic success.

The Governor and First Lady's Math and Science Initiative

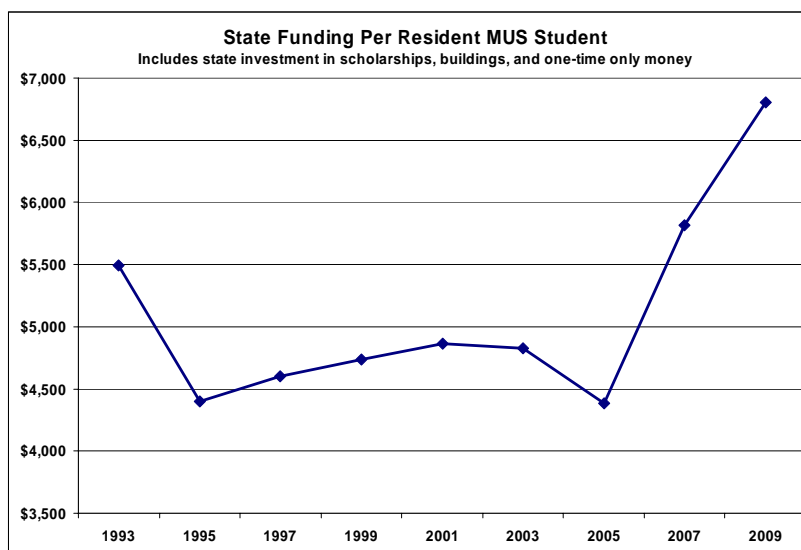
Governor Brian Schweitzer and First Lady Nancy Schweitzer share a joint interest in science. Today's students must have a solid foundation in math and science to compete in a global world. Montana students need to be challenged and excited about learning, so they are prepared for these critical careers.

The Department of Transportation has teamed up with the Governor and First Lady to create sixteen interpretive signs describing Montana's colorful history and stories through geology. The geological road signs include "geo-kid" facts and car activities to encourage families to discover the scientific wonders as they motor the state highways. (www.mathscience.mt.gov)

Higher Education

The 2005 legislative session included a focus on access, affordability, and workforce responsiveness in higher education:

- A nearly 10% increase in funding for higher education
- A 20% increase in merit and need-based aid, creating the Governor's "Best and Brightest" post-secondary scholarship program, resulting in 900 students receiving scholarships
- An emphasis on two-year colleges with funding for equipment that supports high demand jobs
- Tuition support for non-beneficiary students who attend tribal colleges



Access, Habitat, and Restoration

Governor Schweitzer has emphasized the importance of habitat protection and access to ensure the preservation of our great outdoor traditions for generations to come. Accomplishments include:

- Making permanent the Habitat Acquisition, Hunter Management and Hunting Access Enhancement (Block Management), and the Fishing Access Enhancement Programs
- Clarifying that a state or county highway, road, or right-of-way that provides access to public land or waters, including access for public recreational use, may be abandoned only if another public highway, road, or right-of-way provides substantially the same access
- Directing that money from the Future Fisheries Improvement Program, the Bull Trout and Cutthroat Trout Enhancement Programs, the River Restoration Program and other funds be available for voluntary leases or other augmentation measures to match federal funds for emergency in-stream flows

Governor Schweitzer has made important strides to clean up past contamination and restore communities. The administration:

- Concluded negotiations and signed consent decree for Milltown Dam removal and restoration
- Began work in October to clean up about 1 million gallons of diesel fuel floating in ground water and leaching the soil beneath the railroad yards in Livingston
- Adopted a rule that will significantly reduce and fairly distribute mercury emissions from power plants, and limit overall mercury releases to less than a third of the 1,000 pounds currently emitted annually
- Held the Governor's Restoration Forum, which brought people together to explore ways to expand Montana's restoration economy

Public Safety

More than 12,000 Montanans are under the supervision of the Department of Corrections. The administration developed the following guiding principles to address the growing needs of the correctional system:

- Public safety underlies all decisions
- The needs of crime victims and the obligations of offenders to make restitution to those victimized by their crimes will be recognized by corrections programs and officials
- Rehabilitation services, with an emphasis on community programs, are essential in restoring offenders to become productive, law-abiding citizens
- Society, through its government, is responsible for managing offenders; government correctional facilities are preferred over private for-profit operations
- Incarceration of offenders should take place in Montana rather than out-of-state

Following these principles, Governor Schweitzer has:

- Awarded contracts to construct and operate two treatment centers for two-time methamphetamine offenders
- Added chemical-dependency and employment counselors to parole offices
- Added 169 beds in prerelease centers in Billings, Bozeman, Great Falls and Helena to improve offenders' chances of successful transition to society
- Collaborated with the Department of Public Health and Human Services to hire a behavioral health programs facilitator to recommend and assist with implementing improvements in care for offenders with mental health problems
- Implemented a program to sanction parolees and deter them from a return to prison, saving taxpayer dollars
- Started a pilot project named "Native Journey" with federal funds to address the unique needs of the Indian population that is over-represented in the system
- Established comparable services for offenders in the Montana Women's Prison

Emergency Preparedness, and Military Affairs

Governor Schweitzer is committed to our Montana men and women in uniform as well as the local and state law enforcement officials and volunteers who work to keep our communities prepared and safe. During the past two years there have been:

- Historic statewide, cross-jurisdictional progress toward emergency communication interoperability
- Cross-jurisdictional and inter-agency collaboration in a variety of emergency preparedness exercises
- Governor's Emergency Preparedness Conference and Pandemic Flu Summit.
- Business continuity efforts within state government including Continuity of Operations Planning (COOP) and Continuity of Government (COG) plans
- Effective utilization of federal Homeland Security funds
- Montana National Guard deployments in support of U.S. anti-terrorism efforts abroad and at home, and in response to Hurricane Katrina

Effective Government

Public Defender Program

The administration supported the establishment of a new Statewide Public Defender Program for people unable to afford a proper defense in a criminal proceeding. The system creates a consistent level of public defender services in all 56 Montana counties.

Tribal Relations

Governor Schweitzer has accomplished a great deal in Tribal relations:

- Appointed more Native Americans than all previous administrations combined to boards and commissions
- Hired several Native Americans key policy staff and cabinet positions

- Established an internal strategy to ensure activities between the state and the tribes are conducted government-to-government while recognizing the sovereign status of tribes
- Provided a comprehensive report, as required by law (HB 608), of all state activities with the Tribal nations in a timely manner
- Supported the Little Shell Tribe of Chippewa Indians by formally declaring state recognition
- Funded at historic levels:
 - Indian Education for All
 - Closing the Indian student achievement gap
 - Tribal colleges
 - Economic development
 - Tobacco prevention
- Worked with Tribal governments to create understanding of the complexities of state government
- Formally negotiated all State/Tribal agreements including revenue sharing, transportation, social services and others

Public Employees and Public Retirement

In 2003 and 2004 state workers got essentially no raise (a 25 cent hour raise late in 2004). Governor Schweitzer's pay plan provided a minimum raise of just over a thousand dollars in 2005 and again in 2006 or 3.5% and 4%, whichever was greater.

Our public retirement systems are not in sound financial shape. Benefits promised are constitutionally protected and must be paid. In the 2005 special legislative session, Governor Schweitzer infused \$100 million into the Teachers' Retirement System and \$25 million into the Public Employees' Retirement System.

Tax Fairness

The administration is setting new standards for improving the fairness and convenience of the tax system for ordinary Montanans:

- Governor Schweitzer and the 2005 Legislature eliminated business equipment taxes for nearly 13,000 small businesses, while preventing a major shift of property taxes to 250,000 Montana homeowners
- The administration has reduced the share of income taxes paid by Montana citizens by asking non-residents to begin paying their fair share of taxes on the income they earn in Montana—taxes they avoided too often in the past
- The Department of Revenue is successfully seeking collection of long-neglected, large tax cases where millions of dollars have gone unpaid by a handful of delinquent taxpayers
- The administration is preventing property taxes from being unfairly shifted to homeowners and main street businesses by setting proper market values for large centrally assessed properties and defending those values on appeal
- The Department of Revenue is implementing on time and on budget a modern computer system to replace failed systems inherited from the past and to provide better service to taxpayers, improved efficiency and greater equity in taxation

Streamlining State Government

Governor Schweitzer has aggressively promoted efficiency and a desire to streamline government services. Highlights include:

- The Montana Lottery saved the state \$14 million by lowering its transaction and equipment costs
- The Governor directed employees to reduce travel time and fuel costs by carpooling and video-conferencing
- The Department of Public Health and Human Services saved time and money by automating its system for verifying eligibility for food stamps, cash assistance, Medicaid, and the Children's Health Insurance Program
- The Department of Administration saved \$1.3 million by reducing software-licensing charges
- The state workforce delivery system was reorganized to save \$1.2 million in administrative expenses and the money was directed to serve the needs of dislocated workers
- The Department of Public Health and Human Services employees undertook a project to streamline a budget and accounting process resulting in an annual savings of nearly \$640,000

Where We're Going

Governor Schweitzer will practice fiscal restraint with the 2007 Legislature:

- Cap on Ongoing Spending
- Cap on One-Time-Only Spending
- Safety Valve Protection
- Pay Cash: No New Debt
- Cash in the Bank
- Big Sky Savings Account

Governor Schweitzer's Square Deal with Montana will:

- Give Montana resident homeowners up to a \$400 property tax rebate
- Make available full-time kindergarten to every Montana child
- Cap tuition increases at zero for the next two years in our public higher education colleges and universities
- Invest \$15 million to acquire hunting and fishing access for all Montanans
- Eliminate fishing fees for the very young and not so young, so that Families Fish-for-Free
- Suspend the water tax imposed on 90,000 Montanans
- Recognize the extraordinary sacrifices that Montana's National Guard members make when called to active duty by the federal government by creating a \$1 million Military Family Relief Fund

- Eliminate business equipment taxes for 14,000 businesses with equipment of \$150,000 or less, funded by asking non-residents and out-of-state companies to pay their fair share of Montana taxes

Economic Development and Jobs

Governor Schweitzer is committed to creating quality jobs throughout all of Montana. The administration supports improving the current economic development tools and adding some new ones:

Workforce Training Funds: Utilization of workforce training funds has proven to be one of the most successful tools we have in business recruitment and business expansion. The \$2 million carryover for projects already approved prior to the last session and the \$1.3 million annually that was appropriated by the 2005 Legislature was committed to successful projects in less than a year. Utilization of those funds helped create or retain 2,077 jobs which leveraged approximately \$75 million in other funds. The administration recommends funding this critically important program at \$4 million per year (an \$8 million biennial appropriation, using one-time-only funds).

Marketing Montana & Business Recruitment: The marketing and business recruitment efforts of the Governor's Office of Economic Development have also been very successful this biennium. The administration's request to the last session of \$500 thousand per year was reduced to \$300 thousand per year. Because of that, significant marketing and recruitment approaches had to be dropped. The administration again recommends funding this important program at that same level recommended in 2005.

Made in Montana: The administration recommends continuing the following Made-in-Montana activities that were funded as One-Time-Only in the amount of \$100,000 per year:

- Strategic marketing extension is being provided to several Montana companies as part of a pilot project to help Montana manufacturers sell their products through wholesale and industry channels
- Cluster development in the area of Aerospace and Bioscience is being funded to help these nascent but important industries in Montana thrive

Rail Service Competition Council (RSCC): The administration seeks to transfer the administration of the RSCC to the Department of Transportation and clear up several minor administrative issues via a bill advanced through the Interim Economic Affairs Committee.

Indian Country Economic Development (ICED): The administration recommends:

- Since 2005, the STED Council has been extremely active and involved in the cooperative approach of state government with Tribal economic development efforts. Because of that level of activity the initial funding from 1999 has been completely utilized. The administration recommends funding this program as a regular part of the state's economic development efforts at the level of \$85,000

annually and also seeks to transfer the STED Council administrative support to the Department of Commerce.

- ICED proved to be a valuable tool for the state-tribal joint efforts and is recommended to increase from the \$500 thousand annually appropriated last year to \$800,000 per year for this biennium.

Family Economic Security: Creating economic security for Montana families is important to this administration. This budget includes a number of proposals to achieve this goal and to assist struggling families:

Adequate Housing: Approximately 43% of materials, labor and health and safety expenditures in the Weatherization Assistance Program go to occupants of mobile or manufactured housing. Last year, expenditures for labor, materials and health and safety totaled \$5.3 million. The administration proposes to help struggling Montanans improve their living conditions and shore up their economic well-being through a program that will:

- Provide a one-time appropriation of \$3 million to create a revolving-loan fund offering zero-to low-interest loans to qualifying families to purchase energy-efficient manufactured housing
- Serve as many as 120 to 200 families initially and, as the funds revolve, closer to 400 families
- Help build financial competence
- Allow more energy bill assistance and weatherization funds to be used for other types of housing
- Remove the danger of older, deteriorating mobile homes

Individual Development Accounts (IDA): The IDA program provides the opportunity for low income families to become financially literate. These families are required to make financial contributions, which are matched with federal and state funds. The IDA can be used for three primary purposes:

- Buying a home
- Starting a small business
- Post secondary education

Temporary Assistance for Needy Families (TANF) Cash Benefit Increase: The Governor's budget proposes an increase to maintain the cash benefit at 33% of the federal poverty rate. By limiting the increase to this amount, the program with limited federal funds remains solvent through 2010.

Energy Assistance:

- Warm Hearts, Warm Homes, launched by Governor Schweitzer last year, will continue and expand including the continuation of Energy Ombudsman throughout the state.
- The Governor is committed to intensified outreach and enrollment so Montanans in need can easily apply for energy assistance (Low Income Energy Assistance Program). Assuring efficient use of ratepayers' dollars through public benefit

funds like the Universal Service Benefits Program is an essential complement to these initiatives

Military Square Deal: The Military Family Relief Fund will provide one-time only grants to members of the National Guard if they are called to federal active duty for extended periods of time. Three types of grants will be made available:

- Status-Based Grants: \$250 per family member upon activation for a period of more than 30 days
- Casualty-Based Grants: \$2,000 grants for National Guard Members who are injured due to their active military service
- Supplemental Need-Based Grants: up to \$2,000 in cases where military pay is 30 percent less than civilian pay

Energy

The nation has an immediate need for energy independence and security, and a market demand across the West for clean energy. Governor Schweitzer is committed to promoting conservation and energy efficiency while fostering the development of renewable energy resources and new, clean energy technologies. Montana's energy resources—wind, oil and gas, bio-fuels, biomass, coal, and more—are second to none in the country. The administration offers the following energy initiatives:

- Montana will lead by example in energy efficiency by strengthening and expanding the successful state building energy conservation program, expanding the maintenance and improvement of government building energy systems, buying high efficiency equipment, and partnering for efficiency with Montana utilities
- State infrastructure financing programs will encourage alternative energy systems and energy efficiency improvements to water and wastewater systems
- The authority of towns and counties to issue Clean Renewable Energy Bonds that lower the costs of decentralized wind projects through federal tax credits, will be assured
- Montana will support industry-initiated studies needed to make variable wind resources compatible with the transmission system
- The Woody Biomass Utilization Heating Program, faced with the termination of federal funding, will be maintained
- Montana will establish protocols for the production of biodiesel, and enable the testing of Montana-made products according to national standards
- Montana tax credits for the production of biodiesel will be extended from one year to seven years, providing the same duration for tax incentives enjoyed by other renewables
- A grant from the Renewable Resource Grant and Loan Program will fund a Department of Environmental Quality/Montana Tech cooperative effort to develop a more detailed assessments of geothermal resources
- The state's capability to analyze and promote proposed energy delivery infrastructure projects that support energy production, including pipelines and transmission lines, will be restored

Healthcare

Too many Montana families worry about affordable and accessible healthcare. The administration is committed to improving the health status of Montanans while focusing on a number of budget priorities:

- Increase funding to Insure Montana
- Increase funding to the Montana Comprehensive Health Association
- Improve the quality of care for Montanans with developmental disabilities by making fair and standardized payments to those serving this population, based on actual costs
- Make dental care more accessible, especially in rural areas, by increasing the reimbursement rate for dentists
- Expand regional services for treatment of alcohol and other drug addictions through creation of seven residential programs
- Expand home- and community-based Medicaid services for those with disabilities and elderly
- Provide funds to the Montana University System for equipment and program development in high demand fields to help the healthcare workforce shortage

Transforming Montana's Mental Health System: The administration began the transformation of Montana's mental health system by assessing the services and identifying gaps in the current delivery system so that Montanans suffering from mental illness can access consistent treatment therapies.

The Governor's budget contains the Secure Treatment and Evaluation Program (STEP), which is a proposal by the Departments of Public Health and Human Services and Corrections to jointly address the needs of the court-ordered mentally ill offenders to ensure quality and consistent care. Additional proposals are:

- Increasing staff at Montana State hospital
- Increasing the availability of crisis management service by establishing 72 hour presumptive eligibility to allow for client stabilization in a community setting
- Increasing community-based services for adults with serious mental illness
- Assessing the children's mental health system of care

Comprehensive Prevention Strategy: This Administration is committed to promoting healthy lifestyles to prevent illness and disease, this budget and is expanded to include other prevention activities such as:

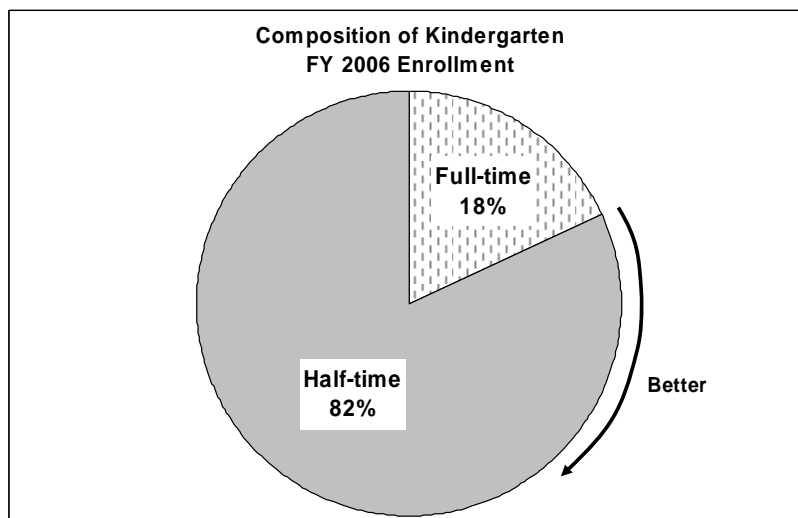
- Implementing a methamphetamine prevention strategy
- Building a public health infrastructure with an emphasis on rural communities
- Reducing tobacco use and other addictive substances

Education

Built on the Governor's *Education for Life* platform, this 2009 budget looks to sustain our strong public education system while preparing for the future.

K-12

- Full-time Kindergarten -- Best Beginnings for School Readiness: Considered part of the Square Deal with Montanans, Governor Schweitzer supports voluntary full-time kindergarten for all children. Kindergarten helps all kids become successful students, especially at-risk children. It is a crucial tool for reducing the achievement gap for poor and minority students, helping all kids enter the first grade with the same tools for success. Investments in early childhood lessen future costs due to decreased grade retention and increased reading, language, and social skills. This program would provide funding to schools to offer full-time kindergarten, but not mandate school boards to offer it or require parents to enroll students in kindergarten.

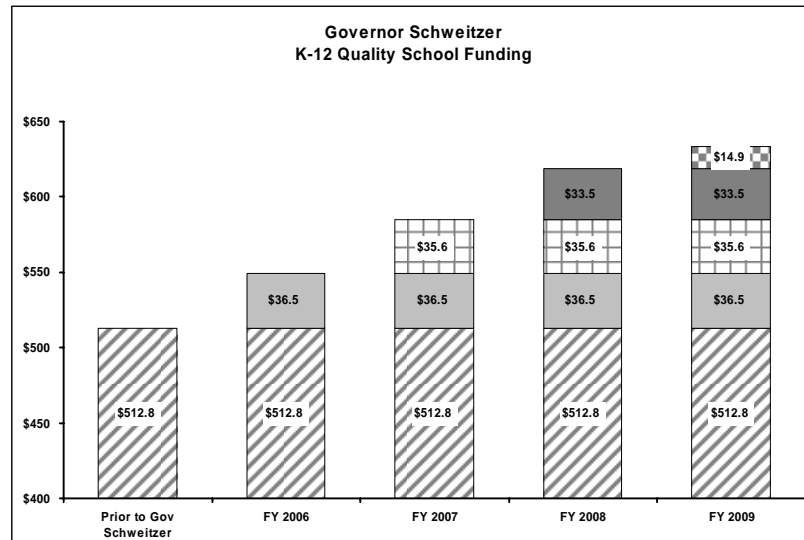


In addition to full-time kindergarten, Governor Schweitzer continues to take steps toward fully addressing the needs of our K-12 school system with the following funding proposals:

- Provide inflationary adjustments for basic and per ANB entitlements and special education
- Help schools meet accreditation standards and recruit and retain quality educators:
 - Increase the per quality educator component of school funding established by the 2005 legislature
 - Establish a quality educator loan forgiveness program targeting hard-to-recruit positions due to geographic or subject area
- Support curriculum specialists – science, math, early childhood (kindergarten), communications arts, library media, and high school/drop out prevention --, at the OPI to keep up with the demands of the 21st century and improve student achievement
 - Add an Indian Achievement Gap Analyst at the OPI to help schools use their Indian Education Achievement component of school funding formula established by the 2005 legislature
 - Provide *Indian Education for All* professional development to best utilize resources and the Indian Education for All per student funding created by the

2005 legislature and resources allocated by the 2005 session and part of the school funding formula

- Complete the Indian Education for All tribal history project, including the Little Shell Nation
- Enhance the K-12 Education Data System to provide better student data, include staffing and collaborate with higher ed. Improved data systems results in better policy systems and meet local, state and federal requirements
- Governor Schweitzer

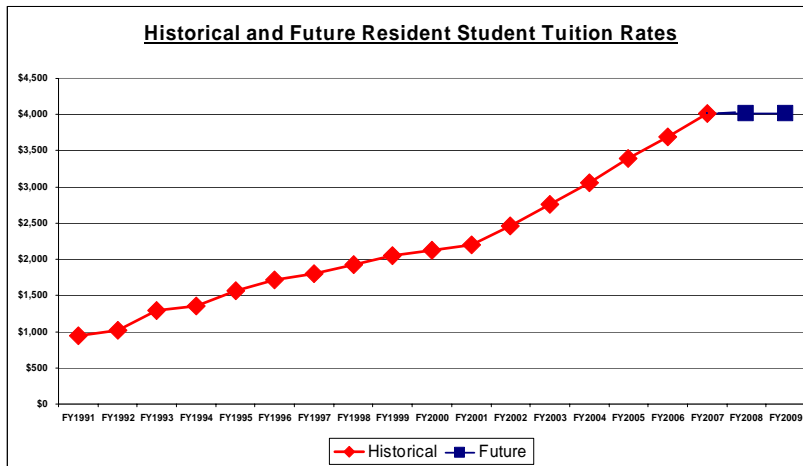


- School Facility Fund: Set aside funds to address the needs identified by the School Facility Study established by the 2005 Legislature. It is recommended that the remaining royalties, after the mineral royalty loan from the coal trust is repaid, be reserved and targeted for future facility needs of school districts as presented to the 2009 Legislature. This plan aligns one-time revenues of approximately \$50 million with one-time expenditures and prepares the state for addressing future K-12 school facility needs.

Higher Education

Governor Schweitzer wants to hold the line on tuition for Montana's university system in the 2007 session and provide more scholarships to students. With a zero percent increase in tuition and a greater investment in scholarships, our most talented will now have the opportunity to attend college in Montana and drive our state's future economic growth.

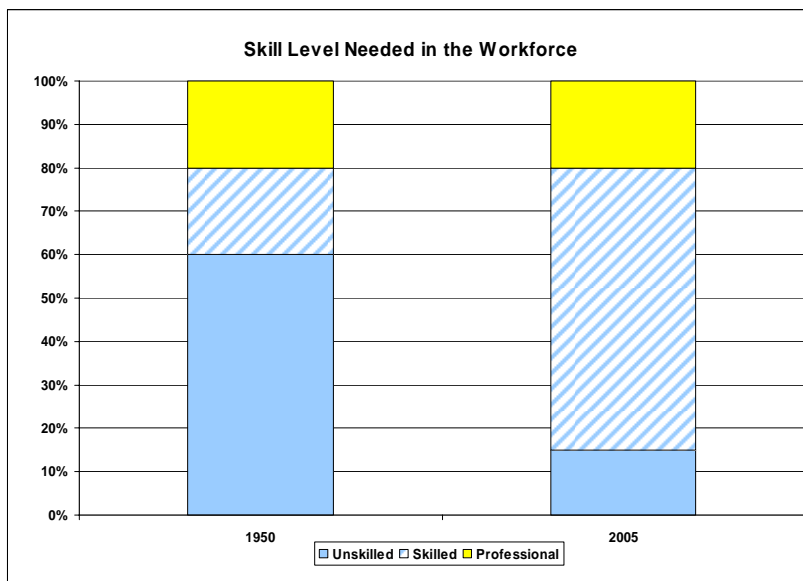
- As part of his Square Deal for Montanans, the Governor's College Affordability Plan (CAP) proposal gives the Montana University System and the community colleges the money needed to hold tuition at current levels for the biennium. The biennial cost of this tuition proposal is approximately \$50 million. This would be the first time since 1991 that tuition did not increase.



- Increasing funding for the Governor’s “Best and Brightest” Postsecondary Scholarship to reach more high school students with merit-based scholarships and provide more need-based aid to students attending a two-year college. A continued emphasis will be placed on careers in high demand areas like health care or technology and adding process plant and trades. With this funding, by end of FY2009 nearly 2700 students will be receiving scholarships

Building a Ready Workforce: The labor market is changing; a high school degree is no longer enough. Montana needs to increase the educational attainment of kids who would otherwise stop at a high school degree. Involvement from each side of the education system is needed so that students leave high school prepared for college, and colleges are affordable and accessible to everyone.

Montana is no longer competing with just Colorado and Idaho -- but China and India -- for workers and jobs. Simply put, without an educated workforce Montana cannot be a leader in this highly competitive world.



- Improve Transferability and Student Data with one-time-only funds to create a comprehensive program between campuses of the Montana University System. In addition, the OPI and the Office of Commissioner of Higher Education (OCHE) are working together to coordinate data systems that link students' educational opportunities in K-12 with their successes in college and to link teacher preparation programs with success in the K-12 classroom
- Support growth in high demand fields with one-time-only funds for Montana colleges to help with workforce development with and to purchase equipment and technology respond to Montana's changing workforce needs. Montana's colleges will place a focus on high demand fields such as such as healthcare, skilled industries and other programs. The Commissioner of Higher Education will consult with the State Workforce Investment Board (SWIB).
- Continue support for distance learning with one-time-only funds to enhance the opportunities for students to access a better e-learning system

Access, Habitat and Restoration

Access

To ensure that Montana continues to protect its cherished outdoor traditions, Governor Schweitzer is proposing the use of one-time money for the acquisition of state parks and public access sites for hunting and fishing, and a "Families Fish for Free" program.

- The proposed acquisition program would identify and purchase key sites for state parks in all regions of the state. Some state park sites may coincide with potential river access sites where access is currently limited. Acquiring better public access to large tracts of public land for hunting and other outdoor activities is anticipated as well
- "Families Fish for Free" aims to ensure that a timeless Montana tradition is carried from one generation to the next. Kids under age 15 will fish for free, as will adults 62 and over. A conservation license will still be required, but will cost nothing for Montanans who fit the "Fish for Free" category.

Restoration

Building on Governor Schweitzer's Restoration Forum, Montana will invest in the restoration of damaged lands and waters. These investments will return ecosystems to healthy function, improve the quality of life in Montana communities, increase property values, support growth of new industries, and create good paying jobs. Components of the Governor's restoration initiative include:

- A request of one-time dollars to determine the nature and extent of contamination at the Mike Horse Mine in the headwaters of the Blackfoot River near Lincoln.
- Continuation of cleanup activities at the Burlington Northern Santa Fe Railway refueling site in Livingston, and development and implementation of a remedial plan for the entire project.
- Legislation to better integrate state agency restoration programs with Montana University System components.
- Restoration workforce training and apprenticeship programs
- Infusion of one-time money to accelerate the cleanup of select state CECRA and abandoned mine sites.

- Legislation to facilitate greater use of the Orphan Share State Special Revenue Account

Noxious Weeds

The spread of noxious weeds across the state robs land of its productivity and money from the pockets of Montana farmers and ranchers. Governor Schweitzer is requesting a one-time deposit of \$5 million to the Noxious Weed Trust Fund, which will nearly reach the \$10 million level protected by voters in 2004. This additional money will allow the state to provide more grants for financing the war on weeds by county weed districts, other local governments, and researchers.

Public Safety

One of Governor Schweitzer's primary concerns is ensuring children and families are safe. Since over 90% of offenders assigned to the Department of Corrections are released to communities, the budget contains the following proposals to assist offenders once they have served their time in the corrections system and to make every effort to make sure they do not commit other crimes or return to incarceration:

- Increase the number of probation and parole officers
- Increase the number of probation and parole chemical dependency counselors
- Provide an additional pre-release center in an under serviced area
- Fund the Juvenile Re-entry Program
- Add staff to the Board of Pardons and Parole

Emergency Communication and Enhancing 9-1-1 Services: Communication is a critical tool in emergency response and recovery. Local, state, federal and tribal public safety personnel must have the ability to communicate effectively across jurisdictions and distances.

- Invest in infrastructure and equipment necessary for Interoperability Montana
- Fund further deployment of "Enhanced 9-1-1" service

Fires and Hazardous Material: Montanans are at risk from wildland fire and the accidental release of hazardous materials. These events may occur without warning, can affect hundreds of lives, and dramatically and permanently damage and devalue property. The administration proposes to:

- Provide funds to sustain six regional hazmat teams (Billings, Bozeman, Great Falls, Helena, Kalispell and Missoula)
- Increase capacity at the state Fire Services Training School
- Increase the statutory appropriation for declared emergencies
- Add funds for the purchase of fire fighting equipment for state and local governments
- Build a wildfire suppression fund

Effective Government

State Government Workforce Development and Proposed Compensation Package: The Schweitzer Administration proposes to eliminate the old classification system and replace it with a “broadband plan” for all agencies in the Executive Branch to recruit and retain capable employees. Condensing pay plans into one system provides consistency and equity in pay for state employees.

1. Base salary increase: 3.0%
2. Flexibility component: 0.6%
3. Health insurance \$33/month in 2008 and another \$36/month in 2009
4. Longevity after 10 years 2% (from the current 1.5%)

Governor Schweitzer also proposes a new workplace safety effort to reduce job-related injuries to state workers and a disability management plan to help control insurance costs.

Public Employee and Teacher Retirement Systems: The Schweitzer Administration will submit legislation and budget recommendations that will restore fiscal soundness for the state’s Teacher’s Retirement, Public Employment Retirement Systems, and the other six public employee pension systems. The administration will vigorously defend the defined benefit programs that have been established for state workers and teachers for many decades. In order to assure that these public pension plans remain viable and pay the benefits that the state is constitutionally obligated to provide, the following budget recommendations will be proposed:

- Infusing an additional \$100 million into the Teachers’ Retirement System from the General Fund cash balance
- Phasing in higher employer contribution rates over several years for TRS
- Closing loopholes that allow for ‘gaming’ the system
- For new employees hired after July 1, 2007, provide that a guaranteed annual benefit adjustment (GABA) be 1.5% annually
 - Members in the Teachers Retirement program would not be affected; their GABA is already 1.5%
 - All non-TRS systems would be effected for new hires after July 1, 2007
 - No current employee or retire would be effected; the GABA remains at 3%
 - The GABA reduction for the non-TRS systems will save taxpayers over \$500 million over the next 30 years

Open and Inclusive Government: Government has a responsibility to provide a “safety net” so all citizens can enjoy the Big Sky. The budget includes for the following:

Elder Citizens

- Creation of a Senior Trust Fund
- Increase funding for Meals on Wheels

- Increase funding for home- and community-based Medicaid services to reduce the waiting list

Citizens with Disabilities

- Increase funding to reduce the waiting list for community services
- Adjust direct care provider rates for consistency
- Increase funding for the School for Deaf and Blind
- Build leadership for youth with disabilities

Montana Children

- Increasing child protection services
- Providing additional funding to the children's mental health system

First Montanans

- Funding to promote economic development with the Tribal nations
- Funding to close the achievement gap for Indian youth
- Funding for a pre-release center located in rural Montana on or near a reservation
- Funding to prevent Indian youth from using tobacco products
- Creation of substance abuse treatment centers on or near reservations

Infrastructure: The state computer system is critical to the overall operation of state government, including 24/7 services for Montana citizens and businesses. The system handles:

- Accounting for every cent of the \$7 billion in revenue and expenditures passing through government and nearly half a million taxpayer files
- Millions of government payments and eGovernment services for citizens and businesses across the state
- 1.5 million drivers records and 2.5 million vehicle records
- Criminal justice information critical to the safety of law enforcement officers in the field
- Tracking of some 12,500 offenders in corrections programs
- Desktop services for 14,000 state employees

The \$14 million hub of this system, jammed with sensitive data, is sited in the basement of an aging building and is vulnerable to disruption. Minimal disaster recovery and back-up services cost the state more than a half a million dollars each year. The administration proposes to:

- Construct a high-security data center in Helena that will house the network operations and voice telecommunications centers, staff of the Information Technology Services Division, and key IT personnel from other state agencies
- Establish a remote backup center in eastern Montana
- Ensure continuity of government
- Guarantee reliable service for Montanans and their businesses
- Eliminate the biennial cost for the out-of-state back-up system
- Allow substantial data and data storage expansion
- Accommodate the changing role of computers in state government
- Enhance overall efficiency by housing key staff near the data center

Tax Fairness: The administration proposes budget and legislative measures to insure that current Montana taxpayers are not asked to carry the burden for those who are not carrying their fair share:

- Strengthen and expand efforts to ask those who are not paying their fair share of taxes to do so - especially non-residents and out-of-state corporations who too often overlook, ignore, or improperly avoid taxes on Montana income.
- Require non-residents to withhold taxes for their income from the sale of Montana property and from royalties on Montana oil, gas, and other resources - just as Montanans have taxes withheld from their wages and salaries.
- Crack down on illegal tax shelters used by wealthy non-residents and large out-of-state corporations to evade taxes on their Montana income.
- Prevent unpredictable property tax increases for homeowners, farmers and ranchers, and small businesses, protect local governments from fiscal disruptions and ensure equal educational opportunities for school children by reducing the impact on local communities caused by large corporate centrally assessed property appeals.
- Reward Montanans by allowing them to file their state taxes electronically free of charge.
- Give a rebate totaling nearly \$100 million of one time money or \$400 per homeowner, part of the Governor's Square Deal.
- Eliminate business equipment taxes for an additional 14,000 Montana small businesses—and doing so without shifting any additional property taxes to homeowners. The \$30 million in small business tax reduction for this and future biennia would be financed by tax compliance measures that ask non-residents and out-of-state companies to pay a fair share of taxes on the income they earn in Montana—taxes they have avoided too often in the past. When this measure is implemented, the Schweitzer Administration would have eliminated business equipment taxes for nearly 90% of MT businesses.

Revenue and Managing Expenditures

The availability of significant unanticipated state revenues provides us with choices. We can be reckless or we can be prudent. We can succumb to political expediency or we can take responsible action. We can act as if there is no tomorrow, as has been done nationally, or we can account for the future in the decisions we make today. Which road will we take?

During the past three years, Montana has experienced revenue growth of over 10%, an unusually high rate. For nearly twenty years the long term rate has been 4.6%. While the higher rate of revenue growth may continue, Governor Schweitzer and the 2007 Legislature should not and cannot gamble on a future of continuing record revenue growth. The people of Montana are the loser should such a gamble fail.

Therefore, Governor Schweitzer **strongly advocates** a budget with a prudent cap on spending that provides for stable funding of essential state services for the future. **Montana's budget must be structurally balanced and sustainable** if we are to avoid the difficulties that come from the historic Montana pattern of "boom and bust" revenue flow.

In order to have a future where services can remain available without tax increases, we must build a hedge against the inevitable economic downturn. Even if revenues grow only at their twenty-year average, or if Montana is affected by national recession, monies must be available for the services the people need. The 2007 Montana Legislature can make history: it can avoid the boom-bust cycles that have marred Montana's past. By establishing a fund for financial stability, a Big Sky Savings Account, we can lessen or even eliminate the risk of service cuts or tax increases. Montanans, today and tomorrow, will be greatly served by this historic strategy.

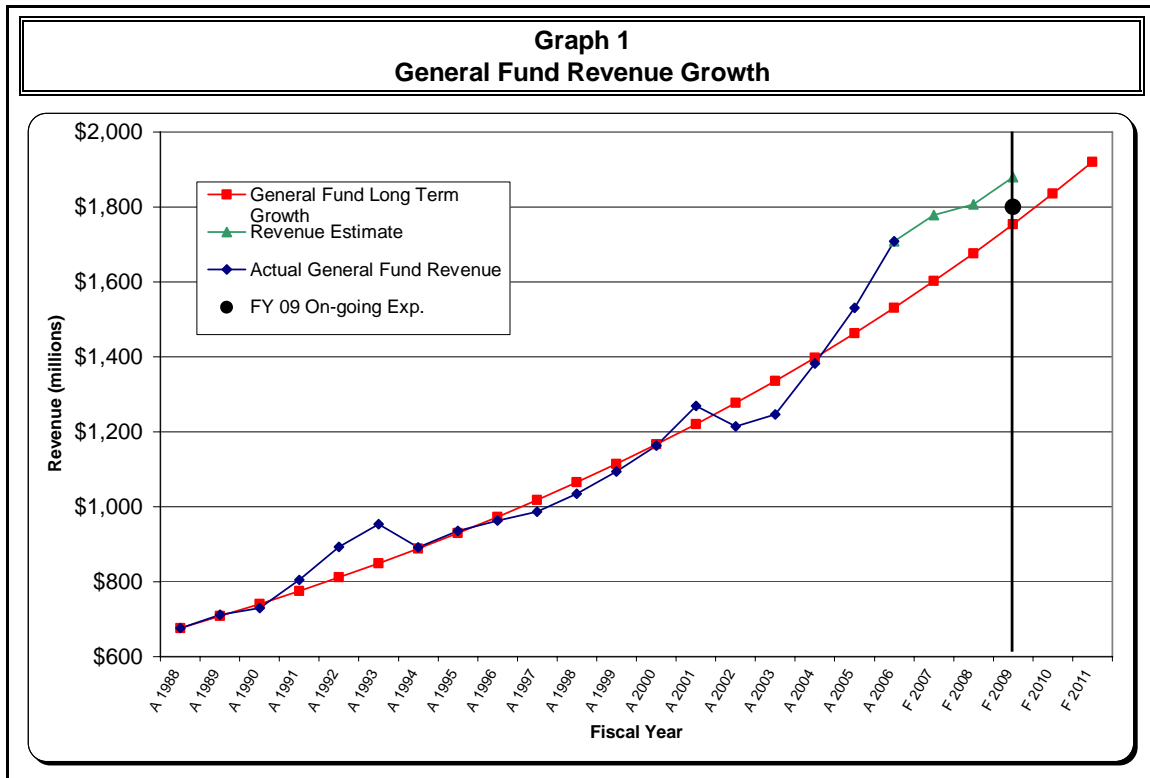
The Executive Budget is built so that the on-going expenditures are within the parameters of the long-term general fund revenue growth trend. The information shown in Graph 1 and Table 2 illustrates the detail to used to build the following "budget markers. "

- \$1.8 billion limit on on-going expenditures for FY 2009
- \$500 million limit of one-time expenditures for the 2009 biennium, with a safety valve for any unanticipated revenue shortfall
- All capital expenditures made with cash, no debt incurred
- \$100 million FY 2009 ending general fund balance
- Revenue available above these "budget markers" goes into the Big Sky Savings Account to maintain constant service levels when revenue declines below the long-term growth trend.

Within this long-term revenue growth trend, there is an eight year cycle for revenue: seven years of increasing revenue and one year of declining revenue. When the revenue declines, it usually falls below the long-term trend. The last general fund revenue decline was 4.35% in FY 2002. The previous general fund revenue decline was 6.42% in FY 1994.

Long-Term General Fund Revenue Growth

The long-term general fund revenue growth trend is about 4.64%. But within this long-term growth trend are large fluctuations; some years with very high growth and some years with revenue decline. Historically, Montana has seen eight-year cycles that feature revenue increases for seven years – with the more rapid growth in the fifth, sixth and seventh years – capped with a revenue drop in the eighth year. This trend is shown in Graph 1.



- From FY 1991 to FY 1993, the state had rapid growth and then revenue declined 6.42 % in FY 1994 and grew slowly for a number of years.
- From FY 1999 to FY 2001, high growth rates were followed by a 4.35 % drop in FY02 and a slow rebound in FY 2003.
- General fund revenue grew by more than 10% for FY 2004, FY 2005, and FY 2006. So far, FY 2007 revenue appears to be continuing that trend.
- However, history indicates the general fund cannot continue to grow at the FY 2004 through FY 2006 pace.

Graph 1 shows the general fund revenue estimates through FY 2009 continuing to grow under the current economic conditions.

Table 1 compares the actual and forecasted unaudited general fund revenue for 24 years, from FY 1988 through FY 2011. The FY 2007 to FY 2009 revenue estimate, based on today's economic conditions, is \$433 million above the historical long-term growth rate.

At the end of FY 2006, the state's general fund had a balance of \$406 million. If \$100 million is considered an acceptable balance, the state had \$306 million already available for one-time expenditures. Adding that extra FY 2006 general fund balance to revenue expected in the following three fiscal years, the 2007 Legislature would have \$739 million in excess of the on-going revenue trend.

Table 1					
General Fund (GF) Long-Term Revenue Growth					
(Millions)					
Fiscal Year	General Fund Revenue	Percent Change	4.64% Growth	Percent Change	Actual vs. Trend \$ Diff.
A 1988	\$677		\$677		\$0
A 1989	\$712	5.21%	\$708	4.64%	\$4
A 1990	\$730	2.58%	\$741	4.64%	(\$11)
A 1991	\$805	10.26%	\$775	4.64%	\$30
A 1992	\$893	10.86%	\$811	4.64%	\$81
A 1993	\$953	6.76%	\$849	4.64%	\$104
A 1994	\$892	-6.42%	\$888	4.64%	\$3
A 1995	\$935	4.88%	\$930	4.64%	\$6
A 1996	\$963	2.98%	\$973	4.64%	(\$10)
A 1997	\$987	2.43%	\$1,018	4.64%	(\$31)
A 1998	\$1,034	4.85%	\$1,065	4.64%	(\$31)
A 1999	\$1,094	5.81%	\$1,115	4.64%	(\$20)
A 2000	\$1,164	6.32%	\$1,166	4.64%	(\$3)
A 2001	\$1,269	9.10%	\$1,220	4.64%	\$49
A 2002	\$1,214	-4.35%	\$1,277	4.64%	(\$63)
A 2003	\$1,246	2.65%	\$1,336	4.64%	(\$90)
A 2004	\$1,382	10.85%	\$1,398	4.64%	(\$17)
A 2005	\$1,531	10.81%	\$1,463	4.64%	\$68
A 2006	\$1,708	11.58%	\$1,531	4.64%	\$177
F 2007	\$1,779	4.15%	\$1,602	4.64%	\$177
F 2008	\$1,807	1.56%	\$1,676	4.64%	\$130
F 2009	\$1,879	4.01%	\$1,754	4.64%	\$125
FY 07 - FY 09 Revenue Est. over Trend					= \$433
FY 2006 Fund Balance above \$100 Million					= \$306
Total General Fund Avail over Long-Term Trend					= \$739

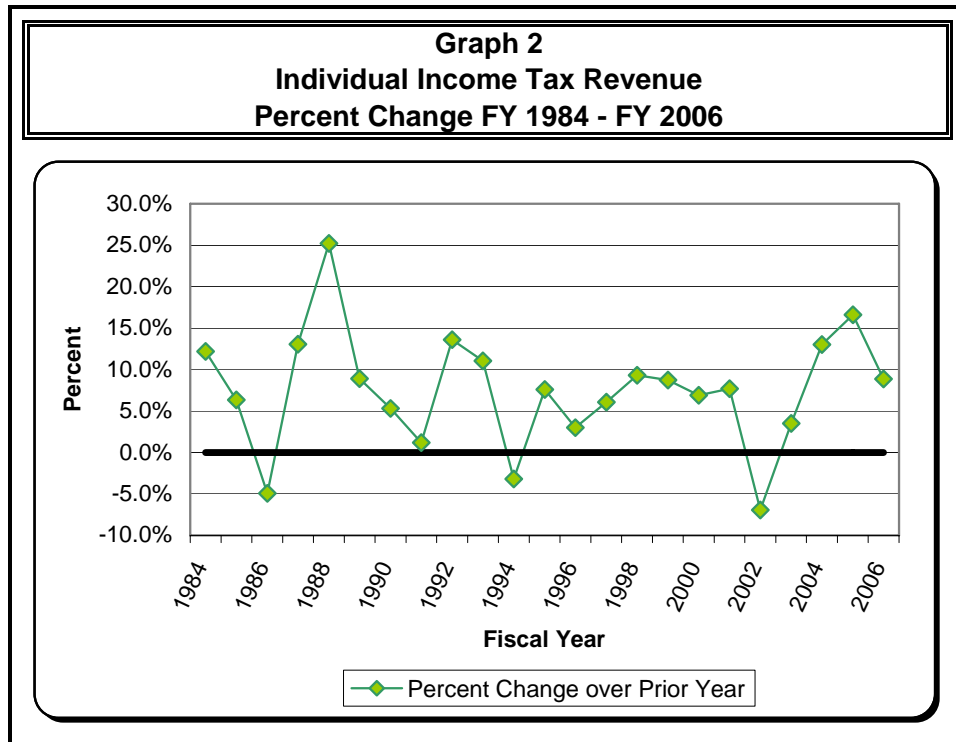
These funds will be available only if the current economic factors continue and if any revenue growth adjustment follows historic trends. The revenue correction usually occurs in the eighth year; but if it happens earlier, the \$739 million excess revenue will not be realized and the overall projections will decrease.

Volatility of Montana's General Fund Revenue

Montana's general fund revenue sources are very volatile. Sixty-three percent of the general fund is dependent upon three very dynamic revenue sources: individual income tax, corporate license tax, and natural resource taxes. As a group, other revenue sources change much more slowly and generally increase each year.

Individual Income Tax

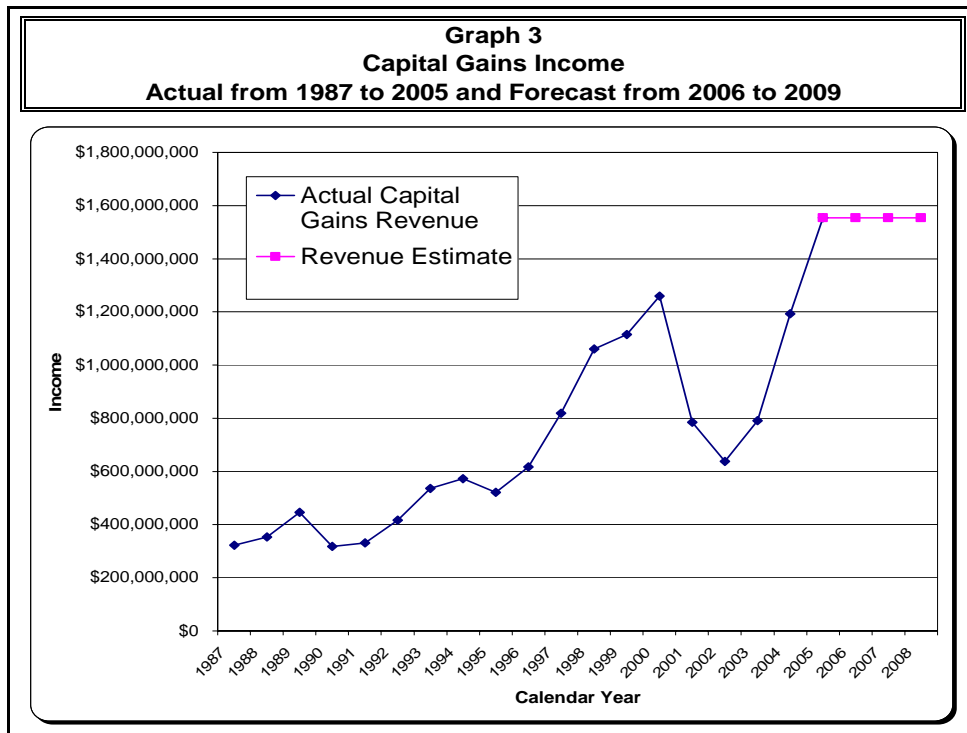
Personal income tax, which accounts for slightly less than half of general fund revenue, can fluctuate significantly from year to year. In FY 2001, for example, the state received \$556 million and the following year the amount dropped 7% to \$517 million. Personal income tax revenue grew 3.5% in FY 2003, jumped 13% in FY 2004, 16% in FY 2005, 9% in FY 2006. Graph 2 shows the history of individual income tax growth yearly since FY 1984.



Individual income tax revenue is expected to continue growing in FY 2007 through FY 2009, but at a slower rate than what occurred from FY 2002 to FY 2005. Based on history, the growth should remain positive until FY 2010. However, the pace of the revenue growth has been more rapid and will need to continue to be positive through FY 2009 to have the \$739 million available above the long-term revenue growth trend.

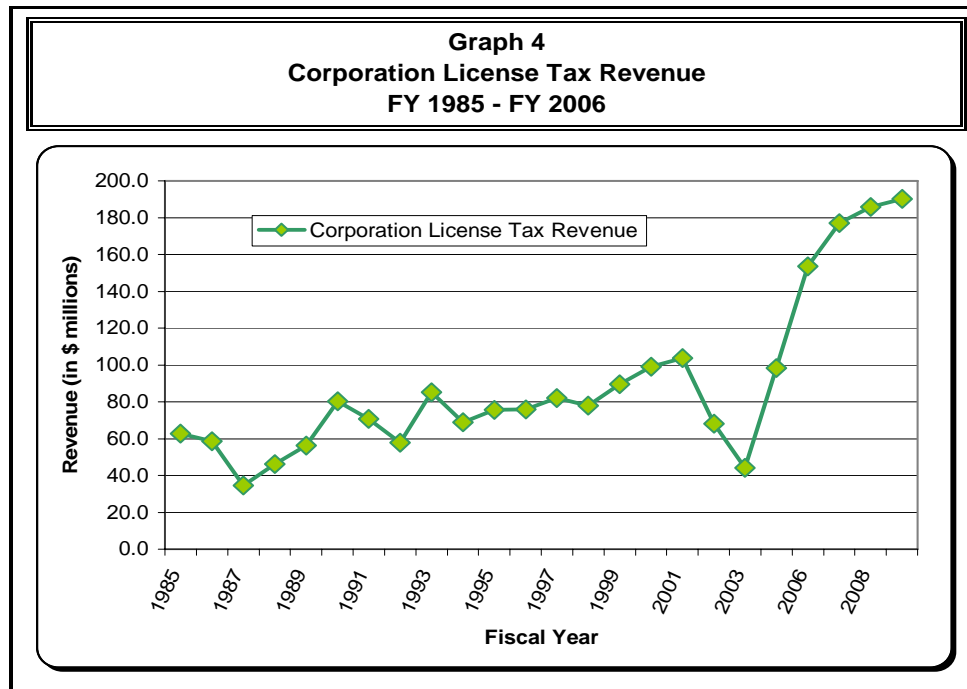
Individual Income Tax - Capital Gains

Since 1997, capital gains have been a driver in the fluctuations seen in state revenue. Capital gains have been much more volatile recently, as shown in the graph. Capital gains has a major impact on the amount of income taxes paid and, therefore, on overall revenue. It was a factor in the general fund revenue increase during FY 2006. However, based on recent history, this does not mean that the income tax on-going revenue base will be higher in future years. As Graph 2 shows, the projected capital gains income is projected to be sustained at the tax year 2005 level, but there is some risk that it will return to the long-term trend.



Corporate License Tax

Corporate tax is very volatile. As shown in Graph 4, corporate tax has ranged from \$104 million in FY 2001 down to \$44 million just two years later, and rebounded to \$154 million in FY 2006.



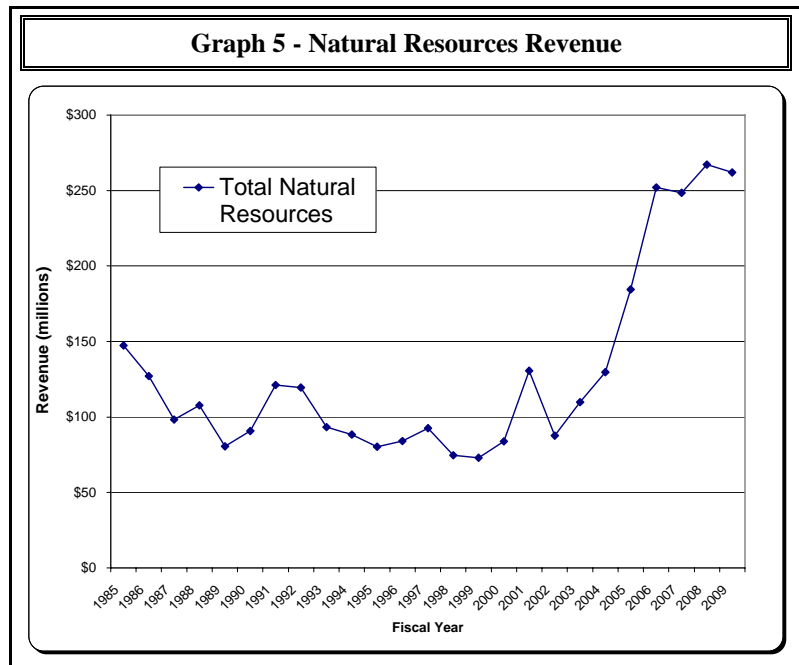
- In FY 2001, revenues reached a peak of \$104 million, but then dropped by more than \$35 million (34%) in a single year.
- In FY 2003, corporate tax declined another 35%.
- In FY 2004, revenues jumped by 53% and increased once again in FY 2005 by 45%.
- This roller-coaster pattern is not unique to that four-year period. In a one-year span, FY 1986 to FY 1987, corporate tax collections plummeted 41% after decreasing just 6% the year before.

As seen in Graph 4, revenue estimates reflect continuing increases in corporate profits as projected in Global Insight's national forecast. Should the Global Insight projection of national corporate profits be too optimistic, Montana corporate profits will be overstated. It is very feasible for corporate profits to decline by half from one fiscal year to the next.

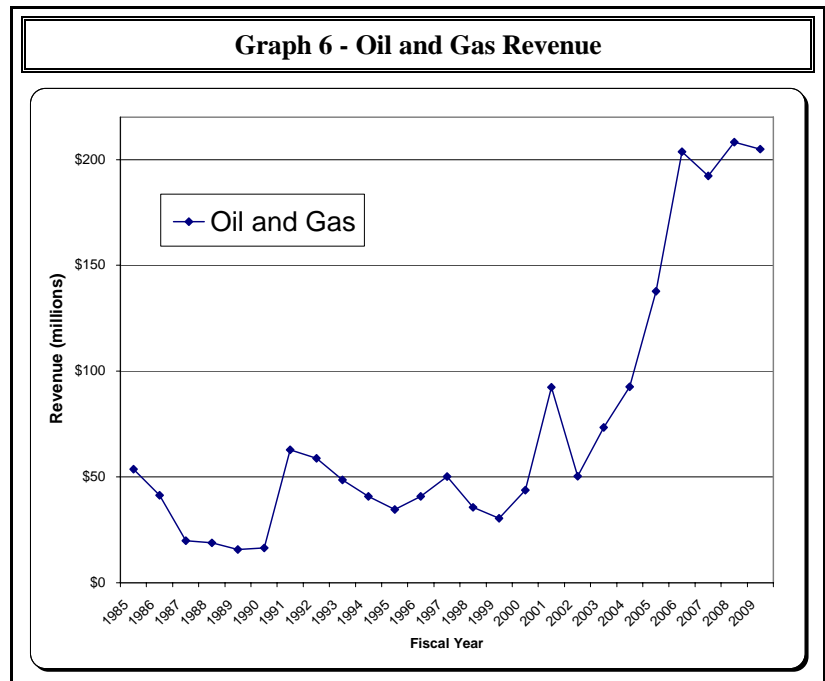
Natural Resource Revenue

Natural resource revenue allocations change frequently. The data shown is oil and natural gas production taxes, total coal severance tax, and metalliferous mine taxes, reported by the Legislative Fiscal Division for FY 1985 to FY 2006 and the Budget Office revenue estimates for FY 2007 to FY 2009. As shown in Graph 5, revenue from natural resources increased very rapidly after FY 2002. Except for a large increase in FY 2001, natural resource tax revenue had gradually declined prior to FY 2002.

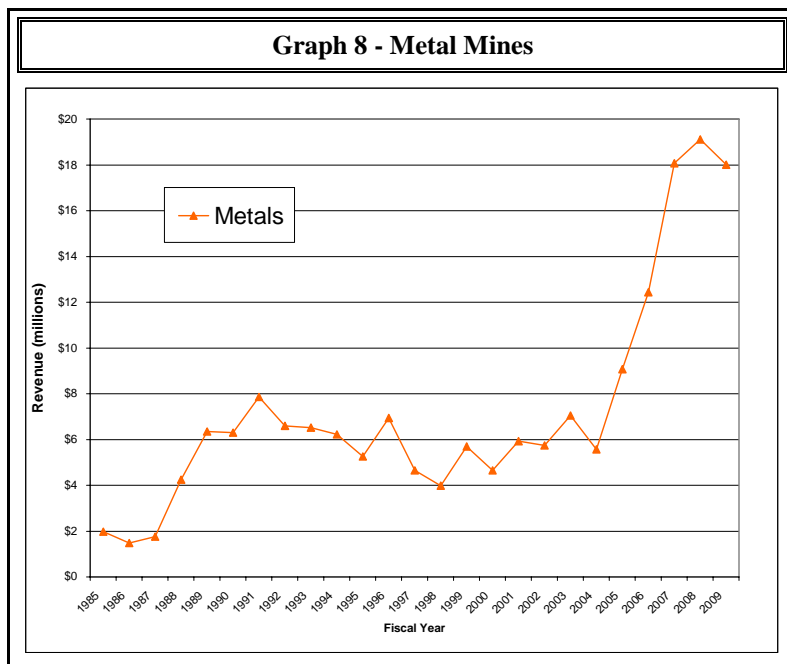
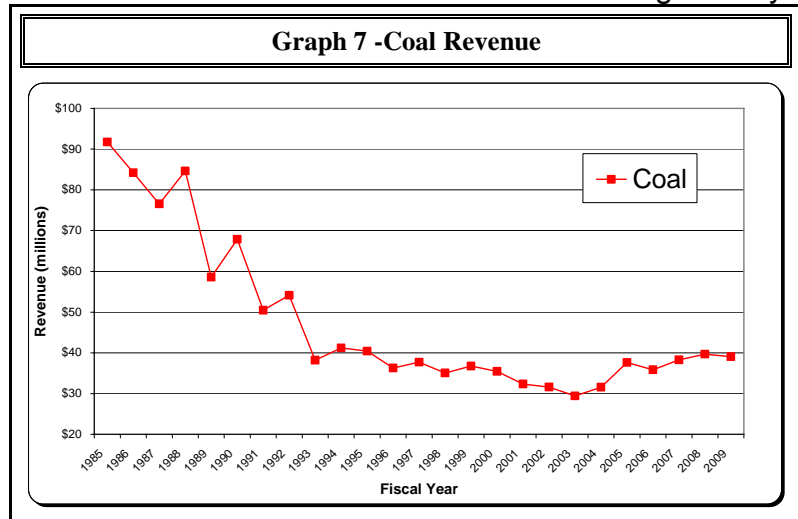
Examining the three natural resource taxes separately, revenue from coal production is decreasing while revenue from oil and natural gas production and metalliferous mines is increasing dramatically.



Graph 6 shows the oil and natural gas total tax revenue since FY 1985. During this time, taxes were reduced and that is reflected in lower tax revenue. But oil and natural gas production tax revenue has seen rapid increases since FY 2002. The graph shows that in the past four years, the revenue increased from \$50 million to \$204 million. The governor's budget office revenue estimates show a slight decline in FY 2007, due primarily to declining natural gas prices just in FY 2007. With a 300% growth in four years, there is considerable risk of a rapid revenue decline. The extent of such a reversal will depend mostly on the price of oil and natural gas.



Graph 7 shows a decline in coal tax revenue from \$92 million in FY 1985 to \$29 million in FY 2003, most the decline came from the reduction of the tax from 30% to 15% in three stages beginning in 1988. From FY 1994 to FY 2003 coal taxes went gradually down from \$41 million to \$29 million. Since then they have gradually increased. The state saw growth in FY 2004 and FY 2005 with coal tax revenue flattening in FY 2006. Notwithstanding the possibility of increased coal taxes resulting from the success of the Governor's coal development initiatives, the long lead time for such developments to come on line leads the budget office to estimate that coal tax revenue will remain relatively stable over the near term.



Metalliferous mine taxes, as shown in Graph 8, increased from \$2 million in FY 1985 to around \$6 million for the period FY 1989 to FY 2004. In FY 2005, metal mines revenue increased 65% or \$3.5 million. That was followed by another jump of \$3.4 million, or 37%. Based on a mine survey, the budget office projects this revenue to increase another \$6 million, or 50%, in FY 2007, before leveling off for the next two years.

In summary, the natural resource estimates for FY 2007 to FY 2009 show considerable optimism in the mining companies' production outlook, Global Insight's price estimates, and the futures market. These revenue estimates are built on the economics of today. In Montana as the graphs show, natural resource taxes are an all-time high and they can decline rapidly.

Financial Overview

The following table contains the anticipated general fund balance over the coming biennium:

2009 Biennium General Fund Balance				
Governor's Budget				
	Actual FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009
Balance	\$297.44	\$422.11	\$538.56	\$235.46
Adjustments	(16.69)	(8.26)	-	-
Adjusted Balance	\$280.75	\$413.86	\$538.56	\$235.46
Revenue				
HJR 2 Revenue - <i>OBPP estimate</i>	\$1,708.17	\$1,779.12	\$1,806.80	\$1,879.24
Department of Revenue HB2			5.16	10.20
Department of Revenue Other			15.49	11.87
Revenue Total	\$1,708.17	\$1,779.12	\$1,827.44	\$1,901.31
Available Funds	\$1,988.92	\$2,192.98	\$2,366.01	\$2,136.77
Disbursements				
General Appropriations - ongoing	\$1,269.54	\$1,355.65	\$1,540.98	\$1,589.28
General Appropriations - OTO	47.93	52.44	45.42	15.14
Statutory Appropriations	120.29	150.55	157.96	142.22
Miscellaneous Appropriations	102.91	6.05	-	-
Non-budgeted Transfers	24.27	28.95	9.02	9.14
Supplemental Appropriations	-	76.43	-	-
Language Appropriations	0.71	0.64	1.00	-
Feed Bill Appropriations	1.15	9.08	2.50	9.25
Anticipated Reversions	-	(25.37)	(5.00)	(5.00)
Bills				
HB 13 Pay Plan			20.15	38.46
HB 5 Long-Range Building - transfers			65.88	50.88
IT Long-Range Bill - transfers			25.35	29.12
Governor's Tax Rebates			118.93	-
Actuarial funding of Retirement Systems - ongoing			14.37	14.97
Actuarial funding of Retirement Systems - OTO			100.00	-
Other Supported Appropriation Bills			33.99	2.07
Disbursement Total (OTO and ongoing)	\$1,566.80	\$1,654.42	\$2,130.54	\$1,895.51
Ending Fund Balance	\$422.11	\$538.56	\$235.46	\$241.26
Disbursement Subtotal - ongoing	\$1,401.36	\$1,532.41	\$1,726.50	\$1,799.99
Disbursement Subtotal - OTO	\$165.44	\$122.01	\$404.05	\$95.52
Projected Structural Balance - HJR2 Revenue estimate less Ongoing expenditures	\$306.80	\$246.72	\$80.30	\$79.25

This balance sheet does not spend down to the required \$100 million fund balance. The remaining \$140 million will be set aside in the Big Sky Savings Account.

This budget is more than structurally balanced. With ongoing spending at \$1.800 billion in FY 2009 and ongoing revenue at \$1.879 billion, this leaves \$79 million as the ongoing structural balance. If a change occurs in the economy, there is a cushion to sustain the budget through revenue variability.

One-Time-Only Expenditures:

The table on the following page details all one-time-only (OTO) appropriations in the 2009 biennium that are greater than \$200,000. This budget is comprised of \$500 million in one-time only expenditures in the 2009 biennium. These expenditures are primarily a down payment on our future as Montanans. We have tax rebates, paying down debt, “fixing up the roof”, and investments in buildings, technology, and our parks.

2009 Biennium General Fund OTO Appropriation List

Agency Name	Description	Total
All Agencies	Miscellaneous - less than \$200,000	2,651,160
Department of Commerce	BRD Made In Montana HB0002- OTO	200,000
Department of Administration	Earthquake Protection Enterprise Data Center-OTO	200,000
Public Health and Human Services	MMIS and Mental Health Systems Analysis (BIEN/OTO)	200,000
Department of Justice	Crime Lab Equipment (RST/OTO)	230,750
Department of Commerce	BRD Main Street HB0002- OTO	247,044
Department of Environmental Quality	Biofuels Testing - OTO	250,000
Office of Public Instruction	K12 Education Data Systems	250,000
Department of Administration	SABHRS Readiness Assessment (Biennial/OTO)	270,000
Department of Corrections	Correctional Staff Scheduling Software - OTO	274,800
Department of Corrections	Electronic Storage and Workflow	280,000
Public Health and Human Services	Ongoing Lab Equipment Replace & Maintenance OTO	290,000
Public Health and Human Services	WIC IT System Purchase & Modification (BIEN - OTO)	290,000
Judiciary	District Court Safety and Security Proposal - OTO	300,000
Department of Commerce	BRD Montana Capital Investment Board HB0002- OTO	370,146
Department of Corrections	MSP fiber plant upgrade OTO	376,750
Department of Corrections	MSP Replacement Equipment - OTO	378,500
Governor's Office	Aircraft Engine Overhaul Contingency OTO	429,000
Office of Public Instruction	Indian Ed for All Tribal History - Biennial OTO	475,000
Department of Corrections	MSP One Time Only Supplies OTO	496,503
Fish, Wildlife, and Parks	Fisheries Statewide Wildlife Grants	500,000
Department of Justice	Major Litigation - OTO	500,000
Fish, Wildlife, and Parks	State Wildlife Grants (SWG)	500,000
Department of Environmental Quality	Swift Gulch drainage system OTO/BIE	500,000
Dept. of Natural Resources/Conservation	Woody Biomass Utilization Program - OTO	500,000
Public Health and Human Services	Ombudsman Funding-Warm Hearts/Homes - OTO	600,000
Public Health and Human Services	Family Planning Waiver Implementation - OTO	695,966
Fish, Wildlife, and Parks	Governor's Free Fishing - square deal OTO	782,460
Department of Revenue	Reappraisal - GIS Staff-OTO	804,094
Department of Revenue	Fulfill Statutory Responsibilities	804,700
Commissioner of Higher Education	Coordinate and Enhance Distant Learning - OTO	900,000
Department of Military Affairs	DMA - Military Family Relief Fund	1,000,000
Dept. of Natural Resources/Conservation	Fire Fighting Equipment - Rst/Bien/OTO	1,000,000
Public Health and Human Services	Methamphetamine Prevention - OTO	1,000,000
Commissioner of Higher Education	Research Agencies Equipment - OTO	1,000,000
Department of Revenue	Tax litigation - Department of Revenue	1,000,000
Department of Administration	PERS Defined Contribution Transfer OTO	1,384,000
Montana Arts Council	Cultural trust finish loan repayment and \$1 million additional balance	1,500,000
Commissioner of Higher Education	Wrkfce Train. in High Demand Fields MUS & CC -OTO	1,500,000
Commissioner of Higher Education	Improve Transferability and Student Data OTO	1,545,000
Department of Commerce	BRD Tribal Economic Development HB0002 - OTO	1,597,044
Department of Environmental Quality	Business Process Improvement OTO	1,800,000
Department of Environmental Quality	Accelerated Remediation Selected CECRA Sites OTO	2,000,000
Department of Commerce	BRD - Biomedical Research Grant - Bien/OTO	2,000,000
Department of Environmental Quality	Enhanced reclamation and remediation	2,000,000
Commissioner of Higher Education	Equip and Tech in High Demand Fields MUS & CC OTO	2,000,000
Public Health and Human Services	Low Income Energy Assist. Prgm OTO	2,000,000
Department of Corrections	Interoperable Communication Project - OTO	2,622,424
Department of Transportation	Lawsuit on surface transportation	3,000,000
Department of Justice	Major Litigation - Wyoming (OTO)	3,000,000
Department of Commerce	HD Manufactured Home Renovation Program - OTO	3,104,244
Department of Administration	Public Safety Radio-Interoperability MT FundingOTO	3,500,000
Judiciary	Information Technology - Rst/Bien/OTO	3,935,000
Department of Administration	Statewide E 911 Network (OTO Biennial)	4,000,000
Department of Agriculture	Noxious Weed Trust Fund OTO	5,000,000
Department of Administration	Public Safety Radio-Consortium Funding (OTO Bien)	5,000,000
Department of Revenue	Free Electronic Filing	5,319,975
Department of Administration	DOA - Supercomputer challenge grant	7,000,000
Department of Administration	Crime lab purchase	7,750,000
Department of Administration	Network Expansion/OTO	7,823,000
Department of Commerce	BRD New Worker Training HB0002- OTO	7,994,811
Department of Revenue	Property tax reserve fund	14,500,000
Fish, Wildlife, and Parks	FWP Purchasing fishing access/rustic parks	15,000,000
Department of Administration	DOA Data Center (+ \$4 million capitol land grant FY 2007- FY 2010)	20,500,000
Department of Revenue	Tax rebate - water tax ongoing reserve fund	21,000,000
Dept. of Natural Resources/Conservation	Emergency approps	25,000,000
Department of Administration	MUS Gaines Hall	28,500,000
Department of Administration	HHS IT bill - bring HHS upto biennial level	30,214,000
Department of Administration	Deferred Maintenance	38,000,000
Department of Revenue	Tax rebate - property	97,934,000
Department of Administration	TRS/PERS buy down liability	100,000,000
Grand Total		499,570,371

Our budget requires several bills to fully enact; bills containing general fund appropriations include the following:

Bills not in HB2, but Included in the Governor's Budget		
Bill	FY 2008	FY 2009
Long Range Building Cash Program		
Buildings	\$50.88	\$50.88
Parks	15.00	
Pay Plan	20.15	38.46
Cultural Arts Trust addition	1.50	-
IT Long Range Building Cash Program	25.35	29.12
Surface Transportation Litigation	3.00	-
Emergency Statutory Appropriation Increase	9.00	-
Actuarially Funding the Retirement Systems	114.37	14.97
Military Family Relief	1.00	-
Reclamation and Remediation	2.00	-
Property Tax Cut	97.93	-
Water Tax Cut	21.00	-
Property Tax Reserve Fund	14.50	-
Governor's Fish for Free	0.39	0.39
Other Department bills	2.60	1.68
Totals	\$378.67	\$135.49

Long Range Building Cash Program – Buildings

For a detailed list of all major building projects see page 39.

Long Range Building Cash Program - Parks

Hunting, fishing and camping are as much a part of Montanans' heritage as the mountains, rivers, and plains that shape this state. The ability of citizens to hunt, fish, hike, watch wildlife, and camp must be preserved. Governor Schweitzer proposes spending \$15 million to acquire property that will expand the existing network of state parks and fishing access sites, and provide access to hunting lands. This will ensure tomorrow's Montanans will be able to enjoy the same recreational opportunities as this generation.

Pay Plan

The components of HB13 are contained on page 23. An appropriation of \$58.5 million general fund will be needed to fund this pay plan and enable a zero tuition increase for the Montana University System and Community Colleges.

Cultural Arts Trust – addition

HB 9 will add an additional \$1.5 million into the trust for future generations Arts and Cultural programs.

IT Long Range Building Cash Program

This new long-range building bill will take a large step forward in fully implementing the Montana Information Technology Act (MITA). Nearly all information technology projects in excess of \$2 million are included in this bill. The bill will appropriate the projected costs to completion and not just the amount needed in the 2009 biennium. The general fund component of this investment is \$54.5 million.

Emergency Statutory Appropriation Increase

Wildfires in Montana are inevitable, yet historically these costs have not been recognized in the budget. Governor Schweitzer proposes to increase the statutory appropriation for declared emergencies from its current \$16 million level to \$25 million for a biennium in recognition of these costs.

Actuarial funding the retirement systems

The Governor's budget includes both one-time only and ongoing expenditures for bringing our retirement systems to being actuarially funded and compliant with our constitution. The proposal includes: 1) an additional one-time appropriation of \$100 million from the general fund to the Teacher's Retirement System; 2) reducing the guaranteed annual benefit adjustment from 3% to 1.5% for all new hires and fully funding the remaining actuarial liability with an employer contribution rate increase for all of the Public Employees Retirement systems under the direction of the Public Employee Retirement Division's purview; and 3) implementing a 2.0% increase in TRS employer contribution rate in the 2009 biennium and the remaining 0.38% increase following in the 2011 biennium.

All employer increases for school districts will be paid with a statutory general fund appropriations to avoid any property tax increases.

Military Family Relief

Recognize the extraordinary sacrifices that Montana's National Guard members make when called to active duty by the federal government by creating a \$1 million Military Family Relief Fund.

Property Tax Cut

A \$400 property tax reduction for each Montana resident homeowner

Water Tax Cut

Suspend the water tax imposed on 90,000 Montanans

Governor's Fish for Free

The Administration wants to make it easier for young and old to experience the simple pleasure of casting a line into a meandering stream in hopes for a strike. The proposal makes fishing free for children under 15 and adults over 61, offering grandchildren and grandparents an opportunity to spend a little time together at the end of a fishing rod.

Other Department Bills

Other Department Bills includes bills submitted by the Department of Revenue and the Department of Justice that require additional expenditures.

Supplemental Appropriations for the 2007 Biennium

Several supplemental appropriations are needed to fulfill our obligations of the current 2007 biennium. Each is described following the table:

General Fund Supplementals	
Bill	FY 2007
Department of Corrections	\$27.00
Department of Justice	0.58
Department of Livestock	0.10
Department of Transportation - motor pool	1.33
Wildfires - HB3	25.00
Wildfires - HB10	5.06
Trust Lands Audit recommendation	0.56
Judiciary	2.50
Public Defender	3.30
Public Health and Human Services	11.00
Totals	\$76.43

General Government – Section A

Judicial Branch – The Judicial Branch is requesting a supplemental appropriation for FY2007 in the amount of \$2.5 million. The FY2006 variable cost appropriation was insufficient to fully pay District Court variable cost obligations. Consequently, the Branch moved \$2.5 million forward from the FY 2007 budget to cover the FY 2006 shortfall. A supplemental appropriation of \$2.5 million is necessary to enable the Judicial Branch to meet its financial obligations in FY 2007. The supplemental request includes approximately \$800,000 for funding of payment of unfit to proceed costs and associated costs of court-ordered evaluations. These payments would be made to Department of Public Health and Human Services (DPHHS) who deposit such payments back to the state general fund. Therefore, the amount of the payments made to DPHHS will have no net impact on the state general fund.

Department of Transportation - A permanent transfer of \$1.33 million in cash from the General Fund to the state Motor Pool is requested. This contributed capital is needed to pay for the difference between 2006 and 2007 projected fuel costs at the time the rates were developed and actual costs incurred. This contributed capital will supplement the other recent changes made within the Motor Pool Business Plan, and help maintain the solvency of the fund and program.

Office of the Public Defender - The newly created Office of the Public Defender is estimating a supplemental request of approximately \$3.26 million dollars. This shortfall

can be attributed to three main reasons; 1) use of state hired attorneys rather than contract, 2) one time costs to purchase computers, phone systems, and design and install a case management system, and 3) overlap of contracted attorneys and state attorneys while cases are being transitioned into the new system.

Public Health and Human Services – Section B

Department of Public Health & Human Services - The Administration anticipates a supplemental request of \$11 million for the Department of Public Health and Human Services for fiscal year 2007. The largest drivers of the request: 1) Costs associated with the overcrowding at the Montana State Hospital - \$3 million ; 2) Impact of the Federal Medical Assistance Percentage Change in fiscal year 2007 - \$7 million; and 3) Administrative leave costs at the Montana Developmental Center - \$.7 million. The Department of Public Health and Human Services requested and was granted approval to transfer of up to \$6.1 million general fund from FY 2007 to FY 2006. The final amount transferred was approximately \$2.8 million. It is unclear on the success of mitigation efforts for the \$2.8 million to reduce the effects of this transfer into fiscal year 2007. As well, the final impact of the regulations associated with the Deficit Reduction Act have not been finalized, and this could add additional impact to the department's fiscal year 2007 budget. The department continues to examine ways through reversions to offset the fiscal year 2006 general fund impact and anticipates the final amount will be about \$1 million. Recent reviews of the Medicaid costs in fiscal year have been encouraging and the final amount required for a supplemental may be less if this trend continues.

Natural Resources and Commerce – Section C

Department of Livestock – The supplemental request for the Department of Livestock provides an appropriation of \$97,534 from the general fund to the Meat Inspection program to backfill lost federal funding. The funds will allow the program to continue conducting meat and poultry inspection in FY 2007 to assure clean, wholesome, and properly-labeled meat and poultry products for consumers.

Department of Natural Resources & Conservation – Forestry Division - The supplemental request for the Department of Natural Resources & Conservation totals \$30,062,271 general fund for the 2007 biennium. Of the total, \$5,062,271 is requested in HB 10. This will provide the department funds to restore base operating budgets that were used to fund costs in FY 2006. Without this appropriation, passed early in the session, the department is at risk of not having enough funding to continue current level operations. The remaining \$25 million is included in HB 3. This request includes \$24 million still required to pay the outstanding bills for FY 2007 (summer of 2006 fire season) and \$1 million to cover costs anticipated to be incurred in the 2007 spring fire season. Any funding not required for these purposes will be returned to the general fund.

Department of Natural Resources & Conservation – Trust Lands Division -The Executives recommends a general fund appropriation in HB 3 of \$507,643 to Department of Natural Resources (DNRC) for administration costs charged to the Morrill

Trust and its beneficiary, Montana State University. DNRC will transfer the funds to the trust. The time frame these costs were incurred was from FY 1967 to FY 2002.

In addition, \$52,995 general fund is included in HB 2 to costs of managing the Morrill Trust lands that were paid by other trusts. This transfer will reimburse the other trusts for those costs. Of the \$52,995, \$5 will go to the University of Montana trust, \$12,874 to the Montana State University trust, \$678 to the Montana Tech Trust, \$5,388 to the University of Montana – Western Trust, \$660 to the School for the Deaf & Blind Trust, \$7,502 to the Pine Hills School Trust, and \$25,848 to the Capitol Land Grant Trust. The time frame these costs were incurred was FY 2002 to FY 2003.

These recommendations were made as part of a Legislative Audit of the DNRC. This funding does not concede the legal point that the DNRC compliance with previous and existing state law is unconstitutional. Statutes are deemed to be constitutional unless deemed otherwise by a Montana Court. This issue has yet to be addressed by a court in Montana.

Public Safety and Justice – Section D

Department of Corrections – The Department of Corrections is estimating a shortfall of \$27 million in FY 2007. The department transferred \$11.5 million from FY 2007 to FY 2006 to mitigate a shortfall in the first year of the biennium. The transfer of those funds and projected overruns in FY 2007 related to lack of funding for projected growth, outside medical cost increases, utility costs, and overtime costs are just some of the funding challenges the department is facing.

Department of Justice – The Department of Justice is projecting a shortfall of \$200,000 in both general fund and state special revenue funding. The projected shortfall in the general fund is being caused by an increase in demand for funding in the area of major litigation. The state is involved in a number of lawsuits and these are driving this request. The shortfall in state special revenue funding is being caused by a shortage of funding to pay debt service on the HB261 Motor Vehicle Title and Registration project. This overrun is caused by an increase in draw-downs on the loan and interest rate increases. In addition the bill includes an appropriation of \$375,000 general fund to pay for legal fees of the ACLU as part of the negotiated settlement for the Public Defender lawsuit.

Long Range Building

Overview –

The Long-Range section of the budget contains several programs including:

- Long-Range Building Program
- Cultural & Aesthetic Grants
- Treasure State Endowment Grants to for local infrastructure
- State Building Energy Conservation Program
- Reclamation & Development Grants
- Renewable Resource Grants & Loans
- Consolidated Information Technology Projects

Details of all of these programs are available in the White Budget Book, section F. The following highlights two of these programs, Long-Range Building Program and the Consolidated Information Technology Project bill, as they are areas of significant investment for the 2009 biennium.

Purpose - The Long-Range Building Program (LRBP) was initiated in 1965 to provide funding for construction and maintenance of state buildings. The LRBP was developed in order to present a single, comprehensive and prioritized plan for allocating state resources for capital construction and maintenance of state-owned facilities. Primary statutory authority is Title 17, Chapter 7, part 2, MCA.

Executive Recommendation -

- **Volume 3 of the Governor's 2009 biennium Executive Budget** contains complete descriptions of all recommended projects, which total \$300,484,138, as well as a listing of all LRBP project applications submitted by Agencies for the 2009 biennium. All recommended projects are listed within Table F-2.
- **The 2009 Long Range Building Program is a “Cash and Carry Only” program and no general obligation bonds are proposed.**
- **HB 5** contains \$130,130,000 LRBP, \$53,197,160 state special revenue, \$48,178,978 federal special revenue, and \$68,978,000 other funds for a total of 76 projects and \$300,484,138 in the cash program.
- Highest priorities in the cash recommendations for the 2009 biennium are projects that address safety, major repairs and deferred maintenance.
- The LRBP is the primary source of funding for major repairs and maintenance for two thirds of state-owned buildings, with a combined replacement value exceeding \$1.15 billion. Ongoing funding for the LRBP has diminished over time and currently the level of funding is not sufficient to maintain a reasonable level of major maintenance on state buildings, causing the state’s backlog of deferred maintenance to grow to an estimated \$205 million. An ongoing General Fund Appropriation of \$7.15 million per year is being made to directly address this problem of insufficient ongoing funding for maintenance of state buildings.
- In addition to this ongoing appropriation, a one-time transfer of \$40 million from the General Fund to the Long Range Building Fund is being made to address the State’s major repair and maintenance backlog.

- **Major renovation/capital projects in the Governor's 2009 biennium Executive Budget include:**
 - **STEP Program, Montana State Hospital** – This \$5.8 million project will renovate and improve and/or construct facilities within the Warm Springs Campus to accommodate multiple programs necessary for the Department of Corrections and Department of Health & Human Services to provide services and treatments required under their missions. This will allow DOC and DPHHS to develop and share a consistent, evidence based treatment strategy between their two systems for people who have a serious mental illness and/or co-occurring substance use disorder.
 - **Enterprise System Services Centers** – This \$24.15 million project will relocate the State of Montana's primary computer, telecommunications, and printing functions to a secure and appropriate Enterprise Systems Services Center (ESSC) Building, to be located in the greater Capitol Complex area. In addition to the primary System Services Center, this project will construct a remote System Services Center in the eastern portion of Montana to provide operational capacity, redundant facilities to support critical services, accelerated backup processes and enhanced disaster recovery capabilities. These improvements will significantly enhance the security and disaster recovery capability of the State's primary computer facility.
 - **Renovate Gaines Hall, MSU-Bozeman** – Gaines Hall, constructed in the 1960's, houses the Chemistry Department at MSU and is one of the heaviest student-use buildings within the Bozeman campus. This \$28.5 million project will completely renovate the building to modern lab/teaching standards and eliminate deferred maintenance that has accumulated to a level equal to 1/3 of the replacement cost of the building.
 - **Law School Addition, UM-Missoula** – This \$8.5 million project will augment the existing authority and appropriations for renovations and additions to the Law School that are required to meet current accreditation and building code requirements.

- **Major significant projects, continued:**
 - **Purchase Forensic Science Lab Building** – This \$7.75 million project will purchase the Department of Justice's Forensic Science Lab Building located in Missoula, which is currently being leased. The State's analysis of purchase versus continued lease demonstrates that this is a prudent and timely investment for the State of Montana.
 - **Supercomputer Challenge Grant for Butte** – Montana has been offered an opportunity for installation of a supercomputer in Butte by a major computer manufacturer. There is great potential for economic development and enhancement of our Montana University System. If a successful business plan is developed, then the state will grant \$7 million to develop a supercomputer center in Butte.

Since the Last Session –

- The Architecture and Engineering Division has completed construction of the Applied Technology Center at MSU-Northern, a major renovation of the Montana State Prison Dairy, upgrades to the Electrical Distribution System at MSU-Bozeman, boiler upgrades at MT Law Enforcement Academy and UM-Western, and small but significant renovations at Eastern Montana Veterans' Home and Montana State Hospital.
- Construction has started for major additions to the Colleges of Technology at Billings, Great Falls and Helena; is well underway for the Chemistry Research Building at Montana State University; and is nearing completion for the new Journalism Building and Skaggs Building Addition at the University of Montana, and the campus grounds redevelopment at MSU-Northern.
- And in an effort to address the State's significant backlog of deferred maintenance within state-owned facilities, vital and significant major repair and maintenance projects have begun on virtually every governmental campus within the State.

Language Recommendation -

The following language will be included in the introduced version of **HB 5**:

“Fund Transfer. (1) There is transferred from the general fund \$50.875 million in fiscal year 2008 and \$50.875 million in fiscal year 2009 to the long-range building program account in the capital projects fund type for the projects enumerated in [section 2]. (2) There is transferred from the general fund \$15 million in the 2009 biennium to the fish, wildlife and parks capital projects account in the capital projects fund type for the projects enumerated in [section 5]”.

Funding -

- See Table F-1 for presentation of the LRBP account revenue estimates for the 2009 biennium.

TABLE F-1

REVENUE ESTIMATE
 LONG-RANGE BUILDING PROGRAM ACCOUNT
 PROJECTIONS AS OF NOVEMBER 9, 2006
 2009 BIENNIUM

Estimated Beginning Cash Balance (July 1, 2007)		\$4,605,746
Revenues:		
Cigarette Tax	\$3,885,992	
Coal Severance Tax	9,451,465	
Interest Earnings	3,300,239	
Supervisory Fees	649,336	
DEQ Transfer - Energy Savings	82,365	
General Fund Transfer (Ongoing)	14,300,000	
General Fund Transfer (OTO)	<u>101,750,000</u>	
Total Revenues		<u>133,419,397</u>
Funds Available		138,025,143
Expenditures:		
Operating Costs - A & E Division	(3,415,744)	
Debt Service - 2003G Issue ¹	(3,607,245)	
Debt Service - 2005A Issue ²	(1,022,440)	
Debt Service - 1997B Issue ³	(270,803)	
Debt Service - 1999C Issue ⁴	(854,018)	
Funding Switch ⁵	<u>1,330,000</u>	
Total Expenditures - Excluding Capital Projects		<u>(7,840,250)</u>
Funds Available For Capital Projects		130,184,893
Funding Proposals		
Capital Construction Program - LRBP Projects Only		(130,130,000)
Balance Remaining		<u><u>\$54,893</u></u>

¹ Refunding the 1996D bond issue

² Refunding portions of the 1997B and 1999C bond issues

³ Non-refunded portion of the 1997B bond issue

⁴ Non-refunded portion of the 1999C bond issue

⁵ Funding switch authorized by the 2001 legislature - Montana Session Laws 2001, Chapter 486, Section 11

Table F-2
Long-Range Building Program

Priority	Agency	Project Description	Funding Sources				Total
			LRBP	State Special	Federal Special	Other Funds	
1	DPHHS	Install Generator, MMHNCC	250,000	0	0	0	250,000
2	Statewide	Roof Repairs and Replacements	3,000,000	392,160	68,040	0	3,460,200
3	Statewide	Code/Deferred Maintenance Projects	2,500,000	0	0	0	2,500,000
4	MUS	Code Compliance/Deferred Maintenance, MUS	4,000,000	0	0	0	4,000,000
5	Statewide	Hazardous Materials Abatement	500,000	0	0	0	500,000
6	DOA	Code/Deferred Maintenance Projects, Capitol Complex	0	0	0	550,000	550,000
7	Statewide	Upgrade Fire Protection Systems	500,000	0	0	0	500,000
8	DOA	Fire Protection Measures, Capitol Complex	0	0	0	500,000	500,000
9	MUS	Systems Improvements, MT-Tech COT	925,000	0	0	0	925,000
10	DOC	Housing Unit Upgrades, MT State Prison	1,200,000	0	0	0	1,200,000
11	MSDB	Replace Boiler	600,000	0	0	0	600,000
12	DPHHS	STEP Program Renovations, MSH, Warm Springs	5,800,000	0	0	0	5,800,000
13	MUS	Steam Distribution System Upgrades, Phase 2, UM-Missoula	2,000,000	0	0	1,000,000	3,000,000
14	MUS	Renovate Clapp Building, UM-Missoula	821,000	0	0	0	821,000
15	MUS	Renovate Armory Gym, MSU-Northern	400,000	0	0	3,250,000	3,650,000
16	DPHHS	Renovate/Improve Support Services, MSH	4,500,000	0	0	0	4,500,000
17	MUS	Renovate Main Hall, UM-Western	4,500,000	0	0	0	4,500,000
18	MUS	Renovate McMullen Hall, MSU-Billings	1,924,500	0	0	0	1,924,500
19	DOA	Upgrade State Environmental Laboratory, Helena	1,000,000	0	1,000,000	0	2,000,000
20	DPHHS	Modernize MMHNCC, Lewistown	500,000	0	0	0	500,000
21	Statewide	Repair/Preserve Building Envelopes	1,500,000	0	0	0	1,500,000

Table F-2, continued
Long-Range Building Program

Priority	Agency	Project Description	Funding Sources				Total
			LRBP	State Special	Federal Special	Other Funds	
22	MUS	Stabilize Masonry, MSU-Bozeman	2,600,000	0	0	0	2,600,000
23	Statewide	Campus Infrastructure Projects	1,000,000	0	0	0	1,000,000
24	MUS	Deferred Maintenance & Acquisition, MSU-AES Statewide	400,000	0	0	500,000	900,000
25	MUS	Classroom/Laboratory Upgrades - Montana University System	2,000,000	0	0	0	2,000,000
26	DOA	Mechanical System Improvements, Capitol Complex	0	0	0	1,900,000	1,900,000
27	DNRC	Code/Deferred Maintenance and Small Projects, DNRC Unit Campuses - Statewide	750,000	0	0	0	750,000
28	DOA	Deferred Maintenance, Phase 2, MT Law Enforcement Academy	500,000	0	0	0	500,000
29	Commerce	Maintain Historic Buildings, Virginia & Nevada Cities	3,000,000	0	0	0	3,000,000
30	MUS	Utility Infrastructure Improvements, MSU-Bozeman	500,000	0	0	50,000	550,000
31	DPHHS	Montana Veterans' Home Improvements	0	1,413,000	0	0	1,413,000
32	DPHHS	Improve Campus, MSH - Warm Springs	1,280,000	0	0	0	1,280,000
33	DOA	Enterprise System Services Centers	20,150,000	0	0	4,000,000	24,150,000
34	MUS	Supplement HCOT Expansion	1,350,000	0	0	135,000	1,485,000
35	Statewide	Campus Master Planning	400,000	0	0	250,000	650,000
36	DOC	Expand Work Dorm, MSP	2,500,000	0	0	0	2,500,000
37	MUS	Renovate Gaines Hall, MSU-Bozeman	28,500,000	0	0	0	28,500,000
38	DNRC	Co-Locate DNRC/DEQ, Kalispell	3,500,000	0	0	0	3,500,000
39	DNRC	Consolidate DNRC Divisions, Missoula	2,000,000	0	0	0	2,000,000
40	MUS	Law School Addition, UM - Missoula	3,450,000	0	0	5,050,000	8,500,000

Table F-2, continued
Long-Range Building Program

Priority	Agency	Project Description	Funding Sources				Total
			LRBP	State Special	Federal Special	Other Funds	
41	DOC	Expand Food Service Capacity, MSP	1,637,000	0	0	293,000	1,930,000
42	Justice	Purchase Forensic Science Lab Building	7,750,000	0	0	0	7,750,000
43	Statewide	Challenge Grant for Super Computer, UM-MT Tech	7,000,000	0	0	7,000,000	14,000,000
44	DMA	Readiness Center, Miles City	2,480,000	0	7,510,970	0	9,990,970
45	DMA	Armed Forces Reserve Center, Missoula	0	0	30,903,968	0	30,903,968
46	DMA	Construct Female Showers and Latrines	290,000	0	290,000	0	580,000
47	DMA	Montana State Veterans' Cemetary Expansion	0	0	1,206,000	0	1,206,000
48	DMA	DES Mobile Command Post	172,500	0	0	0	172,500
49	DMA	Federal Spending Authority	0	0	2,000,000	0	2,000,000
50	MDT	Statewide Maint. Repair & Small Projects	0	2,300,000	0	0	2,300,000
51	MDT	Equipment Storage Buildings, Statewide	0	2,700,000	0	0	2,700,000
52	MDT	US Highway 93 Projects	0	26,000,000	0	0	26,000,000
53	DNRC	Bridge Replacement/Repair	0	750,000	0	0	750,000
54	DNRC	Building Addition - Billings Oil and Gas Office	0	750,000	0	0	750,000
55	MUS	Increase Authority - Museum of the Rockies, MSU-Bozeman	0	0	0	3,500,000	3,500,000
56	MUS	School of Education Building, UM-Missoula	0	0	0	7,500,000	7,500,000
57	MUS	HHP Physiological and Nutritional Lab, UM-Missoula	0	0	0	4,500,000	4,500,000
58	MUS	New Parking Structure, UM-Missoula	0	0	0	5,000,000	5,000,000
59	MUS	General Spending Authority, MSU-All Campuses	0	0	0	5,000,000	5,000,000
60	MUS	General Spending Authority, UM-All Campuses	0	0	0	4,000,000	4,000,000
61	FWP	Future Fisheries	0	1,314,000	0	0	1,314,000
62	FWP	FAS Acquisition	0	460,000	100,000	0	560,000

Consolidated Information Technology Projects

Purpose –

LC 712 represents a significant change in the method of funding large information technology (IT) investments in a number of important respects.

First, the bill is structured similar to the long range building program to recognize that IT investments provide critical infrastructure, much like an office building or dam - for the provision of state services, the conduct of state government affairs and to allow citizens to more fully participate in decision making. Building IT systems can be as complex as building a new office building. Significant planning, design and management efforts are necessary for a successful project. LC 712 removes the time pressure that can result in hasty decisions and poorly performing projects by providing continuing budget authority.

Second, the structure of the bill reinforces the authority and statutory responsibilities of the state chief information officer established in the Montana Information Technology Act (MITA). Most of the appropriations contained in the bill are made to the state chief information officer (CIO) through the Department of Administration. By directly controlling the appropriations, the CIO can establish project benchmarks that must be completed before additional funds are released. This helps ensure projects are managed effectively to maximize success and creates greater partnerships between agencies and the state CIO.

Finally, a goal of the bill is to give the legislature and policy makers a broad vision of information technology in state government as all major investments will be focused on in one bill.

Background - Consistent with the Montana Information Technology Act (MITA) the Executive recommends the establishment of a long-range building bill that contains the major information technology systems proposed in the next legislature. LC712 contains most agency information technology projects in excess of \$2 million are contained in the bill rather than traditional HB2 funding.

Executive Recommendation –

The following provides a brief description of the IT projects included in LC 712:

Department of Public Health and Human Services:

Replace current Child and Adult Protective Services System

The Child Protective Services (CAPS) system is an automated social services information system covering all major program areas of child protection, juvenile corrections and probation. CAPS is significantly outdated and many functions are currently being performed outside the system, causing inconsistencies, and leaving room for errors. The new system will provide accurate and timely assistance to Montanans. Total cost of this system will be \$27,150,000, 56 percent general fund and 44 percent federal funds.

Replace current Food Stamp and TANF Eligibility Systems (currently TEAMS serves both)

The Economic Assistance Management System (TEAMS) is significantly outdated and does not meet the needs of the users. Currently many of the eligibility functions are performed manually on spreadsheets outside the system by the eligibility workers, leaving room for errors and inconsistency. The new system will improve service to clients, allow changes and enhancements to be made quickly and at a lower cost and will produce more accurate and efficient Federal reporting. Total cost of the TANF system will be \$16.2 million; 47 percent general fund and 53 percent federal funds. Total cost of the Food Stamp system will be \$13.1 million; 50 percent general fund and 50 percent federal funds.

Update Medicaid Disease Codes

ICD-10 is the new procedure and diagnosis code set for Medicaid Management Information System for federal coding and reporting that will completely replace the current system known as the International Classification of Diseases-9-Clinical Modification (ICD-9-CM) Implementation of ICD-10 is mandated by the federal Medicaid Agency (CMS). Total cost will be \$3 million, with 90 percent of funding coming from the federal government.

CHIMES

CHIMES is the new Medicaid eligibility determination system which replaces the Medicaid functionality in the current TEAMS system. Medicaid is the first of the three eligibility determination modules in TEAMS (Medicaid/TANF/Food Stamps) to be replaced. CHIMES will be nearing completion by July 1, 2007. This request for \$1.1 million (50 percent general fund, 50 percent federal funds) is for the funding required to bring CHIMES to completion.

Department of Administration:

Northern Tier Network Expansion – The Information Technology Services Division is requesting an appropriation of \$7,823,000 general fund to expand of the state's SummitNet network to provide greater capacity for voice, video and data traffic. The project consists of two major initiatives. The Northern Tier portion provides funding for the equipment and maintenance needed to light two high capacity fiber optic lines through the I-90 corridor with drop-off points in major Montana cities on the route. The project is part of a national consortium's efforts to create a high-speed network from Seattle to Chicago using donated dark fiber throughout the route.

The second initiative funds a number of improvements to the existing SummitNet network. The funding is to establish a redundant Core Network Infrastructure (foundation) that provides multiple failover points in the network to ensure connectivity of critical services, to upgrade the Capitol Complex Fiber backbone to support high speed, fault tolerant services between buildings on the Complex and to upgrade the services and bandwidth to remote offices throughout the state.

Statewide E911 Network - The Information Technology Services Division is requesting an appropriation of \$4,000,000 general fund to support the multi-year build-out of the statewide E9-1-1 network and the continued development of a state-of-the-art 9-1-1

system. The funding request will be used to provide wireless public safety position determining equipment on the Statewide Network in order to provide the location of 9-1-1 calls made from wireless devices and to provide four additional Public Safety Answering Points.

Public Safety Radio Consortium -- The Information Technology Services Division is requesting a general fund appropriation of \$5,000,000 to support the multi-year build-out of the Interoperability Montana wireless public safety radio system. The funding will permit additional expansion of key public safety radio sites throughout the state and provide limited equipment for local law enforcement, fire and EMS to use the networked communication system. The funding will also provide State "maintenance of effort" funding to help ensure future federal project support.

Public Safety Radio Interoperability MT -- The Information Technology Services Division is requesting a one-time-only general fund appropriation of \$3,500,000 in FY 2009 to support the deployment of a second, redundant controller and transmission system for the Interoperability Montana wireless public safety radio system. The funding will permit the purchase of additional controlling infrastructure to be placed in the eastern portion of Montana to serve as a backup to main controller in Helena. In addition, digital microwave infrastructure needed to connect the two controllers will be upgraded to meet the needs of this equipment.

Judicial Branch:

Court Technology Improvements

This proposal seeks funding to continue the Judicial Branch's efforts to modernize Montana courts in a manner that meets the unique needs of the Judicial Branch while at the same time conforms to State of Montana information technology standards. This \$3,935,000 general fund will provide court technology improvement projects: case management improvements and court room technology improvements. This project relies heavily on the State's telecommunications network - SummitNet II and the State's document and content management system "FileNet." These costs are included in the proposal.